Sylogist Ltd.

Fourth Quarter and Full-Year 2023 Results

Conference Call Transcript

Date: **March 14th, 2024**

Time: **8:30 AM ET**

Speakers:

Bill Wood
President and Chief Executive Officer

Sujeet Kini
Chief Financial Officer

Jennifer Smith
Capital Markets Communication, LodeRock Advisors Inc.

Operator:
Welcome to the Sylogist Limited Fourth Quarter and Full Year 2023 Results Conference Call and Webcast.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, then zero.

I would now like to turn the conference over to Jennifer Smith with LodeRock Advisors. Please go ahead.

Jennifer Smith:
Thank you, Gaylene, and good morning.

Joining me to discuss Sylogist's Q4 Fiscal and Full-Year 2023 Results are Bill Wood, Sylogist's President and Chief Executive Officer, and Sujeet Kini, Chief Financial Officer. This call is being recorded live at 8:30 a.m. Eastern Time on March 14, 2024.

Our Q4 press release, MD&A, financial statements, and accompanying notes have been issued and are available for download on SEDAR+. Please note that some of the statements made on the call may be forward-looking. Actual events or results may differ materially from those expressed or implied, and Sylogist disclaims any intent or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. The complete Safe Harbor statement is available in both our MD&A and press release, as well as on sylogist.com. We encourage our investors to read it in its entirety.

We are reporting our financial results in accordance with International Financial Reporting Standards, or IFRS. Before, we will also discuss non-GAAP performance measures, which should be reviewed as supplemental. The MD&A contains definitions of each one used in our reporting. All of the dollar figures expressed on this call are in Canadian unless otherwise noted.

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I'll turn it over to Bill first for opening remarks, then Sujeet will review our Q3 financial performance, after which Bill will conclude with scripted remarks, at which time we will open it up for questions.

With that, Bill?

Bill Wood:
Thank you, Jen. Good morning, everyone, or good afternoon to those of you listening overseas.

Twenty-twenty-three was a great year for Sylogist across the board, one in which several key milestones were achieved, each underpinning the continued value creation we see ahead.

To highlight just three of those milestones; first, we gained a full SaaS posture and market-ready position for our three strategic platforms: SylogistMission, SylogistEd, and SylogistGov, with customers now live on all three. Second, we allocated capital to accelerate our go-to-market and delivery expansion, both internally and within our growing partner community, and saw results. Third, we hit the financial targets we laid out at the beginning of 2023, most notably organic growth of 16.1%, in line with the mid-teens growth we signalled.

With increasing tailwinds, we're seeing building momentum from the strong, early-stage execution of our go-to-market plan. With all three of our purpose-built platforms now in-market, and the enthusiastic reaction they're receiving, we're seeing a notable uptick in interest from prospects, customers and partners alike.

In Q4, Sylogist achieved revenue of $16.2 million, an organic growth rate of 5.4%. At the same time, reoccurring revenue reached a record $10.5 million in the quarter, or 9% year-over-year growth, even better and as planned. Revenue growth was led by our SaaS revenue, which expanded by 16% year-over-year in Q4. We see our continued SaaS ARR growth acceleration as a key indicator of our successful transformation to a full SaaS posture in just two short years, and how well we're executing our profitable growth strategy.

We booked $7.6 million in new business during Q4 and $29.4 million for the year, and pushed our backlog, or RPO, up to $31 million at year-end. More ICP, or ideal customer profile, sales-qualified

opportunities are filling our pipeline, and existing opportunities continue to track and close at a high win rate.

To quantify the ROI we're achieving on our R&D investments and increased sales and marketing spend for you, our sales-qualified pipeline grew over 170% in 2023. Even more exciting is the traction we're starting to see within the SylogistGov and Ed markets, traction we expect will accelerate and begin to matriculate in the back half of 2024 and into 2025.

I also want to highlight that EBITDA margins were strong, at 29.4% in Q4, and SaaS NRR was 104%. The build-out of a high-quality, closely aligned partner community is trending ahead of schedule and is expected to be an increasingly important component of our profitable growth strategy in 2024 and beyond. Our growing partner community is already increasing our reach, driving new customer wins, and expanding our RPO delivery capacity, and in turn, ARR growth.

As further proof that our partner strategy is taking hold, on our Q3 Earnings Call, I shared that our partner-driven bookings had increased 5x from Q1 of 2023. I'm pleased to share that in Q4, partner-driven bookings have now increased by more than 8x over Q1. We are also seeing increased traction from focused marketing and sales displacement programs aimed at targeted competitors. As we get further into those programs, we're realizing increasing displacement momentum and economies.

Exiting 2023, I'm confident that the building blocks for continued success are in place and future value creation for our shareholders looks very bright.

I'll pause here and turn the call over to Sujeet Kini, our CFO, to go through the key financial details of Q4 and full-year 2023. Sujeet?

Sujeet Kini:
Thank you, Bill, and good morning, everybody.

Our Q4 results demonstrate the momentum we've built throughout 2023, in transforming Sylogist into a SaaS leader in the public sector, while staying focused on the successful execution of our profitable growth plan.

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Total revenue for the quarter was $16.2 million, up $0.8 million or 5% relative to Q4 2022. This growth was primarily driven by our SaaS subscription revenue, which grew by 16% over Q4 '22. On a full-year basis, revenue grew to $65.5 million or 16% year-over-year. Year-over-year revenue growth was driven primarily by SaaS subscription revenue up 14% and project services up 26%. We also note that SaaS subscription revenues came in at 67% of total recurring revenues for Q4 2023, compared to 62% for the same period last year. This increase was driven primarily by growth in SylogistMission, supplemented by early green shoots growth in SylogistEd and SylogistGov.

ARR came in at $42.2 million, growing at 11% year-over-year, with the increase understandably coming, primarily, from SylogistMission. As we had signalled last quarter, we saw a modest slowdown in project services revenue growth in Q4, this due to the seasonality impact of the U.S. Thanksgiving and the December holiday periods. Project services revenue decreased by 4% in Q4 compared to the same period in the prior year. However, project services revenue for the full year 2023 increased by 26%, or $22 million compared to 2022. This growth was driven primarily by SylogistMission's acceleration.

Our gross profit margin for Q4 2023 remained stable at 60%. For the year, gross profit margin was lower, at 60%, compared to 63% for 2022, primarily on account of a higher level of project services revenue in '23, which came in at 34% of total revenues compared to 31% in 2022.

Total operating expenses for Q4 '23 were stable, at 30% of revenue, compared with 31% during the same period last year. On a full-year basis, OpEx as a percentage of revenue was 34% in 2023 compared to 32% in 2022, this increase being primarily driven by higher levels of planned go-to-market expenditures in 2023, as Bill mentioned.

G&A of $2.5 million in Q4 '23 was consistent with the corresponding period last year, coming in at 15% of revenues compared to 16% of revenues in Q4 2022. On a full-year '23 basis, G&A expenses were up by $2.1 million. This increase is largely attributable to the increased Company-wide employee bonus plan that was tied to our strong 2023 organic performance, our costs relating to our first-ever Investor Day in June 2023, and higher levels of professional fees. However, as a proportion of total revenue, G&A was relatively stable at 19% compared to 18% for the same period last year.

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Sales and marketing costs for Q4 2023 were $1.6 million, or 10% of revenue compared to $1.1 million or 7% of revenue in the same period last year. On a full-year 2023 basis, sales and marketing expenses were $6 million or 9% of revenue, compared to $3.8 million or 7% of revenue for 2022. The increases for both Q4 and the full year in sales and marketing expenses were due to strategic investments made in additional sales capacity and marketing activities. Our sales and marketing full-time employee headcount has increased by almost 100% to 23 people at the end of December 31, 2023, from 14 people at December 31, 2022.

Product development expenses for Q4 '23 were $0.8 million compared to $1.2 million for the same period last year, and on a full-year basis, product and development expenses were $3.7 million, compared to $4.2 million for the same period last year. The decreased level of product development expenses are attributable to higher levels of capitalized development in relation to R&D activities, and team expansion tied to crucial fit-and-finished and Q&A, readying our SylogistEd and Gov platforms for market. Absent the impact of capitalized development expenses, gross product development costs as a percentage of revenues have continued to stay in the 13% to 14% of revenues range.

Adjusted EBITDA for Q4 2023 was $4.8 million, resulting in an Adjusted EBITDA margin of 29.4%, down slightly from 31.5% in Q4 2022. Adjusted EBITDA for 2023 was $17.3 million, resulting in an Adjusted EBITDA margin of 26.3% compared to 30.4% for 2023. The decrease in Adjusted EBITDA margin for both periods was on account of planned higher levels of sales and marketing expenses and a slight compression in gross margins on account of higher proportions of project services revenue.

Consistent with our capital allocation strategy, we repurchased a total of 343,600 shares for $2 million using our NCIB during the 2023 year. At the end of 2023, we had $11.6 million in cash. This level of cash is in line with the seasonality of our business and our customer renewal cycles. Our revolving credit facility balance was $17.2 million at the end of the year.

Before I hand back to Bill, I will touch very briefly on a few disclosure-related items. As you will recall, we changed our fiscal year from a September 30th year-end to a December 31st year-end in 2022. As a result of this change, we are required to compare the results of our operations for the 12 months ended December 31, 2023 to the 15 months ended December 31, 2022, both within the financial statements and the MD&A, which we have done. Additionally though, by way of supplementary disclosure, we have included in our MD&A tabular and narrative disclosure, comparing the 12-month

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periods ending December 31, 2023 and 2022, so as to provide for a more symmetrical comparison of our year-over-year results.

With that, I will hand it back to Bill for some final thoughts. Back to you, Bill.

Bill Wood:
Thanks, Sujeet.

In summary, we're very pleased with the ROI we're already recognizing from the R&D investments we made over the last two years relative to our SylogistMission, Ed, and Gov platforms, and from our increased investments in both our direct and indirect go-to-market motions.

With our revenue per employee metric rising 12% year-over-year to $326,000, we're clearly driving growth and value creation efficiently. While many competitors are only at the early stages of integrating their siloed products, just starting to figure out their AI strategy, and facing the myriad risks and financial pressures related to their shift to fully-SaaS offerings, SylogistMission, Ed, and Gov are already there, and 100% SaaS, SylogistMission, Ed, and Gov platforms offer our customers unmatched data security, availability, and scalability, given they completely reside in Microsoft's industry-leading Azure cloud environment.

Our internal team at Sylogist for 2024 is maximizing efficient repeatability and scalability of everything we do, without compromising outstanding customer service. We see low to mid-teen year-over-year organic top line growth exiting 2024, and ARR as a percentage of overall revenue increasing further in the latter part of 2024, as we ship more of the project service delivery to partners. That's exactly the result we want from our partner strategy.

With that, let's take some questions.

Operator:
Thank you. We will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You'll hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two.

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Our first question is from Doug Taylor with Canaccord Genuity. Please go ahead.

Doug Taylor:
Yes, thanks. Good morning, Bill and Sujeet.

One primary question I wanted to get a little bit more colour on, you had some very exciting things to say about your pipeline across your units, and you said you expect that to translate to accelerating ARR build in the second half of the year. I think implicit in those statements is the expectation of improving pipeline conversion and deal closure momentum as we work through the year. Can you speak to what gives you confidence about that here in the coming quarters? Is it pipeline maturity, is there some seasonal elements? Any help there would be appreciated.

Bill Wood:
Hey Doug, good morning. Thank you.

Yes, it really is—your question is best answered by some of the comments that I shared. Our platforms now are in a position where I think they are industry-leading, so therefore, the desirability of the innovation, the usability, the full-stack posture that they now have, put us in a stronger and stronger position relative to the competitive landscape and the ability to win business. I think our customers as advocates, as I've always said, is our key driver for success. It's never been stronger.

With the kind of pipeline expansion that our ICP targets, there's just no doubt, as I see our go-forward, as a strengthening ability for us to convert leads coming in, both in combination with our direct efforts as well as our partner efforts, and the attachment rate we're seeing, an increasing velocity of our partners bringing deals to us in concert with us. We just feel very good about, as the buying cycles kick in for our markets, really strengthening in that back half of the year even more so than we saw in 2023.

Doug Taylor:
Okay. Then, as we think about the gross margin potential for your platform now that you've got some heavy—well, I mean, R&D, but now that the platform's been fully built out, do you want to maybe talk a bit more about what you see as the upside potential for your SaaS revenue line for gross margin, as you start to scale here, and the contribution margins would be another way to potentially shine a light on that?

Bill Wood:

Sure. As I mentioned in my prepared remarks, we see SaaS revenue as a percentage of our overall revenue accelerating, and for the reasons that I shared, both in terms of increasing deal velocity and count, as well as shifting the project services portion, which has lower margin, to our partners, and enthusiastically doing so, both in terms of transitioning those, as well as the partners that are excited to deliver those with us. Those two levers working together really creates leverage for our margin as we go forward, as we get more of the high profitability related to ARR contributing to our overall profile.

Sujeet, anything you want to add to that?

Sujeet Kini:

Yes, absolutely, Bill. Thank you.

Doug, I guess back to your question, there will be contribution margin coming from the pure fact that we will have additional SaaS revenues. However, the one comment we will make, and Bill did talk about in his preamble comments, the fact that we are transitioning to a partner-led delivery model, does cause—from a professional services perspective, does cause us to maintain a continued level of strength on the PS side from an internal bench perspective. This is in connection with using our internal bench to train the partners as they get on-boarded and they provide project services delivery.

The comment we are making here is, yes, there will be an increase in gross margins from the fact that there will be more SaaS revenues. However, the impact on an overall gross margin will be muted, because there will continue to be some level of heaviness on the PS side as we maintain a bench, and then eventually transition or pivot to a full partner-led delivery model.

Doug Taylor:

Maybe just to share from my understanding on that a little bit more, for partner-led SaaS, leaving the professional services aside, which I understand is more significantly different, but in terms of the SaaS margins, can you help us quantify if there's a difference in terms of the revenue share on the software part, just to help us understand the potential gains from scale versus the margin pressure, compression, associated with having a higher degree of partner-led?

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Sujeet Kini:

Yes. Maybe the best way for us to answer that would be, currently, SaaS—and this is on an annualized basis. SaaS as a percentage of total revenues is currently at the end of fiscal '23, so on an annualized basis, SaaS as a percentage of recurring revenues, in that 65% range.

In terms of the leaning in from a SaaS perspective, we do expect that percentage to go upwards into kind of the high 60s, close to 70% range for the end of 2024.

Doug Taylor:

Okay. I'll pass that line. Thank you.

Operator:

The next question is from Amr Ezzat with Echelon Partners. Please go ahead.

Amr Ezzat:

Hey Bill, Sujeet. Congrats on a fantastic year. Thanks for taking my question.

Can we first start with your comments on 2024? You're calling for momentum to continue, but point that it'll be a stronger latter half. Bill, I believe you specifically said low to mid-teen growth exiting the year. Does that imply, for the full year, we should look for single-digit growth, then for 2025, double-digit growth, given that you're exiting in the teens, is that a fair statement?

Bill Wood:

No. To unpack that—good morning, first, Amr. I just want to be clear, on the latter half, it's just the nature of our buying cycles of our markets and when budgets are approved. The activity that we see in the first part is really accelerated by deals coming into our pipeline and then matriculating, with budgets becoming approved and available for procurement, usually in the July timeframe. There will be a stronger ARR acceleration and overall growth acceleration in the back half than the first half, by the nature of the cycles of our market. But ultimately, we see that full year still being in that low to mid-teens range, as we not only get to the end of '23, but then the velocity carrying us into next year. Does that answer your question?

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Amr Ezzat:

Yes, better than I thought. That's fantastic. How do we marry the new metrics you guys started to release, and we appreciate it. I think in backlog, RPO, given that they're new metrics you're releasing, there seems to be a bit of, I guess, disconnect between the year-on-year growth in backlog and RPO, which looks a little muted relative to the growth we are seeing in the ARR and revenues of what you're suggesting before 2024. Is there a lot of variability to these numbers? Just help us reconcile.

Bill Wood:

Yes, it's a great question and thanks for asking it.

As a matter of fact, we don't want that backlog to grow at the same percent (audio interference 27:40) the ARR. We want to churn, and we want to—and as I mentioned, we've built capacity, internally as well as through our partners now, to deliver that RPO and deliver that backlog at a higher clip. Therefore, I would suggest that is a very good factor that we are getting through that backlog in a more efficient manner than we were able to in the past, whereas we're not allowing that to build up, leading to customers waiting in line, if you will, or delivery of services. That really is a reflection of the maturing of our business, in terms of our delivery capacity. I think looking to keep that in that range that we are, and really having that $700,000 addition in RPO, vis-à-vis the overall ARR acceleration in top line, is a good thing.

The other thing I'll mention here is that our ARR, based on a contractual change within our major markets, is now more closely tied to the signing of the contract in the agreement than it was in the historical past where it was delivered at the end—or it lit up at the end of project services. We're bringing those two much closer together from the standpoint of when our ARR starts to light up, closer to the contract signing and the provisioning of the platform for the customer.

Amr Ezzat:

Fantastic. That's actually very helpful to understand these dynamics. If we go to the dynamics by segments, can you maybe give us an update on the Ed side and North Carolina? You seem excited, in your prepared remarks, about the latter half of the year and growth you'll see on the Education side. Is it fair to assume that this is North Carolina kicking in?

Bill Wood:
It is, and ultimately our position now, and the state supporting our efforts and promoting our efforts within the state, vis-à-vis our competitors I think is a very positive signal for us as we now have successfully delivered on our first lift into North Carolina. Now we're building our pipeline from many others, both existing customers and new customers, and some new market opportunity within the state, raising their hand and leaning in to participate in webinars, and ultimately, earnest conversations about papering and starting up.

Again, because of the cycles of the school year, those largely will be the back half of the year in the summer timeframe when the implementation and procurement happens. But we are very positive relative to the progress we've made in North Carolina and the opportunity ahead, and beyond North Carolina as we now start venturing into a couple more states, and some discussions in each of those.

Amr Ezzat:
Fantastic, that's good to hear. Obviously, on the Mission side, fantastic, fantastic year. Did you mention how much of your growth comes from competitor displacements in Mission? Did I miss that?

Bill Wood:
No, you didn't miss it. We're not putting that out there now, and actually, I think the more covertly we can continue those activities, the better. (Audio interference 31:26) are, and ultimately, the momentum we're gaining, it's just a situation where I feel like walking the walk versus talking to talk is the best way to continue to execute on that plan.

Amr Ezzat:
Okay, so let's not dwell on it. (Inaudible 31:44) I was surprised to see your EBITDA margins jumped up for the quarter, and that's even if I adjust for capitalized R&D. Your quarter-on-quarter improvement is very noticeable, and it looks like mostly driven by lower G&A. I do recall you, in the past couple of conference calls, commenting that you only expected margin to expand in the latter half of '24. I'm wondering, is that a one-off improvement, or how do we think about margins over the next couple of quarters?

Bill Wood:
Sujeet, would you like to take that?

Sujeet Kini:

Yes, yes, absolutely. Hi, Amr. In terms of the expansion of the EBITDA margin in Q4, and you're right, it's primarily coming from G&A. It's a combination of factors, and I'll quickly list them out. It's an equal distribution, relating to three to four factors.

One is, on an overall basis, our recruiting costs declined. Not because we were not recruiting, but essentially we have brought in a recruiter in-house to help our HR function. From a headcount perspective, essentially, one is seeing the impact of, basically, one-fourth of the cost of the recruiter versus a fairly significant reduction in recruiting costs, i.e. the usage of external agencies.

The other thing that went in our favour as well was, in Q4, we had a lower level of legal and professional fees. That again is just a cadence in terms of these items. There is not… These are fairly variable and can go up and down, depending on the extent to which we use external lawyers and so on and so forth.

The other impact also was at the end of the year, and at the end of the year, just in terms of the way our vacation policy functions, we have, pretty much across the Company, a use it or lose it policy. Essentially, the bringing down of the vacation accrual back to the level that one may, as an employee, carry forward into the next year does, in and of itself, create a positive benefit to the EBITDA.

Then, the last comment I will make is just at a general level across the Company. We had a few departures; again, not key personnel, but basically, because of the departures happening in late September going into October. These folks were essentially backfills that have actually got refilled and recruited in Q1 of 2024, so we had the "benefit", if you will, of those departures in Q4. That's pretty much high level what was going on in terms of the reduction in G&A.

Amr Ezzat:

Okay, that's very helpful. Am I okay to assume that you still stand by your comments, margins to expand exiting 2024, that's a fair statement, right?

Sujeet Kini:

Our view would be margins for 2024 would continue to stay in that mid-20s range. We go back to our comments about the fact that, from a project services perspective, we will need to maintain that bench.

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There's puts and takes there, Amr. One is the continuing to maintain the internal bench from the point of view of on-boarding partners. On the other side, where we will see some level of increased spend, and this we saw in the latter half of '24, we will continue to invest on expanding sales and marketing capacity, so one will see an increase in terms of spend there. All this will get offset by savings on the G&A side. There are puts and takes. We're comfortable thinking about our EBITDA margins continuing to be in that mid-20s range.

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

Operator:
The next question is from Daniel Rosenberg with Paradigm Capital. Please go ahead.

Daniel Rosenberg:
Good morning, Bill and Sujeet. Thanks for taking my question.

I just wanted to continue that line of thought around hiring and investment in sales. You mentioned that headcount grew over the past year as you made the investments. Can you just speak to your plans on specific hiring and sales, just any targets around headcounts, what you're thinking as you look to the opportunity this year?

Bill Wood:
Hey, good morning, Daniel. Thanks for that.

For the most part, we, to build out and blend between our direct force but at a more modest rate than we've added in 2023 versus 2022, was really to make sure that we could perfect our sales motions, our marketing motions, and be able to pursue those leads while we were building the partner community and their ability to deliver opportunities to us and go out and win. To that end, the velocity and the increase that we're seeing in partner-led deals, versus Q1 of 2023 to Q4, 8x, is indicative of that partner channel starting to be at the front of the pack in terms of leading our ability to drive a sales pipeline and conversion of that, and then the delivery of the services related to that. We don't need to grow at the same level that we did in '23 from a sales standpoint, as we now are better positioned to empower our partners to do that with us.

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Daniel Rosenberg:

Then, on the partner channel, is there kind of a—obviously, you'd need to stand it up, but once it's fully running, when do you think that operating leverage starts to kick in, this is a 2025 event or a 2026 event? How long a ways do you think you can start to see the kind of hockey stick benefits of that channel?

Bill Wood:

We'll start to see that in the very latter part of '24, in a green shoots way, more materially, and then '25 more fully. We want to be very careful in not just throwing it over the fence to the partners, and ultimately making sure that our commitment to delivering a great implementation experience and training experience is not in any way compromised. As Sujeet highlighted, our bench will stay the Yodas, if you will, to make sure that they are empowering our partners with the same level of understanding of the products and platforms, and ultimately how we go about the implementation.

But in '25, we really see that bench supporting a much larger part of the community, and more repeatable, as I mentioned in my comments, repeatable and scalable processes, self-serve, self-serve training, self-serve qualification of those partners being in place so that we can get, really, acceleration from a leverage standpoint as we get into '25 more fulsomely.

Daniel Rosenberg:

Then, maybe a final question just around capital allocation. As you start to see the benefits of the investments you've made starting to grow, do you see yourselves reinvesting in organic growth, or will you kind of let that cash build up and be opportunistic around the M&A pipeline? Just trying to understand if the scalability, or the speed in which you could build out that sales channel, can be accelerated with excess capital, or is it really about turning towards M&A as it comes up?

Bill Wood:

For the foreseeable future, Daniel, we see organic growth is still a priority, and using capital to continue to fuel that. Our marketing efforts create the activity and the awareness within the markets that we serve, and we'll continue to raise the flag, the Sylogist flag, that is, of who we are, what we do.

We have to accept the fact that we are new into two of these spaces, Gov and Ed particularly, and we need to continue to invest behind that. But as a percentage of overall revenue, we're comfortable of our

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sales and marketing staying in the range that it is now. But ultimately, that requires capital to continue to drive that organic growth, which we feel is the best value creation lever that we can pull.

To that end, it does not mean that we don't have free cash flows, as well as our credit line and so on, to be able to pursue M&A over the same term. We see the use of paper as not where we want to be, in terms of dilution for our existing shareholders. That would really need to be a unique scenario where that is a possibility. But for the most part, it will continue to be a blend of resources to drive organic growth, and then look at M&A from a strategic standpoint.

Daniel Rosenberg:
Okay, I appreciate all the colour, and congrats on a good quarter. Thank you.

Bill Wood:
Thanks, Daniel.

Operator:
The next question is from Gavin Fairweather with Cormark Securities. Please go ahead.

Graham Smith:
Thanks for taking my question. This is Graham Smith on for Gavin Fairweather.

I kind of want to go back into the cadence of the services and the gross margins related to those services. I understand that you guys are keeping a larger bench to kind of help train the partner channel, but I think, just with this quarter and last quarter sort of being a bit weaker on the services side, I was wondering. if you guys are still expecting an acceleration in services revenue, how much of that improvement in utilization, how much torque can there be on gross margins?

Sujeet Kini:
I can take that, Bill. Hi, Graham.

Bill Wood:
Go ahead, Sujeet. You can take the headline then.

Sujeet Kini:
Yes. Graham, the way we think about PS for 2024, and I'm just sort of recapping the comments I made. One is, as you pointed out, there will be a continuation of holding on to the internal bench. As an offset, or as an adjunct comment to that, what I will say as well is, as part of continuing to hold on to the internal bench, in terms of the additional hiring from a PS perspective for 2024, it's a combination of additions of full-time employees, as well as a fairly significant spend from a contractor perspective. Essentially, what this does is it gives us that agility, or nimbleness, to react to the situation from a partner delivery perspective, as well as a direct delivery of project services perspective. Essentially, it allows us that ability to pull back on levers as necessary, to create, as you're saying, that torque from a gross margin perspective.

Our view is, we will continue to monitor this, we will continue to monitor this during 2024. Essentially the comment, really, here is project services for 2024 are going to be a combination of direct, we'll obviously continue to do direct, but we will also be pivoting to the partner-led delivery model. Essentially, there will be movement between these two models, but from a cost perspective, we have that ability to adjust our spending, to a certain extent, to maintain the gross margins that we're talking about. I hope that gives you some colour in terms of how we're thinking about this.

Graham Smith:
That's helpful, thank you.

Then just next, I was kind of wondering on the partner side, is the contribution that you guys are seeing, is it more broad-based? Are you seeing an increasing amount of leads coming from Microsoft? Maybe any colour on that would be helpful.

Bill Wood:
Yes. Graham, we're seeing both. We're seeing Microsoft walking us into deals and their relationships within the communities that we are now targeted on, Ed, Gov, and the non-profit and NGO. Then, our partners: independent entities that either have a North American footprint or a regional footprint, that are now aware and excited about a particular platform, potentially more than one platform, and their practice in that particular genre, becoming an accredited partner, bringing deal activity to us, and ultimately then partnering with us for the delivery of services.

It's a very exciting time for us as we leaned in on the partner channel. It's not an easy thing to do, to ultimately have in-house to external collaboration, if you will. I will say, we're navigating as best as any that I have been able to finesse, and that really is a credit of the leadership team. Grant McLarnon, who came in as our CRO, has deep experience on the partner channel, and growing that both within Microsoft and externally, as well as our overall team members that are executing and empowering our partners.

It's easy to talk about it, versus the fact of doing it and putting the mechanics in place to make sure that it's not compromised and that scale is achieved and repeatability is achieved in a way that it is seamless for our customers, and they're actually enthusiastic about that partnership that we have with our partners, if you will. I feel very good about our velocity and the traction that we're getting, and I see that being, really, a differentiator for us going forward.

Operator:
The next question is from Suthan Sukumar from Stifel. Please go ahead.

Suthan Sukumar:
Good morning, gents, and congrats on a strong close to the year. Firstly, I want to talk a little bit about the ramp-up in Education and Gov. Could you help us understand a little bit, what could be different about this product cycle versus what we saw with Mission? I'm curious if there's different pricing dynamics or migration activity or even the upsell opportunity, I'm just wondering if there's some different considerations to expect?

Bill Wood:
Good morning, Suthan, and thank you for that question.

For the most part, again, we are platform, not product. In the Gov and Ed environments, they are bringing in the platform and then lighting up those assets, but the platform is there from the get-go. For the most part, they are gobbling up the entire platform from the get-go, because they're replacing the existing functionality that we've targeted to make sure the platform embraces.

The dynamics are tiered a little differently than the not-for-profit space. School districts, as well as municipalities, we have to have a tiering, and ultimately tied to the idea of citizen footprint, as well as

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student footprint within those. But we've really taken time to research the market, make sure that we are at, and ultimately we feel we're offering a superior product, in a way to be able to derive value but not price ourselves out of that mid-market, if you will, and ultimately make sure that we're not leaving dollars on the table in terms of our SaaS revenue, because of the strength of our product and the innovation and intuitiveness that it offers.

Suthan Sukumar:
Okay, great, that's helpful. Secondly, it's good to hear sort of positive, but guarded commentary on the displacement success. Curious, what's driving the win rates there with respect to that opportunity? Is there something specific you can point to? I'm wondering if it's just product; how much is pricing a factor? Just wondering if you could share more colour on sort of what's driving your success there?

Bill Wood:
Generally, it's three factors: the price point of where some of our competitors are assuming their customers are willing or able, or desire, to renew; second would be the product, where it is, vis-à-vis its SaaS posture or not, and the customer expectation, as we said, coming out of COVID and all of the headlines out there about data security and ransomware and so on. It's just not something that customers are willing to look off anymore. They're willing to go through the discomfort of change to get to a new platform to gain additional functionality, a full SaaS posture and innovation; and I think the customer satisfaction, I think, is the other. (Audio interference 51:34) that advocate that we've been looking to earn, that are advocates on our behalf. That's bleeding into other competitors' sandboxes, if you will, relative to both awareness of Sylogist, but also being able to articulate why the product and the experience with us is different than, maybe, their existing competitor. We can say that in our marketing and in our outreach, but when peers are saying that to one another, that makes a big difference. That fire is growing, as people become more aware of Sylogist, and how our customers are succeeding with our platforms.

Suthan Sukumar:
Great. I guess the last question for me is on M&A. Now, we continue to see consolidation activity in this space. I'm curious, how have you seen competitive intensity change, industry-wide, with respect to the targets you have in view, and how should we think about the pace of acquisitions over 2024?

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Bill Wood:

We don't have a particular pace in mind, Suthan, and I know that you're well aware of that, but we stay alert. The number of lines we have behind the boat have never been greater; the discussions that we have ongoing, and our ability to look at deals that are either broker deals or direct relationships that we've been building since I joined and actually continue to further in one way or another. I would say the landscape remains competitive in terms of M&A activity on broker deals. But ultimately, where we have demonstrated our ability to directly connect with the target, be it for customer density, IP, or ultimately the idea of what it would mean for us in terms of extending our team, is a key to our success so far.

I feel M&A will continue to be a key lever for us as we go forward, and I don't want to say increasing or decreasing, because it's from a strategic line. It isn't a must-have. We don't need anything in our IP stack, to go out and be competitive. We ultimately feel that our density of customers is such that we can stand on the shoulders of them. We don't need to go out and buy customers to gain credibility. To that end, M&A will remain strategic, and we have full Board support to be able to exercise that through a tight lens, but an aggressive lens, to make sure that we can gain scale should those opportunities present themselves.

Suthan Sukumar:

Excellent. Thank you for taking my questions and congrats again on a strong quarter. I'll pass the line.

Bill Wood:

Thanks, Suthan.

Operator:

This concludes the question-and-answer session. I'd like to turn the conference back over to Bill Wood for any closing remarks.

Bill Wood:

I want to close by thanking our customers and investor community for your confidence in us, as well as every team member at Sylogist for their incredible energy, contributions and determination. Again, I'm very confident that the building blocks for continued success are in place, and future value creation for our shareholders looks very bright. Thank you all for your time. Bye for now.

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Operator:

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

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