FINAL TRANSCRIPT

Sylogist Ltd.

Q1 2024 Fiscal Results Conference Call

Event Date/Time: May 9, 2024 — 9:00 a.m. E.T.

Length: 49 minutes

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PRESENTATION

Operator

Good morning. My name is Madeline, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Sylogist Q1 2024 Fiscal Results Conference Call. All lines have been placed on a mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the # key, followed by the number 1. Thank you.

I would like to now turn the call over to Jennifer Smith of LodeRock Advisors.

Jennifer Smith — Investor Relations, LodeRock Advisors Inc.

Thank you, Madeline, and good morning. Joining me to discuss Sylogist's Q1 fiscal 2024 results are Bill Wood, Sylogist's President and Chief Executive Officer; and Sujeet Kini, Chief Financial Officer.

This call is being recorded live at 9 a.m. Eastern Time on May 9, 2024.

Our Q1 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 this 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.

I'll turn it over to Bill first for opening remarks, then Sujeet will review our Q1 financial performance, after which Bill will conclude scripted remarks, at which time we will open it up for questions.

With that, Bill?

Bill?

Bill Wood — President & Chief Executive Officer, Sylogist Ltd.

Thank you, Jenn -- good morning… and good afternoon to those of you listening overseas.

Sylogist entered 2024 extremely well positioned to make our mark as a top SaaS provider to 3 public sector markets. We have the self-funding capacity and access to capital necessary to execute our strategy on all fronts these opportunities to grow organically and inorganically, if it makes strategic sense.

As I've stated previously, we have the most experienced and results-driven management team in the business. We have a suite of cloud-native, tailor-made platforms that our target markets are anxious for. Combined with positive customer experiences, we are driving best-in-class NPS scores.

We are fielding more referrals than ever before, which in turn is driving a 45 percent plus win rate and fielding increased brand awareness.

We are winning more and more new bookings from targeted competitors, which is bringing efficiencies and scalability to our implementation and training motions. We are in market with a full SaaS posture across all three strategic platforms: SylogistMission, SylogistEd, and SylogistGov.

We are making investments to continue building out and empowering our partner community. These partner investments, combined with our increased sales and marketing investments, are leading to results and pushing our confidence even higher that we can seize the growth velocity and value-creation opportunity we see ahead.

We expect and have shared that partners will be an expanding accelerator of our success in 2024 and beyond.

The early, effective execution of our partner strategy is increasing our reach, driving new logos, and expanding our delivery capacity ahead of plan, the result of which is the ARR growth and EBITDA margins we anticipated.

We achieved record bookings in Q1 of $9.1 million, up 18 percent year over year, and even more exciting is that over a third of that 18 percent growth were partner attached.

Only a year ago in Q1 2023, we booked less than $110,000 of partner-attached wins. We tripled that in Q2, then 5x in Q3, and then we exited the year at 8x with just under $1 million of partner-attached deals in Q4. In Q1 2024, we more than tripled the Q4 figure, exceeding $3 million in partner-attached wins.

More and more ICP, or ideal customer profile deals are entering our sales funnel and adding to the opportunities already matriculating through the pipeline. On that front and as further evidence of increasing momentum, our sales pipeline expanded by 185 percent in Q1 year over year.

Given all three platforms are now in market increasing customer referrals and the wider net we’re casting today with partners at our side, our market position continues to strengthen and offer us confidence in our 2024 outlook and beyond.

We anticipate increasingly more balanced number of wins across our Mission, Gov, and Ed markets as the year progresses and even more fulsomely in 2025 and 2026.

And as we further our channel strategy, we expect to continue handing off more and more lower-margin project service revenue to an expanded list of certified partners and replace it with higher-margin SaaS ARR from increased bookings in customer wallet share tied to cross-sells and expanded platform utilization upsells.

For context, in Q1, we saw 114 percent net revenue retention in our SylogistMission customer community, which illustrates the value-creation opportunity our modern, integrated platforms provide.

We are also seeing noteworthy new logo traction from focused displacement programs of targeted competitors. To that end, 20 percent of the SylogistMission bookings in Q1 resulted from the displacement of a targeted competitor.

A great example of our focused displacement strategy playing out is our recently announced selection by the United Way of Metropolitan Dallas choosing the Mission CRM and displacing a targeted competitor, perhaps the best-known CRM provider globally.

I’d also like to point out that 34 percent of our SylogistMission bookings in Q1 were partner attached and, as Q1 wins are delivered both directly by our experienced implementation team and in conjunction with partners, we are beginning to see the efficiencies we expected increasing word-of-mouth referrals and expanded repeatability, all leading to SaaS ARR growth in 2024 and increasing leverage in 2025 and beyond.

At the same time, we continue to nurture a curated list of strategic acquisition targets [audio gap] capital required to act if strategic criteria and valuations warrant. As a reminder, our intent with M&A is out to make accelerator of organic growth and is focused on targets which would add customer density and/or strategic IP to expand platform functionality and high-margin cross-sell opportunities.

The effectiveness we're seeing in our go-to-market motions having three fully SaaS intuitive, highly secure, purpose-built platforms now in market and strong customer advocacy on our behalf continues to differentiate us on the competitive landscape.

I also want to let you know that an exciting opportunity is on the horizon for our SylogistPay platform that I look forward to sharing more about with you in the coming quarters.

I'll pause here and let Sujeet take you through the financial details of Q1.

Sujeet?

Sujeet Kini — Chief Financial Officer, Sylogist Ltd.

Thank you, Bill, and good morning, everybody. Our Q1 results demonstrate the momentum we have built throughout fiscal 2023 in transforming Sylogist into a SaaS leader in the public sector while staying focused on the successful execution of our profitable growth plan.

Total revenue for the quarter was $16.3 million, up $0.4 million, or 2 percent relative to Q1 2023.

This growth was primarily driven by our SaaS subscription revenue, which grew by 15 percent over Q1 2023, offset by an expected and anticipated decrease in project services revenue directly related to the Company's purposeful pivot to a partner-led delivery model.

We also note that SaaS subscription revenues came in at 66 percent of total recurring revenues for Q1 2024 compared to 63 percent for the same period last year.

I will also note that foreign exchange fluctuations did not materially impact the year-over-year change in revenues.

From a segment perspective, overall revenue growth was driven primarily by the growth in our SylogistMission segment.

ARR came in at $42.5 million, growing at 7 percent year over year with the increase coming primarily from SylogistMission.

Our SaaS NRR was 106 percent, coming up from 104 percent at the end of Q4 2023.

Our gross profit margin for Q1 2024 decreased to 57 percent compared to 61 percent for Q1 2023. This was largely due to a multiyear project service wrap-up related to a single implementation that was recognized to revenue in tandem with the recognition of accumulated customer-designated contractor costs.

Absent this onetime anomaly, gross margin would have come in at approximately 59 percent.

Total operating expenses for Q1 2024 decreased to 31 percent of revenue compared with 36 percent during the same period last year, this decrease being primarily driven by a decrease in G&A, which was partially offset by budgeted higher levels of planned go-to-market expenditures in 2024 and a decrease in net R&D expenses.

G&A expenses at $2.6 million in Q1 2024 decreased compared with the corresponding period last year, coming in at 16 percent of revenue compared with 20 percent of revenues in Q1 2023. This decrease is the result of a reduction in recruitment expenses, bad debt expense, and other miscellaneous reductions in overall G&A expenses.

Sales and marketing expenses for Q1 2024 were $1.4 million, or 9 percent of revenue compared to $1.1 million, or 7 percent of revenue in the same period last year.

The increase in sales and marketing expense was due to anticipated strategic investments made in additional sales quarter-bearing headcount and an increase in programmatic spending on various marketing motions, which we are already seeing results from.

Our sales and marketing full-time employee headcount has increased by almost 70 percent, that is 7–0 percent, to 25 people at the end of Q1 2024, up from 15 people at the end of Q1 2023.

Net R&D expenses for Q1 2024 were $1 million compared to $1.4 million for the same period last year.

Gross R&D expenses were $2.5 million compared to $2.1 million for the same period last year, a 17 percent, that is 1–7, 17 percent increase relating to higher levels of capitalized development in relation to R&D activities relating to team expansion tied to fit and finish and quality assurance, all this primarily associated with readying our SylogistEd and Gov platforms for market.

Sans the impact of cap dev expenses, gross R&D expenses as a percentage of revenue have continued to stay in the 13 percent to 15 percent of revenues range.

Adjusted EBITDA for Q1 2024 was $4.2 million, resulting in an adjusted EBITDA margin of 25.9 percent, up from 24.1 percent in Q1 2023. This increase was due to the decrease in operating expenses, offset by the slight gross margin compression.

Consistent with our capital allocation strategy and in accordance with our NCIB, we purchased 51,800 shares for $0.5 million at an average cost of $8.76 per share.

At the end of Q1 2024, we had $9.9 million in cash. This level of cash is in line with the seasonality of our business and our customer renewal cycles.

Our revolver was $19 million, that is 1–9, $19 million at the end of Q1, up primarily on account of the Time Clock Now acquisition.

And finally, we have continued to listen to our investors to expand our available metrics as showcased within our latest new and improved MD&A.

With that, I'll hand it back to you, Bill.

Bill Wood

Thanks, Sujeet. In summary, I want to reiterate our internal theme for 2024 that I shared on the last earnings call: efficient repeatability and scalability of everything we do, both directly and indirectly with our partners.

We see ARR growth in the mid to high teens, organic growth in the low to mid teens, and EBITDA [audio gap] before.

Again, we see 2024 acceleration primarily in the back half of the year due to the inherent market cycles and the build-out in empowerment of our partner community. Sylogist is now firmly in control of its future and it looks very bright.

I want to close today by thanking our customers and investor community for their confidence and support. And my sincere gratitude goes out to the entire Sylogist team for their determination and commitment. It's incredibly inspiring to see every single day all across the Company.

That concludes our remarks. Let's take some questions.

Q&A

Operator

Thank you. If you would like to ask a question, please press *, 1 on your telephone keypad now.

You will be placed into the queue in the order received. Please be prepared to ask your question when prompted.

Once again, if you have a question, press *, 1 on your phone now.

Our first question comes from Amr Ezzat with Echelon Partners. You may ask your question.

Amr Ezzat — Echelon Partners

Good morning, Bill and Sujeet. Thanks for taking my questions. Bill, you touched on the United Way win. And this is the second one, and you mentioned it was a targeted displacement. I'm just wondering, first of all, if you could sort of elaborate what factors drove Dallas to transition to Sylogist over the incumbents and over other alternatives in the market.

Bill Wood

Good morning, Amr. The United Way of Metropolitan Dallas is somewhat representative of the larger United Ways that really have been on the path to—had been on the path to kind of a nationalization of a platform in conjunction with United Way Worldwide since the 2018, 2019 time frame, and that was specifically in cooperation and collaboration with Salesforce.

That project kind of languished in the development phase for several years and then the rollout phase really started to lead to material problems in terms of how it was meeting the needs of the local United Ways that were continuing to look for the motions that they had with their corporate community, but also build out to a more direct-to-donor capabilities.

So that relationship between those two entities largely dissolved in 2023 and has left that very material market in a position where they are looking for a new solution that can take them forward and allow them to power their communities the way that they desire. And it's a market that I know well. My last couple of companies have been deeply involved in that space.

And so the United Way of Metropolitan Dallas is very much a beacon of both technology adoption, as well as innovation. And their look for a new system brought them to us, as well as a few other options that they were considering, and a material win for us in combination with United Way of King County, which is Seattle, which had previously selected the Mission CRM platform.

So two key leaders in the space that, I think, is representative of more opportunity within a major market for us as we go forward.

Amr Ezzat

Thanks for the colour. Then my second question on that is my understanding is each affiliate maintains autonomy in selecting their systems, resulting in like decentralized, I guess, decision-making. Can you confirm that this is accurate?

Or do we think about this potential second win as something that could snowball to like a much larger opportunity within the United Way network?

Bill Wood

They are independent, and they make their own decisions at the local level. And while it's a United Way overall, they are loosely held in terms of decision-making within each community.

However, they do significantly collaborate on ideas, on infrastructure, on strategy. And to that end, I've seen it happen for years now where you get a certain amount of momentum within those that are considered to be leaders within the space and it influences the decision-making of others across the community.

And to that end, I think that these couple of wins and others we have in our pipeline are representative of just that.

Amr Ezzat

Fantastic. Then I mean, the school year is ending soon. Can you maybe give us an update on North Carolina and the readiness of your team to tackle this market?

Bill Wood

It's going well. And I think that we are tracking to the continuing success in North Carolina and then beyond that we anticipated. As with any school district or state entity, they too make independent decisions if, in fact, there's not a blanket agreement overall. And in this case on the ERP side and in North Carolina, there is not such.

And to that end, we see not only the upgrades of our existing footprint in North Carolina proceeding well, but also new logo opportunities that are also very much in our pipeline.

And so I will say that we're executing at or even ahead of where we thought we would be in terms of North Carolina, feeling very good about our stand-up of existing customers. And we'll be able to talk more to that in the next quarter or two in terms of the wins and the acceleration that we're seeing.

Amr Ezzat

Fantastic. Maybe for Sujeet, I appreciate … I'm sure a lot of people appreciate the new disclosure on segmented gross margins. If we could just like double-click on the dynamic that caused some softness during the quarter. You spoke to the wrap-up of a multiyear projected that impacted the project services side.

I assume this is a one-quarter thing. Is my understanding correct?

Sujeet Kini

Good morning, Amr, and thank you for the kind comments. Yes. The answer is yes. It is a one-time anomaly, as we described it, essentially impacting—not impacting. It's essentially, like I said, the wrap-up of a project, which really had two impacts from an accounting perspective.

It caused us to hold off the recognition of the revenues until such point when the revenue recognition triggers had been triggered. And then and in tandem with that on the other side there was the accumulated costs impact. So it was essentially getting the benefit of the revenue, but also recognizing the costs.

So your understanding is accurate.

Amr Ezzat

Fantastic. Then on your recurring revenue side, I'm not sure if I missed it if there was a comment there, but I noted the margin went to 68 percent from 73 percent. And obviously, we don't have the other quarters, but can you give us a sense of the dynamics there, number one, for this quarter?

Then longer term, how do we think about like the gross profit margins for recurring revenues?

Sujeet Kini

Right. Absolutely. So in terms of the impact on the recurring revenue gross margins as well, this one-time impact played out there as well. Effectively what happened was so yeah, so there is a tandem impact, similar to the PS side.

In terms of going forward, we do expect the recurring revenue margins to go back to kind of our normal cadence, 70 percent and above kind of thing. So yeah, we will emphasize that this one-time anomaly, if you will, impacted the current quarter.

Amr Ezzat

Okay. Okay. I got it. Then the gross R&D spend, 15 percent of revenues, that's the highest I've seen it. You guys were typically between 12 percent and 13 percent.

Anything for us to read there? And how do we think about this number going forward?

Sujeet Kini

I wouldn't sort of characterize it as anything specific that one would have to read there. Essentially, the capitalization of R&D is, if you will, a by-product in terms of the time spent and the projects meeting capitalization criteria. Again, background, getting the education and the government offerings fully ready for market, and we're essentially into the final stretch kind of thing.

The additional comment I would make in terms of your comment on going forward, and I believe we've talked about this, we do expect in the second half of 2024 for the capitalized development portion of the R&D to start declining.

Amr Ezzat

Understood. Then if I'm thinking about the gross spend as a percentage of sales being 15 percent, do we assume in the second half of the year that starts to decline as well? Or how do I think about the gross spend?

Sujeet Kini

Yeah. So the answer is I'm not sort of going straight in the middle, but our expectation is that it'll probably be in that 14, 1–4, percent range.

Amr Ezzat

Okay. Got it. Got it.

Sujeet Kini

Yup.

Amr Ezzat

And maybe just one last one. The $800,000, I think you guys called it restructuring and acquisition costs. I realize in that number there's both like earnouts , accruals, as well as integration costs. Is my understanding correct?

Sujeet Kini

That is accurate. I mean, essentially, there is the—you're absolutely right. There is the earnout accrual for the Mission CRM. So they're essentially in their year three. So there's about $600,000 worth of earnout accrual, which is the combination of their Qs 1 and 2.

I will remind everybody that Mission CRM earnout accrual fiscal year is September 30th. So essentially we're at the halfway point of the third year, so there is that accrual.

And the rest are essentially acquisition costs, a combination of costs relating to—

Amr Ezzat

But it's also the accrual?

Sujeet Kini

Yes. Exactly. Yeah.

Amr Ezzat

Okay. No, that's very helpful. Okay. I'll pass the line. Thanks, guys.

Operator

Okay. Our next question comes from Gavin Fairweather with Cormark Securities. Gavin, you may ask your question.

Graham Smith — Cormark Securities

Hi, guys. This is Graham on for Gavin. I have a question about so Great Plains is being sunset 2028. Do you guys have a sense of the size of the customer base in your target markets still on that platform?

Bill Wood

Hi. Good morning, Graham. It's material. It was a widely used and is a widely used platform and, obviously, plays well into our partners strategy and is part of our thesis around why the partners community can be an accelerator for us, as many of those partners had material practices around the Great Plains platform and, ultimately, the cohorts of customers that utilized that platform.

So to that end, both our direct as well as indirect through channel over the next couple of years as that platform reaches its end of life creates an opportunity for us on the Mission ERP side.

Graham Smith

That's great. Thanks. And then just one more for me. So I know Q1's not typically a busy sales period for you guys. You obviously have had good bookings. But when you look at the pipeline, is there any KPIs that stand out as we think about the balance of 2024?

Bill Wood

Well, we called out with purpose the partner attachment to those and the acceleration in 3x over even Q4. So the blossoming of the partner community in us working with them on deals, but also them walking us into deals now is happening at a faster cadence and ahead of pace than we anticipated.

But more to the comments I shared around the blend, we are seeing now traction. Again, we just got our Ed in, got platforms in market at the very end of 2023, and so the pipeline for those is now more reflective of increasing balance of opportunities across all three markets.

And as we move into the back half of this year, we do see Gov opportunities and Ed opportunities in our pipeline accelerating through at a good cadence into that. And speaking to the balance as I did was purposeful that we see increasing contributions.

And as we've highlighted, most of the acceleration we've seen so far is largely within the Mission division and so, ultimately, we start to really see all three pistons push as we get into latter part of '24 or '25 and beyond.

Graham Smith

That’s great. Thanks. I’ll pass the line.

Operator

And our next question comes from Daniel Rosenberg with Paradigm Capital. You may ask your question.

Daniel Rosenberg — Paradigm Capital

Hi. Good morning, Bill and Sujeet. My first question comes around the channel partner attachment. I was wondering if you could define how much handholding is involved at the low end and at the high end of that sales process? Or is there any difference between how involved you are through that partner attach?

Bill Wood

Good morning, Daniel. We’re very much in collaboration with the partners. Sometimes they’re more and more bringing the opportunity or making us aware of an opportunity. But for the most part, our marketing motions are driving the opportunities. We’re exposing those to partners that we think, during the sales process, would be additive and, ultimately, working with them on the sales motions with our sales engineers, empowering their teams to then be able to hand more and more of that off so we can have greater capacity as we think about our sales motions going forward with them at our side.

So it’s quite collaborative at this time and we see that lessening over time, although we’ll still stay very involved from a monitoring standpoint. But we feel our win rate right now is very strong, and we see that as something that is both attracting partners in terms of they see the anxiousness and interest in our platforms within our target markets. And ultimately, their relationships within their cohorts and in their areas give us confidence that we’ll see even increasing strength of our cadence going forward as we bring more and more onboard and we empower them to carry our flag high.

Daniel Rosenberg

Right. And I mean, it's great to see that in the bookings. So then is there anything to say about the number of partners you have? And could you just speak to your strategic initiatives around expanding that channel partner up? I think it was around 30 percent. How are we to think of your priorities in increasing that number?

Bill Wood

We'll continue to put emphasis on quality versus quantity. The right partners are far more important than partners who see this as opportunistic for maybe a quarter or two and aren't really in it for the longer haul, which we think is very important as we execute our strategy.

So we're very much vetting partners within the Microsoft ecosystem. Again, we are not just seeking out the everyday partner, although we would entertain that. For the most part, we're seeing people and partners with material Microsoft base practices already in either the Business Central and/or Dynamic CRM space. And to that end, we are ahead of where we thought we would be, as I mentioned in the prepared remarks, in terms of the enlistment, the quality, as well as the empowerment.

Enlisting them is one thing, but getting them ready to be able to do the implementation motions as effectively as we do, to do the sales motions as effectively as we feel we are now at a point in term. So it's a process. It's not an event. It's not simply a signing of a document.

It is a 6- to 9- to 12-month process that we have committed and we're asking them to commit to to make sure that they are, a) determined to be a partner with us and committed to being so but, ultimately, going through the steps to be effective in representing Sylogist and us being a partner to them.

Daniel Rosenberg

Great. Thanks for all the context. I'll pass the line.

Operator

Your next question comes from Suthan Sukumar with Stifel. You may ask your question.

Suthan Sukumar — Stifel

Good morning, gents, and congrats on a nice quarter here. I want to touch on the new prog rollouts of government and education. I know it's early, but has initial feedback from customer partners here been more or less in line with what you've been expecting? Or have there been any surprises with respect to what you're hearing?

Bill Wood

I'll say that we have seen confirmation in pretty short order that what we anticipated was the appetite out there is proving to be the case, with targeted competitors, both legacy, as well as contemporary, are creating the opportunities that we thought with the messaging, with the innovation, and with the SaaS posture that our platforms have both in Ed and the Gov.

Particularly on the gov side, we're seeing real interest; almost where have you been kind of mindset; thank goodness you're here kind of mindset and kind of reaction within the gov sector that in that mid-market has been materially underserved for some time. So we're feeling very good about the early signals and green shoots we're seeing on the gov side.

And the ed side, it's playing out pretty much as we expected. It's a more focused footprint, so we had more DNA within what that was going to look like. But in a broader context, on the gov front, we're seeing really good confirmation of the thesis of why we felt there was a material opportunity there.

Suthan Sukumar

Great. No, that's good to hear. How would you describe the level of motivation for change for these customer segments compared to what you saw initially with Mission?

Bill Wood

It's real, and as I said, there's been a buildup of this. And again, COVID really was the kick in the pants that many needed beyond the idea of we need to change systems. The outcomes and realities of COVID in having to get to a more of a self-serve and cloud-based platform was very real.

And to that end, dollars flowing into budgets, commitment to digital transformation, more self-serve offerings for parents, teachers, as well as citizens is now something that they're executing on; they're no longer thinking about.

So to that end, I feel very good and we feel very good about what we're seeing. And our thesis about timing is proving out to be good.

Suthan Sukumar

Great. Thank you. Your partner engagement seems to be scaling quite nicely and that's obviously really good to see and bodes well for scalability. Beyond the attach rates that you guys talk about and share, what other KPIs are you looking at internally to measure impact and quality of partner involvement and contribution?

Bill Wood

Great question. And it really speaks to more important than scalability is efficacy. Can our partners and can we enable them, can we empower them to the degree that they can lead to the same success motions to lead the training, the data conversion, and all the things that come with standing up and converting a customer from existing system to new.

So the KPIs we will continue to monitor very closely is time to implement, outcomes relative to utilization of the platform similar to as if our team was doing the same, and then ultimately is it leading to same NPS results not just near term, but as we scale that over time. And we'll monitor each one of those three KPIs quite closely.

Again, we're collaborating on most of the implementations, if not all of them currently. But as we get into the back half of '24, we'll be handing more of those off, and we will be shadowing their efforts. And so those would be the three that we'll look at very closely.

Suthan Sukumar

Okay. Great. Thank you. And then last question for me, guys, is just on the M&A pipeline and really the outlook here for more M&A. I've been seeing a lot more activity start to pick up in the public sector, education markets mostly from financial buyers.

From where you sit, does it feel like the end markets are getting more competitive here? Do you feel the need for more urgency? Or is your strategy and your pipeline already well in place to execute on?

Bill Wood

We feel very positive about our continued focus on curating, engaging, having ongoing conversations. While the competitiveness on broker deals continues to be high, I think our work, which is direct, while we'll certainly always and appreciate broker deals being brought to our attention, we really emphasize the idea of direct outreach to founders and entities that maybe are not in a process right now. We think we are quite good at that.

Our network and our relationship with the market gives us and me and others on the team long-standing relationships with founders across the three verticals that we serve. And to that end, I think that is where we look at the two primary criteria, which is customer density and/or strategic IP that complements our platform.

We feel good about our pipeline. We don't need to act in any particular urgency. They almost need to evolve on their own cadence, ongoing outreach, and ultimately stay opportunistic; encouraging, obviously, of why it makes sense to us. It may be more strategic now than it may be 18 months from now. But the idea of going direct to founders is something that we consider to be a key lever for us.

Suthan Sukumar

Thank you. That's very helpful. Congrats again, guys. I'll pass the line.

Bill Wood

Thanks a lot.

Operator

Our next question comes from Adam Wilk with Greystone Capital Management. Adam, you may ask your question.

Adam Wilk — Greystone Capital Management

Hey. Good morning. Can you guys hear me?

Bill Wood

We can.

Adam Wilk

Great. Thanks for taking my question. I joined a bit late, so I apologize if this was already covered. But in the past, you've talked about the sort of word-of-mouth nature of the sales cycle within the industry. And that's obviously supplemented by your direct efforts with both partners and internally. I'm wondering which one is better?

And as you scale, the partner efforts, your own efforts, and you become a larger organization, does the emphasis on word-of-mouth decrease? Or can you just kind of help me understand anything surrounding how that might evolve over time?

Thank you.

Bill Wood

Yeah. Good morning, Adam. Thanks for the question. Now for us, word-of-mouth is not necessarily in and of itself the reason that we both see a deal, an opportunity, as well as win that.

It is a necessary criterion of our strategy, both direct and with our partners, that if we don't have very strong reference-able customers that can speak to their peers in terms of the success they've had in transitioning from competitive system A to ours or B or C to ours, what that experience was like, what we are for long-standing customers that maybe just didn't transition, being able to speak to us as how we've been a partner, and why they aren't looking at competitors and why they feel our product evolution, as well as us as a partner and supporting their efforts, it gives them reason to say I'm good and, ultimately, I think it would benefit you as well.

So I do see both it being a key lever for our partners within their cohort of targets as well as those that we uncover through our own direct marketing motions. So I talk a lot about it because I feel that it is a crucial element that I've proven out over decades of how important it is within these target markets. But in and of itself, it is a must-have. But ultimately, we still need to have the strength of platform and, obviously, the ability to deliver as we say we can in concert.

So both our partners and our direct sales team are going to rely on that in a big way going forward. It's a big differentiator for us.

Adam Wilk

Okay. Great. That's helpful. Thanks.

Bill Wood

Hope that answers your question.

Adam Wilk

And then—

Bill Wood

Any follow-up there? Does that answer your question, Adam?

Adam Wilk

It does. Yeah. Kind of what I was getting at, which is assuming you're in control of your destiny, which it sounds like you are, and a version of this, I think, was asked as well, does throwing more resources at your own efforts lead to kind of increased wins there? Like for example, does increasing the dollars spent to your efforts mean that you could displace more? Or you could win more ERP? Taking into account the length of the sales cycle, obviously, I'm curious if there's anything to add other than what you've covered today?

Thank you.

Bill Wood

No. And I'm glad I asked the follow-up. Very much yes, we are feeling very bullish about clear ROI on our increased marketing motions and marketing spend. We monitor both inbound, as well as partner-driven leads and our direct uncovered in terms of what's working.

So as I've said all along is we continue to see results. As we continue to be able to tie A to B to C in terms of our marketing and sales motions, there's no reason that we shouldn't be leaning in with more spend there in terms of value-creation opportunity.

There's ceilings on that, but ultimately we see that flywheel as we get more brand awareness, as we get more visibility on the shoulders of our customers as referrals and testimonials, we see that being able to carry its own momentum as things go forward.

But over the near term, we'll continue to lean on that to create more and more awareness to give us more at bats.

Adam Wilk

Okay. Perfect. Good answer. Thanks. That's it for me and keep up the great work. Thanks.

Operator

Just a reminder if you would like to ask a question, please press *, 1 on your telephone keypad now.

It appears at this time there are no further questions. I'll turn the call back over to you for closing remarks.

Bill Wood

Thank you. And I want to thank you, all, for joining today and reiterate that Sylogist is now firmly in control of its future, as Adam just restated, as in my prepared remarks, and that from my vantage point the future looks very bright.

Thank you, all. Have a good day.

Operator

This concludes today's conference call. Thank you for attending. Have a pleasant day.