VIQ Q1 2020 EARNINGS CALL TRANSCRIPT

Moderator: Audrey Liu
May 7, 2020
5:00 p.m. ET

Operator: This is Conference # 3678024.

Operator: Good day, ladies and gentlemen. Today, we are hosting a conference call to discuss First Quarter 2020 Financial Results for VIQ Solutions.

At this time, all participants are in a listen only mode. Should you require any assistance during the call, please press star then zero on your touchtone phone. We will have a question and answer session at the end of the call at which time all participants wishing to ask a question will be instructed to press star one and identify themselves before asking a question.

Please note that certain statements made on today's call may contain forward-looking information subject to known and unknown risks, uncertainties and other factors. For a more complete discussion of the risks and uncertainties facing VIQ, we refer you to MD&A and other continuous disclosure filings, which are available on SEDAR at www.sedar.com and the OTC of the United States.

Please note that all amounts are in U.S. dollars unless otherwise stated.

I would now like to turn the meeting over to George Soteroff. Please go ahead.

George Soteroff: Welcome to the VIQ Solutions' Analyst and Investor conference call. I am George Soteroff, an investor assisting the company. I am your moderator today.

As a guide, may I advise that we are not able to respond to questions on prospective and development business for reasons of competition and confidentiality, nor are we able to discuss contracts with security-conscious customers and partners who request nondisclosure.

President and CEO Sebastien Paré; Chief Operating Officer Susan Sumner; and Chief Financial Officer Alexie Edwards have prepared remarks and will participate in the Q&A session. Corporate Controller Audrey Liu is also present on this call.

For some in-depth questions, we may refer to the latest MD&A and associated press releases. We have a record attendance today. We are limited to one hour, and I know management would like to answer as many questions as possible after prepared remarks.

For the Q&A period, please state your name and organization with which you are affiliated. VIQ participants on this conference call are using remote virtual communications.

I will now call on Mr. Paré.

Sebastien Paré: Thank you, George. Welcome to our first quarter 2020 earnings call. It's only been a short while since we released our year end results, so we'll keep the scripted portion of our call a bit shorter than last time to leave more time for Q&A as we have a record attendance today.

I hope that you all continue to be well and we find ways to manage most effectively through the COVID-19 pandemic.

Our team at VIQ Solutions continues to do a remarkable job maintaining the highest level of productivity. I'm extremely proud of their agility, their responsiveness to our clients' needs and their overall spirit to do what it takes to support our clients productively. And Q1 results speak volumes as a testament to that resilience and customer-centric culture across every aspect of our enterprise.

During this call, I'll provide a brief update on our strategy in the context of our Q1 results. I'll provide you with some insight regarding our revenue growth including milestones that we've achieved during the first quarter.

Susan will provide an operational update, especially following the recent acquisition of ASC and wordZ and COVID-19 impacts and opportunities that come with it. Then Alexie will discuss our financial results and strategies. I will update you on our outlook for 2020. And finally, we'll open the call for your questions.

In Q1, we continued to progress on our long-term strategy to create value. Our comprehensive plan rooted in these strong strategic goals has paved the way for a successful 2020 and beyond.

Our strategic goals are, number one, to improve revenue quality by transitioning towards recurring SaaS accounts where VIQ industry-specific solutions are delivered seamlessly to an integrated technology and operational stack which drives sticky top line revenue and enables multiple expansion.

For example, the sector known as industry vertical solutions providers trades at six or so times forward revenue while we're trading at about 1.5 forward revenue guidance midpoint of $35.5 million. That leaves room for substantial growth in equity value on a comparative basis, something very important to our new investors, particularly as we continue our slow and steady progression towards NASDAQ eligibility in the next 12 to 16 months.

Number two, to generate annually double-digit organic growth by cross selling a range of purpose-built software and documentation services to our existing client base, net new customers directly and through partners.

Number three, to grow our client and talent base through strategic non-dilutive acquisitions which drives top line growth and enables gross margin productivity gains on larger volume of data and enabling profitable scaling to $40 million, $50 million, and $100 million revenue over the next few years.

Number four, to continue to increase our gross margin from about 43 percent in Q1 to 55 percent by year end and higher next year through our patented technology stack and expanded AI market-specific that continue to create meaningful productivity gains that are market-specific.

These solutions differentiate VIQ from competitors by providing superior workflow, cybersecurity and quality of service. And finally, we believe the strategies have and will continue to drive shareholder value creation.

We completed another great quarter, achieving several milestones against our long-term strategy to significantly increase and improve the revenue quality, migrate our customers and workforce to our new cloud infrastructure and critically advance our capital markets journey.

Out of total revenue of $7.5 million in the first quarter, our recurring revenue grew by 31 percent versus the prior year to $7.2 million. We generated gross margin of 43 percent and positive EBITDA of $600,000. We closed on two accretive acquisitions – ASC and wordZXpressed – adding about 100 new clients and new talent.

Through the acquisition of ASC, we added conference, finance, world media and political content, expanding our reach to further diversify our client base and target markets.

On a pro forma 12-month basis, VIQ annualized recurring revenue is now approximately $37 million excluding any organic growth and future acquisition. This long-term recurring revenue base is a pillar of our financial enterprise.

Through technology and AI, increasing productivity against the recurring revenue, by 30, 40, 60 and ultimately 90 percent in some markets start lifting gross margin which start lifting EBITDA and starts flowing to the net income.

Last year, we demonstrated what happened when these pieces start coming together. In one year, we went from negative $2.5 million EBITDA in 2018 to roughly $2 million positive EBITDA if you take out the costs associated with the acquisition last year on the back of only 25 percent of such revenue being migrated into our new technology stack. By the end of June of this year, we will have migrated 70 percent of such revenue and 100 percent early next year.

Our progressive ascension to profitable net income is being bridged through these migrations and accelerated through organic growth and strategic acquisition. As we said three years ago – three weeks ago on the OTC expert panel on enterprise value and shareholder value creation, we view our enterprise shareholder value creation as a long game, a slow, measured, and steady built-up of our fundamentals to ensure that once we've earned the right to move up to NASDAQ, we indeed have the fundamentals and the track record including the execution discipline and financial strength behind us to flourish at that level, exactly like we are flourishing now on the OTCQX Best Markets.

As we said three weeks ago, public companies like VIQ can make it to the big boards like NASDAQ, but I believe only after they successfully progress through the OTC level with muscle memory intact and physical coordination to hit the 90 miles per hour round ball with a round bat in under one second. That is how much we value the long game, the OTC, and our approach to NASDAQ, slow, measured and steady.

We began reporting backlog this year and have as of March 31st a rolling backlog of 3 million in new SaaS technology order. This backlog further supports the accelerated digital transformation underway within our markets. We expect this rolling backlog to increase in the coming months as some of the pandemic restrictions are lifted. This backlog will start to become recognized revenue under SaaS early in 2021, thus is not included as revenue goal for 2020.

This is very important for our shareholders to tie market trends back to the large addressable market that we're in and the undisputed acceleration to digitize faster among our markets, especially in the post COVID-19 economy.

At the end of Q1, approximately 30 percent of our global transcription volume is processed using VIQ new NetScribe powered by aiAssist. The company expects to reach its target of 70 percent by the end of June resulting in an expected 50 to 55 percent in gross margin for the year.

We have completed several financial milestones which Alexie will discuss in a few moments. In achieving these milestones, we're seeing the results manifest in our financial performance and relate to the enterprise value creation, positive adjusted EBITDA of $600,000 for Q1; double last year of $300,000 in Q1 2019.

As we stated in our last call, our enterprise value is 50 percent higher today than a year ago and we expect to build on and accelerate that growth in shareholder value over the next year.

Over to you, Susan, now for additional insight and colors, our operational update regarding Q1. Susan?

Susan Sumner: Thanks, Seb. As I've stated, during the first quarter, we delivered $7.5 million in top line revenue. That was a 19 percent increase versus 2019. As stated, we generated $7.2 million in recurring revenue, up 31 percent and $0.3 million in non-recurring revenue.

Recurring revenue is made up of long-term technology and documentation service contracts which accounted for over 90 percent of our total revenue in 2019, and we are tracking to that same ratio so far in 2020.

Our gross margin in Q1 was even versus fourth quarter 2019 at 43 percent but decreased 500 basis points as compared to 48 percent in 2019. The relatively flat gross margin is partially attributed to the COVID-19 impact on our Australian court segment. This is our most profitable segment in Australia and was impacted by the early closing of the Australian courts. We are already seeing the (flows) begin to normalize.

Also compared to Q1 in 2019, the gross margin of 48 percent included a high margin hardware sale that was not repeated in Q1 of 2020. As part of our overall strategy, VIQ is not consistently pursuing hardware sales and instead, we are working with our partners to fulfill hardware orders in the future.

We remain optimistic that our gross margins will continue to improve and despite the challenges of COVID-19, our migrations to NetScribe and aiAssist continue. We remain on track to complete the integration of our three initial

U.S. acquisitions and a large part of the Australian law enforcement customers by the end of June.

We are also on target to ingrate the majority of the customers from the ASC and wordZ acquisitions by yearend. These one-time migrations are the technical and operational prerequisites to enable the boost in productivity gain resulting in the margin gain that influenced improved EBITDA and consequently net income. Platform migrations expect to favorably result in gross margins ranging from 50 to 55 percent for the year.

As previously discussed in February 2020, we announced the completion of two acquisitions – ASC Services LLC in Washington, D.C. and wordZXpressed in Atlanta, Georgia – for a total of $11.6 million. The two acquisitions are expected to add annualized revenue of approximately $12 million.

The ASC acquisition was incredibly timely, given the current environment with a primary focus on conferencing, finance, world media and political content. The combination of the additional scale offered by the core VIQ labor base has allowed ASC to respond to increased demand as a result of the world's new way of doing business via conference calls and web meetings.

Also, the ability to capture and highly deliver time-sensitive content proved a competitive advantage to ASC as other providers with a less distributed transcription workforce also provided to be advantageous at this time.

wordZ was a perfect strategic add-on by extending our insurance segment share and by adding an additional marquee name to our list of top insurance companies. This adds to the depth of learning we have in this space to target next generation tools to expand our AI to create meaningful productivity gains that are segment-oriented and will continue to separate VIQ as we put rich industry content into enhancing our technology.

And last, in terms of key activities in Q1, it is worth mentioning that in 2019, we made a strategic decision to in-source the majority of our R&D building out development operations globally. In Q1, we are now realizing the fruits of that migration as we have the ability to quickly pivot to improve our core workflow platforms based on real time feedback as we go through this major migration, but to also to pivot as priorities shift as we have seen in our two product launches of CapturePro Conference and MobileMic Pro this year.

While our dev teams are expanding globally, our innovation in 2019 to isolate infrastructure, expand cybersecurity and content to meet geographic and industry-specific security requirements allow us to remain aggressive in innovation while remaining highly focused on cybersecurity and compliance.

We are confident in our ability to not only increase our market share and our average revenue per customer, but to also deliver revenue growth, higher margins, and EBITDA.

Now on to Alexie to give you a further update on financial performance.

Alexie Edwards: Thank you, Susan. Adjusted EBITDA was $600,000 including R&D investments which are contributing significantly to our revenue growth, margin expansion, and pipeline.

To better understand the rapid transformation VIQ and its operating companies are going through, I invite everyone on this call to take a few minutes to review all the latest management discussion and analysis, which we published today along with our Consolidated Financial Statements.

They are available on SEDAR and OTC markets in United States. The MD&A provides shareholders with a strategic view of what VIQ is, where we're heading to for 2020 and has many layers of insights into how we are building our fundamentals and what sort of company we might well be in 12 to18 months from now.

There are a few things we would like for you to note, especially when reviewing the numbers and footnotes and while putting together your models.

On April 24, 2020, the company received a loan for $2.1 million under the U.S. Small Business Administration Paycheck Protection Program through BMO Harris Bank. The loan matures in two years and carries an interest rate of 1 percent. Principal and interest are due beginning seven months from date of the note. Generally, the loan will be forgiven if utilized for payment of qualifying expenses during the eight-week period that begins at the origination date of the loan.

We funded two acquisitions through a drawdown of approximately $4.4 million in debt, $1.2 million in promissory note and $6 million to be repaid in earn-outs to acquired company management over the coming months and years.

During the quarter, we converted $6.4 million in convertible debt to equity with strong support from all noteholders for an early, non-cash exercise of the note. This allowed us to optimize our capital structure, increase stock liquidity, strengthen our balance sheet and is in alignment with our shareholders.

As a result of this conversion, you'll notice some things moving through our financial statements. To clarify, during the quarter we recognized $5.1million in one-time, non-cash related to the conversion of notes to equity.

The approximate impact on net earnings per share was $0.39. Excluding the impact of this one-time non-cash interest charge, inducement expense and notes revaluation expense related to the convertible note, our net loss per earnings share in the first quarter of 2020 was $0.06 as compared to nil in the first quarter of 2019. Please keep this in mind as you model your full year earnings per share estimates.

Also, during the quarter, we issued one million shares due to the exercise of warrants for approximately $1.6 million bringing the total outstanding share count at the end of the first quarter to 18,263,139 shares. So please use this share count for modeling the rest of the year.

Our fully diluted share count hasn't changed, currently approximately 21 million shares. We believe all of these activities increase stock liquidity, improve our cap table and balance sheet and are in alignment with shareholders and value creation.

Our net debt remains fairly low at $11.6 million. VIQ's $55.4 million total enterprise value at March 31, 2020 was comprised of market capitalization of $43.8 million, and a net debt of $11.6 million, about 50 percent higher than a year ago.

Please note, the net debt balance at the quarter end was slightly lower than previously reported due to foreign currency translation adjustments.

Our stock market liquidity volume of approximately 1.2 million shares for the period of January 1 to March 31, 2020 increased 118 percent over the same period in 2019. Our second quarter 2020 volume run rate is on course for annual record volume tradeable on more than seven North American exchanges.

The company granted 396,000 stock options for employees. Options were granted in accordance with the company's stock option plan at an exercise price of $3.13 per share with a five-year term. The board and management believe that having employees further invested in the company will now motivate them to achieve exceptional results in alignment with shareholders.

Sebastian Paré: Thank you, Alexie. In 2020, we should again achieve record revenue, gross margin and EBITDA results despite the global pandemic impact. We cautiously adjusted our top-line to reflect events in Q1 and we protected our income guidance by qualifying and receiving 2.5 million in wage subsidies in our key markets. We plan to continue driving organic growth, successfully integrating acquisition, and pursuing non-dilutive acquisition accretive to earnings to achieve our 100 million enterprise value goal next year.

Considering known COVID-19 impacts from Q1, VIQ announced a 2020 revenue goal range of between $35 million and $38 million, of which 85 and 90 percent is in its core recurring technology and services revenue from existing clients. This goal excludes acquisition. As economies start reopening, organic growth will be added back to the revenue goal.

The company expects to reach its target of 70 percent in customers' migration to NetScribe aiAssist by the end of June resulting in an expected range of 50 to 55 percent in gross margin for the rest of the year. Adjusted EBITDA is expected to range between 10 and 15 percent of revenue at 4 to 6 million.

VIQ maintains an active M&A pipeline which may result in additional acquisition completed in 2020 and 2021. We expect that depending upon market conditions, we will qualify for an uplisting to a major national U.S. exchange by the end of the year or during the early part of 2021. Stay tuned.

In conclusion, our plan is working while it continues to evolve. We're set up to perform well in 2020 and 2021 despite the global pandemic. Our investment in VIQ future is paying off. We're creating shareholder value. I look forward to keeping you informed on what we're achieving in 2020 and beyond.

I want to leave the investors and analysts tonight with three key points. We continue to do what we said we will do and we're achieving key milestones. Our plan is working, and we're set with a strong plan for 2020 and beyond. In Q1, our four markets diversification has started to reveal its strategic strength both in terms of resilience during COVID-19, but also in future recurring revenue and organic growth and gross margin.

We're creating tangible shareholder value. The best is yet to come now that cash flow, gross margins, EBITDA and the strategy are proven and backed by a few solid quarters already, all trending now in the right direction despite COVID-19. Next stops, slowly higher EBITDA to close the gap on the net income and cross the threshold of positive earnings per share along with a prospect of filing on NASDAQ in the next 9 to 16 months.

This concludes the short formal updates from me, Susan and Alexie. Now the moderator will pause and we will be pleased to take your questions.

So at this point, there might be a technical problem – so if the – this is a technical challenge, I apologize. Is the moderator and the operator available?

Operator: Yes. This is the operator. This is the operator, are you able to hear me?

Sebastian Paré: So we're now in the process of opening the floor for questions.

Operator: Thank you. Ladies and gentlemen, at this time, I would like to remind everyone that in order to ask a question, please press star then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Marla Marin, please state your affiliated organization. Your line is open.

Marla Marin: Hello?

Sebastian Paré: Hi.

Marla Marin: Hi. So I apologize if you covered this question in your scripted remarks because there was a bit of a technology issue before, so anyhow. Can you please give us a little bit more color on how you're expecting to leverage the two recent acquisitions, and specifically I'm thinking about you know the timeliness of the conference service, but what about the extension into the new silos, specifically the media silo. Can you talk a little bit about how you see that playing out with your business and what kind of potential opportunities you're thinking about?

Sebastian Paré: Yes. And thank you, and that's a great question, and before I passed it on to Susan, I just want to apologize about the technical difficulties with our conferencing third party provider. I just found out from the operator that they had some technical difficulties related to the allocated bandwidth for this call and some other technical challenges with their infrastructure, so I apologize. But now, I'm happy to get started.

So from our perspective, wordZ, let's start with that first one, was absolutely critical to add to our insurance portfolio. So really what we said last year is we wanted to see a nice equal distribution of our recurring revenue across four sectors, and insurance, if you remember last year was basically slightly behind law enforcement and courts and justice.

So what we've done with the acquisition of wordZ, we've added an additional number of Fortune 500 insurance companies in the United States that complement our portfolio now. And if you look at our presentation that is available on our website, you're going to see that our recurring revenue which is 37.5 million on a 12 months forward looking with those two acquisitions now is equally distributed pretty much 25 percent in each market. That's absolutely critical for the strategy that we wanted to establish.

On the ASC side, and I'll pass that on to Susan in a second here, but with ASC, we've entered a very, very significant fourth growth area for us. It was always part of the plan after a long due diligence process, perfectly suited for VIQ's stack of technology as well as operation. So what we ended up doing is really entering very strategically a fourth vertical that we see a significant growth coming forward on that.

So Susan, maybe from your perspective, slightly a little bit more colors on the merits of those two acquisitions.

Susan Sumner: Right. Thanks, Seb. There are huge synergies around the two additional segments. First of all, I said this a couple of weeks ago, but our primary strategy around acquisition is related to focusing on customers that can be influenced by our technology and where we can use our technology to improve gross margin on the overall delivery of that service.

In the media business, it's quite interesting because it allows us to expand into the practically real time world interestingly enough of the financial results, right? The quarterly business is broadened and available to us globally now. It's a combination of both expansion in terms of capacity from VIQ with the skillset and the language models that come from the depth and the history of the content that ASC provided to us.

So when you're building around verticals, having content in your arsenal allows the AI to be much more effective in the delivery of efficiency gains. So that's on the media side.

There's also this requirement for us to be able to take these services globally. We're actually beginning to already build pipeline in Australia around the businesses that ASC serves in the United States as well as the insurance space both in the United Kingdom and in Australia as well.

So they're critical to us for an extended footprint in the geographies that we've chosen to play in and they're also critical to us in terms of being able to build our (corpus) around industry specific content for those two very important verticals also.

Go ahead.

Marla Marin: So should we think about the margins being equivalent across all four of your content focused silos?

Alexie Edwards: Susan, you go first?

Susan Sumner: Sure. I would say that the short-term answer is yes, within ranges. I mean you're not going to see a huge deviation in terms of margin. Some of the verticals will evolve to what we're calling our first (direct) product which will be highly, highly profitable. But not all industries are interested in taking that kind of product.

And also some industries are much more complicated in terms of the combination of human as well as technology melding. So there's not going to be a great deviation, but there will be some if you compare, for example, conferencing to courts.

Marla Marin: OK, that makes sense. Thank you.

Operator: And if you'd like to ask a question, that is star one on your telephone keypad. If you'd like to ask a question, please press star one on your telephone keypad.

Your next question comes from the line of Sergio Heiber. Please state your affiliated organization. Your line is open.

Sergio Heiber: Hi, congratulations on a great first quarter. I was wondering about the revenue model for MobileMicPro and CapturePro conferencing.

Sebastian Paré: That's a good question, and let me just try to first of all, Sergio, thank you. Q1 I think was a very critical quarter that frankly our existing shareholders as well as our new investors were anxiously (awaiting), especially after a really solid 2019. And the reality is we've managed to withstand the reality that half Q1 period was under COVID-19. So thank you for that comment. On behalf of all of us, that means a lot. And we were more than very excited to bring those results to the market.

So to answer your question, talking about that, as we start to see some of our large customers in every one of our verticals to start really balancing the work from home with the office work that we felt was very important to make sure that the online collaboration going on with Zoom, with WebEx, with Skype and Microsoft Teams basically are following the same recording protocols that we put in place.

So our revenue model for that is it's primarily driven to address our existing customers, so this is really an organic growth within existing customers. It's being basically deployed as an add-on to existing CapturePro customers and it's their ability to seamlessly bring in all the online collaboration with the video conferencing that they're doing into the main recording technology called CapturePro.

And our revenue model is based on a combination of an installation cost for the API, from CapturePro to the video conferencing to be enable and then from there, we have a SaaS, a software as a service model built into the plan based on a number of variables such as the number of lines that they open up, the number of rooms that they're going to be using. So it's basically a combination of add-on to an existing customer base.

And remember, one of the things that actually came up, Sergio, in one of your initial article, we do have a large number of rooms globally. That number at the moment, it's about 65,000 courtrooms that we've got. So really what we're looking on is really focusing on those 65,000 courtrooms around the world that are basically standardized on CapturePro and allowing every one of our customer who's already pivoted towards opening up the video conferencing to be recorded with the same technology.

So there's an initial set up and then after that, it's a SaaS model that gets built in. So Susan, maybe just from your perspective, any more colors we want to add to that question?

Susan Sumner: No. I mean as it relates to Mobile – I'll just quickly answer MobileMicPro because that's easy. MobileMicPro is just an extended capture for the ability for our current law enforcement customers to be able to remotely go in. It really is absolutely a capture device that's an extension of our services technology to ensure that we're not going to see a drop in the law enforcement revenue, but to allow us to continue to gain dictations.

So it is an extension of the services model around transcription that is, as you know, builds in multiple ways whether it's per the line, per the page or per word.

In terms of CapturePro, that CapturePro conference while it's exactly what as Seb said, I think you're going to see us also come out with an enhancement to that in the next couple of months that will allow it for non-CapturePro customers as well. And that will allow for a mobile application of CapturePro not only to be able to extend the conferencing service to tribunals in the court systems that we currently operate, but also to new smaller geographies that may not have the economic resources to be able to do the full footprint of CapturePro.

So we're really looking at a way to use that as not only an extension of our large footprint customers like the administrative justice in the UK but to also get to smaller county-like municipalities to expand the reach as well to smaller regions.

So yes, we're very excited about what this represents in terms of both organic revenue, but also net new customers as well.

Sergio Heiber: I think I have one more question. Regarding the acquisition strategy, we have about 3 million in cash and then the acquisition's payments that are due in acquisitions exceed that. It's about 3.2 million. So with the cash infusion from the government programs, will that fund the acquisition?

Sebastian Paré: No. So that's – I'm glad to clarify. So really, what we are saying, obviously we had a good cash balance at the end of Q1 regardless of the wage subsidies that came in. And as Alexie said that the wage subsidies, there is a number of categories of expenses that could only be allowed under that program. So we are not planning to use for any other purposes, it's strictly for the ability to make sure that the subsidies are being used.

So Alexie, maybe you want to clarify?

Alexie Edwards: Yes. The loan through the U.S. Small Business Association gave specific guidelines as to how this fund should be utilized and it's geared towards payroll-related cost, rent, and leases and mortgage interest, right? So it was very specific.

Sergio Heiber: Alexie, I understand that it's targeted, but then you could use the 3 million in cash that you have for acquisition then. So how do you intend to fund the acquisitions?

Sebastian Paré: So at the moment, we – as far as what we said is for any kind of future acquisition that it will be, if any, it will be toward the second half of this year, I made that very clear. Right now, it's all hands on deck to complete the migration of the five companies that we've acquired and I think you could see through the call tonight that we basically are on target to achieve 70 percent of that migration by the end of June. That's behind the scene and this is what Susan is responsible for.

It's a massive, massive lifting because it involves cyber security, it involves moving data from one source to the cloud. So all of these needs to be dealt with and then what we're saying, if we're going to do any more of acquisition off of our M&A pipeline, it will be on the second half of this year. And what we're saying is at that time, we will have opened up either a second tranche, add a better term with our existing lender or it will be with a third-party lender or an alternative lender at this point.

We're not planning to use any equity and I think our formula has worked quite well where we pay, I think, a fair value for one-time revenue and then we've got the ability to deploy between 40 and 50 percent cash upfront and then the rest of it, as Alexie said, gets basically paid over time to an earn out and (event take back).

So that's really where we're looking at is at this point, we've basically acquired five accretive acquisitions and now we want to come forward with 100 percent or 85 percent completion of those migrations before we take on the additional one. And in between, as the financials are getting stronger and stronger, then Alexie will tell you that that gives us a chance to negotiate better terms for the next tranche of lending for the next acquisition.

So it's a combination of both, Sergio. It's about the ability to make sure that what we've acquired is fully integrated and it's producing the financial strength that we expect and I think we're well on our way. I think Q1 speaks volumes for that.

And as the financials get stronger and stronger, then we have the chance to qualify for even a much better term lending facility either with the current lending provider or another provider moving forward.

Sergio Heiber: Thank you for the clarification. It makes a lot of sense, and I'll go back in the queue.

Sebastian Paré: Thank you.

Operator: If you'd like to ask a question, please press star one on your telephone keypad. Again to ask a question, please press star one on your telephone keypad.

Since there are no further questions at this time, I'll turn the call back over to the presenters.

Sebastian Paré: OK, well thank you very much everyone for joining this conference call. We appreciate the questions and your attendance very much. We look forward to speaking with you in August when we discuss our second quarter results.

Our annual general meeting which will be hosted virtually this year will be held mid-June. A press release will be published later this month with all necessary details. I personally cannot wait to host our next AGM and in August to share our future results. We're more than holding our own during this pandemic, something that we're really proud of, a reflection of the strength of the strategy, our world class execution leadership team talent and years of R&D investment made possible by an incredible number of strategic, highly sophisticated long-term shareholders and a very sophisticated board of directors and advisors who understand in great details how the shareholder value creation is being slowly and steadily constructed.

Be safe. Goodbye.

Operator: Ladies and gentlemen, this concludes today's call. You may now disconnect.

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