



VIQ Solutions Q3 2020 Earnings Call Transcript December 1, 2020 11:00AM ET

Corporate Participants

- Alexie Edwards - VIQ Solutions Inc. - *CFO*
- Sebastien Paré - VIQ Solutions Inc. - *President, CEO & Director*
- Susan Sumner - VIQ Solutions Inc. - *COO*

Conference Call Participants

- Daniel Rosenberg - Paradigm Capital Inc., Research Division - *Analyst*
- Jim Byrne - Acumen Capital Finance Partners Limited, Research Division - *Equity Research Analyst*
- Mark Chen - JMP Securities LLC, Research Division - *Research Analyst*
- Marla Marin - Zacks Investment Research, Inc. - *Senior Technology Analyst*
- Scott Christian Buck - H.C. Wainwright & Co, LLC, Research Division - *Research Analyst*
- Laura Kiernan

Presentation

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Good morning. My name is Amy, and I will be your conference operator today. At this time, I would like to welcome everyone to the Third Quarter 2020 Financial Results for VIQ Solutions Inc. Conference Call. (Operator Instructions)

Your host for today is Ms. Laura Kiernan, Head of Investor Relations for VIQ. Please go ahead.

Laura Kiernan

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Thank you, Amy. Good morning, everyone, and welcome to the VIQ Solutions' third quarter results call.

Before we begin, I would like to point out 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 complete discussion of the risks and uncertainties facing VIQ, we refer you to the company's MD&A and other continuous disclosure filings, which are available on SEDAR at www.sedar.com and the OTC markets in the United States. All amounts are in U.S. dollars unless otherwise stated.

With us today, we have Sebastien Paré, President and CEO; Alexie Edwards, the Chief Financial Officer; and Susan Sumner, Chief Operating Officer, all of whom will be available for questions following the conversation.

I will now turn the call over to Sebastien Paré.

Sebastien Paré, VIQ Solutions Inc. - *President, CEO & Director*

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Thank you, Laura. Welcome, everyone, to our third quarter 2020 earnings call. Our third quarter release made reference last night to our capacity to solidify the growth platform to the next level. Q3 in terms of financial operational results and corporate readiness was clearly about preparations and taking our growth enterprise to the next level. Overall, the third quarter was like preparing for an increase in altitude from 20,000 to 30,000 feet, which always comes with increased pressure. When a plane flies at 20,000 feet, it's generally in the middle of the clouds, it can be turbulent with less visibility.

During Q3, we completed all of the in-flight safety precautions, making sure the planes will perform as expected at 30,000 feet, the altitude in which we expected to fly at in 2021. Being above the clouds provides for a smoother

ride and a much better view. We're very pleased with the large and sizable rolling backlog announced in October from existing and net new clients as well as the substantially upsized bought deal with high demand from both the U.S. and Canadian investors that closed last week. This year has been both challenging and rewarding for our team that has shown resilience and agility during the global pandemic, while accelerating digitization and redefining our addressable growth markets. We continue to deliver on what we said we will do. This includes significantly increasing productivity, adding new clients, expanding existing client volumes and launching new products. We will speak to several of these deliverables and to how they have contributed to strong financial performance for this year so far, including gross margin expansion. We have solidified our growth platform for the next level by raising \$50 million in new equity just last week, adding diversifying new investors to the VIQ shareholders in United States and in Canada. This was part of our upcoming listing on national exchanges in Canada and the United States. Alexie will speak to the details of our first ever public offering rates, our planned use of proceeds and what's next in our capital markets journey.

Now I would like to speak to our results for the third quarter and the year-to-date periods. Most of you were expecting these results. Given we updated our outlook and preannounced Q3 results at the end of October.

During this quarter, our revenue was \$8.2 million, which increased 27% versus the prior year revenue of \$6.5 million. The increase of \$1.7 million included \$2.7 million from acquisitions, and was partially offset by \$1 million downward exposure from short-term COVID-19 shutdowns during the second and third quarter of 2020 on net organic growth. Our third quarter gross profit margin was 60.4% of revenue versus 45% of revenue in the third quarter of 2019. Gross profit in 2020 was favorably impacted by \$1.4 million in COVID-19 wage subsidies. Our adjusted EBITDA for the quarter was \$1.9 million, and increased significantly compared to last year adjusted EBITDA of \$500,000. The increase in adjusted EBITDA was driven by higher revenues due to the acquisitions and the productivity gains in transcription services as well as the COVID-19 wage subsidies received in 2020.

This was partially offset by higher SG&A expenses as the company continues to invest in innovative technology, artificial intelligence and scalability, while mitigating downward pressure on net organic revenue due to COVID-19 shutdowns that many of our customers were faced during the quarter. Likewise, for the first 9 months of the year, our revenue was \$24 million, an increase of 26% compared to \$19 million in revenue for the first 9 months of last year. The \$5 million increase in revenue, included \$7.3 million related to acquisition and was partially offset by \$2.3 million downward exposure from temporary COVID-19 shutdowns during the second and the third quarter. One item that is related to organic growth but is included as growth in revenue for the acquired companies was the increased share of the wallet for acquired customers. We did see growth for clients in verticals that were less impacted by COVID such as media, conferencing and law enforcement. And we saw a decrease in volumes in legal courts and insurance sectors due to the temporary COVID shutdowns.

Overall, we still posted exceptional second and third quarters as decrease in 2 markets was offset by increases in the others. More than ever, the strategic equal segmentation of our revenue into 4 markets and 3 regions worldwide has really proven itself during COVID-19 partial shutdowns in terms of operational and financial resilience, making us somewhat recession-proof. Earlier COVID-19 restrictions, mainly in courts, law enforcement and insurance briefly caused delays in customers' migration and new rollouts. Rollouts have partially resumed as COVID-19 restrictions are lifted, starting with Australia and now in the United Kingdom. The company estimates that approximately \$2.5 million to \$3.4 million of previously planned 2020 revenues are delayed to 2021 due to COVID-19. Our trend with past quarters, our year-to-date geography mix of revenue was 72% in United States, 26% in Australia and a growing 2% in the EMEA. Our gross profit was \$13.3 million (sic) [13.2 million] year-to-date, or 51.1% (sic) [55.1%] of revenue versus \$8.4 million or 44.1% of revenue last year. In addition to efficiency gains and higher revenue, our gross profit in 2020 was favorably impacted by \$2.8 million in COVID-19 wage subsidies. Please note that there are no wage subsidies anticipated for the fourth quarter. Our adjusted EBITDA was \$4.2 million versus adjusted EBITDA of \$1.2 million for the previous year. The \$3 million increase in adjusted EBITDA was driven by higher revenues and productivity gains in transcription services as well as some of the subsidies received during the second and the third quarter, and it was partially offset by higher SG&A expenses and downward pressure on organic growth due to the short-lived shutdowns.

Now I would like to hand it over to Susan to speak to productivity gains and bolsters our growth platform for the next level. Then Alexie will talk about the equity raise in our capital markets journey. Then I'll speak about the overall strategy. And then we'll go into a Q&A. Susan?

Susan Sumner, VIQ Solutions Inc. - COO

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Thanks, Seb. As Sebastien stated, we have delivered on several key initiatives this year. First was proving the productivity improvements of our technology. The migration and integration of our first 3 acquisitions was key, securely activating over 500 customers and over 550 transcriptionists to editors in roughly 3 months, showed not

only the quality of our technology in terms of ease of use, but also the transparency of the client experience within the platform. These are both key to launching a new platform, but also to changing the way we reshape this industry. It is essential that we provide a platform that allows our key customers to experience the same levels of service that they've experienced with small custom operations. It is also critical to the transcriptionists that they are able to maintain their earnings per hour. These standards not only drive long-term relationships but lead to margin improvements and scale in our acquisition model. We can now activate clients and editors much faster than even last quarter with reduced times to normalized productivity. The learnings from these migrations, combined with the depth of content gained in key sectors, provide the foundation to accelerate productivity enhancements to our transcription workflows and to improve product delivery to customers where the drive for faster and more accurate direct content is essential to their competitive positioning.

Second, was validating the segments we serve, see value in our end-to-end story. We have received this validation and meaningful growth from some of our largest customers globally, not only in the current services that we deliver, but also in the number of products that we deliver to those customers. The sizable rolling backlog announced in October validates our strategy and positions us well for organic growth as we enter 2021. While 2020 has been challenging for several of our segments, the overall growth from new named customers in all segments as well as growth in new geographies has offset most of those challenges. We are cautiously optimistic that even those markets that were constrained by COVID are beginning to rebound favorably, impacting the volumes on our services side, but also on the contracts for our capture technology. We launched CapturePro On-the-Go in October and have already delivered 2 key customers in North America with prospects in all of our strategic geographies. And finally, we are setting the stage to elevate our global brand by rebranding Spark and Cannon in Australia as VIQ Solutions for the Asia Pac region. The brand unifies the collective strength of our teams and solidifies our stand as an industry leader, offering innovative technology, professional transcription services and an unparalleled client experience. We have invested in acquisitions that helped us to support the marquee standards that we have established for VIQ. In 2021, we will invest further in supporting the awareness of both the brand and attributes associated with CIQ solutions and our overall expansion strategy. We remain confident in the trends that we see in the performance of our technology and our people to execute against our plan and to deliver value to our customers, partners and the investment community.

Now over to you, Alexie, to give you an update on the financial strategy.

Alexie Edwards, VIQ Solutions Inc. - CFO

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Thank you, Susan. As Susan and Sebastien mentioned, we are accelerating our growth plan. To support this growth plan, last week, we completed a \$15 million bought deal public offering. This resulted in issuance of 4.7 million shares at a price of CAD 4.25 or USD \$3.24 per share. Net of fees, we currently have approximately \$17 million on hand as of November 30 to fund our growth plan. As we noted in our prospectus, we intend to use the proceeds of the offering to accelerate our technology and next level of AI directly tied to the ongoing increase in productivity gains and gross margin, invest in our sales infrastructure and to fund potential future acquisitions. The fact that this was a bought deal is significant, it showed a high level of confidence the market has in VIQ Solutions and its prospects for future growth. Following the announcement of the bought deal that was preceded by exceptional Q2 and Q3 results, the company is well positioned to aggressively pursue alternative financing options and potential listing on the TSX and NASDAQ.

We are still in the early stage of our enterprise growth platform to fly and operate at a higher altitude as Sebastien mentioned earlier. As part of the process with the OSC and with the assistance of our new audit firm, KPMG, we worked with the regulators to significantly enhance our quarterly filings to match the high-quality disclosures that are typical of our year-end filing. We also added easy to understand tables for analysts and investors throughout our quarterly filings. This allowed us to quickly obtain approval from the regulators for all prospectus and required that we file amended and restated disclosures to match the format normally included in our year-end filings. It should be noted that the company's revenue and adjusted EBITDA remain unchanged. We anticipate that these changes will contribute to a faster review process as part of a potential listing to a U.S. national exchange next year. Now I'd like to provide you with some information about our outlook for 2020, which remained the same since our October 28 announcement, other than to tighten our adjusted EBITDA range. We expect full year revenue to range between USD 31 million to USD 32 million, representing growth of approximately 24% to 27% versus the prior year. Our full year gross margin should be between 50% and 55%. And as Sebastien mentioned, the company does not expect wage subsidies to impact gross margin in the fourth quarter. Our full year adjusted EBITDA range had been tightened to between \$4.4 million and \$4.5 million. We are on track to qualify for both the TSX later this year and at a NASDAQ next year. The regulatory procedures have already been initiated. We have the fundamentals, including a stronger balance sheet and a track record, including the execution discipline and financial strength behind us to prosper at that level. Similar to how we have excelled on the [TSX V] and the [OTC QS] best markets in the U.S.

Now I'd like to pass it back to Sebastien, who can speak to our overall long-term strategy and then we'll take your questions.

Sebastien Paré, VIQ Solutions Inc. - *President, CEO & Director*

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Thank you very much, Alexie. In conclusion, we continue our steady upward trajectory to 30,000 feet with progress on our long-term strategy to create shareholder value. We respect our shareholder confidence in our plan, where we start as a growth stock and continue to elevate to a value stock. Our growth, both organic and through acquisition are entrenched in the use of technology and artificial intelligence to transform a very specific antiquated end-to-end workflow in a very large addressable market that is clearly right for a digital modernization. Just to restate what we've been saying all along this year. Our long-term strategic goals are: number one, improve our revenue quality by transitioning towards recurring SaaS accounts where VIQ industry-specific solutions are delivered seamlessly driving sticky top line revenue and enabling multiple expansion.

Number two, generate double-digit organic growth annually by cross-selling a range of purpose-built software and documentation services to our existing client base, net new customers directly and to partners worldwide. These past 2 quarters have challenged some of our organic growth targets, given COVID-19 restrictions, yet the sizable rolling backlog announced in October represents organic and substantial wins for VIQ, but we won't see that revenue until 2021.

Number three, grow our client and talent base through strategic non-dilutive acquisitions, which drive top line growth and enable gross margin productivity gains on larger data volumes, enabling profitable scaling to \$50 million and \$100 million in revenue over the next couple of years.

Number four, continue increasing gross margin to 50%, 55% plus by year-end and higher next year through our own IP and technology stack and expanded AI specific tools that continue creating meaningful productivity gains. These solutions significantly differentiate VIQ from competitors by providing superior workflow, cybersecurity and service quality. We believe this long-term growth strategy have and will continue to drive shareholder value creation. And all of VIQ achievements are positioning us well for 2021, when we expect to continue generating significant top line growth and positive net income and earnings per share.

We look forward to keeping you informed on what we're achieving in 2020 and beyond.

This concludes our formal updates. Operator, please open the line for questions.

Questions and Answers

Operator

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(Operator Instructions) Your first question today comes from the line of Marla Marin with Zacks.

Marla Marin, Zacks Investment Research, Inc. - *Senior Technology Analyst*

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So it seems to me, given where things are in 2020 and as reflected in your results, it seems that COVID might be having a near-term negative impact. But I'm sort of wondering whether it also might not have a positive longer term impact in terms of as so many businesses have been forced to move to addressing their business operations in a digital way. Are you seeing any indications that longer term, this might ultimately actually help expand the addressable market in the longer term?

Sebastien Paré, VIQ Solutions Inc. - *President, CEO & Director*

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That's a great question, Marla. And for the benefit of everybody else on this call, I did make reference to this last 2 quarters, including the impact of COVID-19, one of the favorable thing has been a drastic expansion of our addressable market. I made reference in the scripted part of the call today on redefining the addressable market, and that's exactly what we were referring to. There's all kinds of new verticals that are starting to open up as businesses and some of our large agencies, like ourselves, have adjusted, and now they have a hybrid work environment, where everything now is being done virtually. But with that, comes a very, very significant pressure on that customer base, Marla, to deliver high end, highly accurate, highly secure documentation. Because now it's no longer just your standard evidence material, we're talking about operational business meetings, we're talking about settlement claims meetings that used to be done in person, all being done remotely. And with that comes a tremendous amount of pressure for a faster turnaround on that absolute accurate delivery. So Susan, you probably could add a little bit, but you made reference, Susan, about the first draft. So maybe this is a great way for you to kind of paint a picture for everybody on this call on where we're going with that first draft.

I think there are 3 -- Marla, I think you're exactly right. First, we did experience a negative impact when, for example, the courts in Australia shutdown. They've now rebounded. And while we know it was not lost revenue, it was delayed revenue. It certainly did negatively impact some of the results that we had in the second and the third quarters.

But to your point, do we rebound stronger? Absolutely, not only in terms of our expandable market. So we know that there's going to be a percentage of the market that will recover from COVID with a much more cost-constrained environment. We are announcing a first draft product that will allow the customers to be able to receive an unedited version of the document that is critical to our 2021 strategy. We believe that our positioning to be able to be price adaptive in 2021 because of our technologies is also incredibly more favorable than our competitors. But most important is the influence that we're seeing of the requirement for high security digitization in all geographies, not just North America. We've just been awarded a major contract in Africa, and we are highly competitive right now in a couple of bids in geographies where we've never played before, where emerging markets have made the decision that they have to change their infrastructure to be able to enhance mobile courtrooms and mobile interrogation spaces. So I think that it not only solidifies our positioning in terms of the services that we're delivering through the NetScribe suite of services, but it also solidifies the end-to-end story that we tell because they want the security and the connectivity of the capture technologies included in the service delivery model.

Marla Marin, Zacks Investment Research, Inc. - Senior Technology Analyst

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So I think it seems to me what we're looking at is not just the potential for a vertical expansion, but also, as you've talked about many times, and I think you remarked on earlier on the call in the scripted comments, gaining a greater share of spend with existing clients. So can you talk a little bit about how -- what you've seen so far in the third quarter and maybe earlier quarters in 2020, how you see that playing out over the next several quarters in terms of gaining share of spending with clients that are already on board?

Sebastien Paré, VIQ Solutions Inc. - President, CEO & Director

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That's a great question. We're all nodding our heads, Marla. That's a great question. And so kind of if I could bring it back quickly to the scripted portion of it. We've talked about wallet share expansion that we've seen drastically, particularly with our existing customer base, the Fortune 500 on the insurance and law enforcement as well as media. We've seen drastic expansion, and that was exactly what it was in reference to. So what we've done, like any other company, is I made reference to the fact that in our 4 markets and the 3 major worldwide regions have really proven themselves in terms of resilience. And I think in the context of COVID-19, in the context of what happened there that, really, overall offset, we posted the best 2 quarters in our history in the midst of the pandemic. So I think it speaks volume for that.

And then a big part of what's driving that, the ability to kind of fall back into servicing our existing customer base is what Susan was referring to, quality of the experience, the migration from being handled by a small company to a much larger company like VIQ. And the fact is we've been able to retain all that customer base. And now what we're starting to see is commitments coming in from some of those Fortune 500s in the form of expanded contracts, more volumes, new divisions now that are starting to flow our way. And maybe, Susan, without mentioning the name of the customers, I think, I need a bit of color from your perspective. But that has been absolutely fundamental to how this year we've been expanding from our existing customer base and how much of that is now starting to be reflected in our revenue. So Susan?

Susan Sumner, VIQ Solutions Inc. - COO

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Yes. I mean I'll give you a couple of examples. We received a call a couple of weeks ago from one of our -- I mean, as you know, the legacy base of customers from VIQ in the courtroom footprint where they're delivering software to capture technologies is extraordinary, right? And the premise that we have always had is that those customers will need transcription services and they will need improved workflows regardless of whether they're outsourcing or whether they're in-sourcing that documentation, and it's been validated, right? Like 2 weeks ago, we saw -- we had a call from one of our largest U.S. government customers that really doesn't want to be -- they don't have the time, and they certainly don't have the funding right now to be able to go through an extreme process where they're looking at replacing services. They want to enhance the services that they have with us. So proving out our strategy, they have a base product with us through the CapturePro technologies. They now want us to work with critical vendors to integrate into their video conferencing systems to use that technology for court room capture in immigration situation. So that's one prime example of exactly the way this is playing out real-time in what we're seeing.

We are selling more services in the services industry in the insurance space simply because we have capacity. Many of the smaller transcription companies have just not made it, right? There has been -- when the volumes dropped, they didn't have the scale to manage through that downward trend. And they're also losing resources because transcriptionists are coming from legacy technologies to become editors on our platform because they believe that that's the emerging space that the industry is heading in. So I think it's a 2 step kind of answer, Marla. I think it's, one, that we have the integration of technologies that makes it less cumbersome and less expensive for very large customers to deploy our end-to-end solutions because they are fully integrated when you buy them off the shelf. And the second is our massive capacity allows us to not -- to be able to manage through those peaks and valleys of volumes that affect many industries like the insurance space.

Marla Marin, Zacks Investment Research, Inc. - Senior Technology Analyst 8

Okay. And then my last question is a follow-up, really, to what you just said in terms of the end-to-end solution and integration capabilities. Where you are working with a customer that requires some most customization, tailored solutions -- I'm guessing, but would love to hear your comments that you retain the right to that, any IP that comes out of coming up with a solution for one particular customer, that you retain the IP and can then perhaps extrapolate it and use it for new product launches or to tailorize custom solutions for other clients.

Sebastien Paré, VIQ Solutions Inc. - President, CEO & Director 9

Yes. So let me go first, Susan. So the answer is yes. We are -- like we're notoriously known for -- if there's any enhancements with the discipline that we've now put in place, you can appreciate that we've got an extensive R&D road map that is being played out. Everybody on this call is aware how much has been deployed on the technology side and the AI, and that road map is several miles long. So we are going very carefully, knocking down every one of those milestones. And so we're very aware, Marla, if customization from one particular customer shall happen, then we have to embed it to that road map. And if we deem that it's appropriate, then we retain the IP, but we will incorporate on our road map. We are notoriously good at this, which is always that any customer's requirement against our road map because we're fully aware as a growing company, every dollar that goes against the technology has to be basically servicing and leverage the whole end-to-end platform between the capturing of the audio and video as well as the documentation services and how we render those documentations back to the customers. So the answer is yes. And -- but we have a very, very clear disciplined process along the way. Susan?

Susan Sumner, VIQ Solutions Inc. - COO 10

I mean, I think, you nailed it, Seb. In -- if you look at our R&D road map from 4 years ago to today, we had probably 50% of the deals that we did required significant levels of customization on the products that we delivered to the customers. We -- I would say that, that is pivoted to probably 90% off the shelf. We are rigorous in the way that we evaluate the commercialization of any enhancement that is a customized feature for the customer. We have to believe that our road map serves the best solution for the industries we provide. But that's not to say that for a huge court infrastructure in Australia that we're not going to have to do some level of customization, and we certainly will. I will say, from our largest customer that we're in the middle of deploying right now, there is a reasonable amount of customization that is required for that. But I would say, 97% of what we are building for that particular court will make us competitive in every other deal that we sell in 2021. So it is a discipline, it is a rigor. But that it is absolutely a position we're prepared to take, whether it is to say, yes, we will, or more importantly, no, we won't.

Operator 11

Our next question comes from the line of Mark Chen with JMP Securities.

Mark Chen, JMP Securities LLC, Research Division - Research Analyst 12

This is Mark. So in the press release, you mentioned an acceleration of the productivity gain this quarter. So I just have 2-part question, if I may. One is what are some of the drivers of this acceleration? And maybe, two, how does it affect your thinking toward future M&A plans?

Sebastien Paré, VIQ Solutions Inc. - President, CEO & Director 13

No, Mark, pleasure to meet you from JMP. Great question. And obviously, there's 2 key words that really stood out when you were asking that question. The number one is data. What we have not reported on yet, but Susan and I have been -- made it very clear, with the 500-plus migrations from the off-line world to the online world in the cloud into NetScribe than the ongoing basically training to cross-train those traditional transcriptionists to become proficient and as editors in the cloud, you can appreciate the amount of data that we now have access to. So a big part of our strength moving forward is how do we start harvesting, how do we start leveraging that amount of data

that is now flowing in from all our Fortune 500 on insurance and media, all our court customers, all our law enforcement customers. So we're now starting to have a store, if I could summarize it, and that store has gone from nothing to a massive unique store for the industry that we serve. But with that comes our competitive advantage and how much the R&D is now all about taking NetScribe aiAssist and the capturing product to the next level by starting to leverage that massive data set that comes with it in order to reroute the workflow internally for better efficiencies in order to basically analyze and diagnose that data early on for maximum processing in the cloud. So it's all around that.

And without going into all the technical aspect of our road map, the prospectus has quite a bit of details on some of those high level milestones on that. And I think that's really, from our perspective, what really is the revolution that is going on behind the scene.

Today and tomorrow, we'll be talking about software. But moving forward, you're going to hear Alexie, Susan and I talking to you, Mark, more and more about the data that comes with it. And how much, if you look at the R&D road map, when we emerge out of November of 2021, then you will see that a lot of the components of what we're going to be walking through the investment community will be about how that data is really starting to lift the gross margin from 60% to 65% to 70% over time. It's the combination of the software, the human expertise, but how the data gets used early on in the process. Susan?

Susan Sumner, VIQ Solutions Inc. - COO

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Yes. I'll go back to a much simpler answer to that question, which is relative to the productivity announcements that we made. It is not complicated, right? It is how -- the baseline benchmark is how much productivity kind of transcriptionists do moving to an editor in an hour? Or how long does it produce to take a minute of audio content in terms of total productivity time? And we're watching that trend go down and go down rapidly. We know that it will plateau. It's probably going to be a plateau that you hit at about 10 weeks of productivity. But the way that we gauge our success is in not only when we get to that plateau, but how quickly we can get to it. We know for sure that we have to rotate a new kind of editor, and that's great news because historically in the transcription industry, you could not hire an English major from a university, you had to hire somebody that had actual relevant transcription industry experience. We are now just as successful bringing a capable editor in from off the street with great computer and typing skills, we can get them to that plateau just as much as a seasoned transcriptionist. And why is that meaningful? Because the world's population of court reporters and of seasoned transcription is going down. So we're building this new silo of people that we can turn the knob and get them really quickly to be highly effective and to earn what we consider to be the target wage. So that's the first piece.

What does that mean in terms of acquisitions? Well, I'll kind of divide that into 2 parts. It means that we have a very good understanding of where we can get a legacy transcription services organization in terms of target gross margins and in what period now because we validated what the productivity enhancements should be. And second, and maybe even more important to that, we also know, from a pricing perspective, how we can respond to RFPs relative to the cost structure that we now have going into a bidding process versus just estimating what the productivity rates will be. So it's not only -- productivity is not only important in terms of servicing gross margin, it's very important in terms of the way we look at acquisitions and even more important in the way that we respond to major global RFPs.

Sebastien Paré, VIQ Solutions Inc. - President, CEO & Director

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That was a great question, Mark.

Mark Chen, JMP Securities LLC, Research Division - Research Analyst

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Yes. And just maybe last one from me. So maybe as you look at not only 2021, but for the next 5 years. So how did you envision the future of the VIQ platform? And maybe what are you most excited about for the future?

Sebastien Paré, VIQ Solutions Inc. - President, CEO & Director

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So as far as the evolution of the platform, obviously, we've taken it from an off-line to an online world, and that was the initial start of that platform. But where we're going with this, Mark, it's that combination of basically human editing on the back end, high end, high-efficient computing power using the cloud and the cybersecurity. The software required for the capturing of the audio and video, and then the AI involved in not only ingesting the data, analyzing that data and then make a determination on what's the best workflow, which best tools to use for speech-to-text and all of that. So that's really where we're going. It's all related to pushing that productivity that Susan was referring to, to the next level. And if you kind of map out our R&D road map, particularly on the back of the offering and the bought deal that we closed against the productive improvement, every single feature that is

coming in from the labs into the commercial version of NetScribe aiAssist and Capture Pro in the future is all related to that. So Susan, I don't know if you've got any additional comments you want to make on that question?

Susan Sumner, VIQ Solutions Inc. - COO

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No. I would just say, if we -- if you look at the R&D efforts that we will be using toward driving the new funds that we were raising, I would say it's wrapped around 3 core areas: one is precision. Precision of what we do with the audio capture that we get in terms of the speech engine that it's sent to, in terms of the editing pools that it's sent to, in terms of the way we look at analyzing the content of the audio file and the continuous improvement loop around that -- around the best use of making that document as good as we can before it gets sent to a transcriptionist, and making sure that the transcriptionist is best suited to be matched with the audio document.

Then the second phase of that, I would say, would be in terms of making sure that the unedited document is usable to multiple addressable markets beyond what we know today. Meaning that we believe that if we look at the way that we type today for all of the content that is coming from the hill for our media customers, being able to expand that not just from the capital appropriations hearings, but also into expansion of the EPA. Allowing that is critical, but it requires a very, very solid first draft. So first is precision. Second is expansion of addressable market. And third is making the content that we deliver to the customers usable for additional repurposing. So those are the 3 core areas that I would say that will involve the platform as we look to 2022.

Operator

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Your next question comes from the line of Scott Buck with H.C. Wainwright.

Scott Christian Buck, H.C. Wainwright & Co, LLC, Research Division - Research Analyst

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When I think about cash use for 2021, following the raise, you have about \$17 million on the balance sheet. What do you need for capital projects and just running the business? And I guess what I'm asking is what of that \$17 million is actually available for M&A?

Sebastien Paré, VIQ Solutions Inc. - President, CEO & Director

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Yes. So that's -- Scott, that's a great question. And I know Alexie will clarify some of that. But overall, if you take a look at the prospectus and what we went through with the high-quality investors that came in. Basically roughly about -- I think it was 1/3 was related to sales and marketing and the ability to scale to the next level. There was 1/3 that was related to taking the R&D road map to an accelerated play. Now that we've proven the base version and the productivity gains, there's a clear, clear realization that we want now to accelerate everything that we've been talking about: precision, the unaudited draft and the leveraging of the content. So we know how to do it. And now that will be accelerated on the back of that. And there is basically a significant component of that bought deal that was basically set aside for some of the strategic LOIs that we have in place now with some of our target acquisitions. So Alexie, over to you for some clarification.

Alexie Edwards, VIQ Solutions Inc. - CFO

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Yes. You nailed it, Seb. And great question, Scott. And as Seb mentioned, we have identified in our prospectus, the use of funds for this raise. And as Seb said, a portion of it is going to go to invest in our sales infrastructure and to fund the development of service offerings by advancing our R&D, accelerating our R&D, so we can maintain competitiveness and be the lead in the space. And thirdly, the most of the funds will be used to fund potential future acquisitions. And these acquisitions that we deem to be accretive and we have a very disciplined approach as to the way we approach acquisitions, and we will continue on that path.

Scott Christian Buck, H.C. Wainwright & Co, LLC, Research Division - Research Analyst

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Great guys, that's very helpful. Second one, I'm curious, when you have conversations -- when your sales team has conversations with potential customers around budgets for 2021. Are the conversations meaningfully different than what they were a year ago given COVID? I mean are there additional restrictions that are in place or additional challenges when you go to sell the business to potentially new customers?

Sebastien Paré, VIQ Solutions Inc. - President, CEO & Director

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Scott, that's outstanding. We're all basically acknowledging, like this is what we do all day long is so there's a couple of data points that I think we need to come up with is I'm going to allow Susan to give you more colors. But

that first draft, those 3: precision, onto diversion and making use of the content that we delivered to a next level. All of this is in the context. They are under tremendous amount of pressure to maintain the accuracy, but to basically cut down the turnaround time, and that is starting to have an implication across the entire organization because out of COVID-19 lockdowns, everybody is into a hybrid environment. So we're no longer talking about just evidence data in the form of an audio and video recording between an adjuster or a claim on an insurance or an interrogation room in the claim of insurance, we're now looking at Board meetings. We're now looking at operational meetings. We're now looking at governments proceedings taking place and that documentation in a post-COVID economy basically takes a whole other level of meaning on that. And we're starting to see that being reflected in every single discussion we're having with our customers, whether or not it's an existing customers looking to expand their existing volumes with us, or adding a more modern way to capture the audio and video or in some cases, the RFP. Susan, over to you on that one.

Susan Sumner, VIQ Solutions Inc. - COO

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I would say the answer is absolutely, and it varies by sector. If you look at our media business, it's had no impact at all. Those discussions and conversations are absolutely consistent with what they were pre- and post-COVID, that business is much more influenced by the political environment in the United States right now. And the expansion of the footprint because of the new administration also expands that business model. The courts have absolutely been impacted. In second quarter and third quarter, it wasn't -- it was just everything was shut down. It wasn't that we were having different discussions with them. We weren't having any discussions with them. Now we're seeing an acceleration because people want to, if they had bids on the table. They want to use that money before budgets change in 2021, but they recognize that allocating budget toward a more flexible model that will represent the way the courts will behave in the post-COVID environment is stuff that they have to invest in.

If you look at insurance, I don't think it's really changed very much. I would say, on the law enforcement side, we are seeing a lack of clarity around where the budgets will be. We feel that we are very well positioned because, as you know, outsourcing is always a less expensive option than in-sourcing. So as they look at headcount reductions within the law enforcement agencies, we feel that we're very well positioned to be able to pick up that work. And by the way, those people, we have a very good outsourced model, where we will actually pick up legacy employees, train them on how to become seasoned editors and allow that to be a bridge for the law enforcement agencies to cross so that they don't feel so exposed when they're moving headcount reductions into their budgets for 2021 and 2022.

Operator

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Your next question today comes from the line of Daniel Rosenberg with Paradigm Capital.

Daniel Rosenberg, Paradigm Capital Inc., Research Division - Analyst

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Congrats on all the progress, and it's been the most challenging year for everyone. So first off, I was just curious if you could comment a little further about your sales strategy. What are you guys thinking in terms of direct sales versus channel partners? And maybe if you could give some color to the large contract that you signed that you announced just a few weeks back? And how that came on board?

Sebastien Paré, VIQ Solutions Inc. - President, CEO & Director

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No, Daniel, it's a very important aspect of what we've been working on. So I'll let Susan answer. There's really only 2 data points that I would like to add to start with. One is by region. It does change by region. And I think Susan will walk you through that. And also that as we're now going upscale in terms of dollar value of those contracts -- and I think the last basically time where we announced their rolling backlog in the \$25 million plus, it's all on the back of existing customers and net new customers coming in from that perspective. But as we continue to go upscale with larger and larger end-to-end offering, the partnership model becomes absolutely crucial. So Susan, over to you for that answer.

Susan Sumner, VIQ Solutions Inc. - COO

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Sure. In 2021, as it was a very foundation building year, we invested in infrastructure around supporting a new kind of partner distribution model. So we've reorganized the contracts. We have changed the criteria for what a partner would be. We have standardized more of roles and responsibilities relative to compensation structures. Such that in 2021, our goal is where we were at about 20% of our revenues coming from indirect sale. You'll see that pivoting almost in the reverse as we get to the end of 2021. So 2021 will start out at about 80% direct, 20% indirect. As we exit, we would like those numbers to be more 80% indirect, 20% direct. We have assigned in each of the regions, business development managers that are specifically tasked with growing distribution relationships and keeping and preserving them in emerging markets, in particular, not so much in North America. And as it relates to the new

contract, I'm hoping that we will be able to have an announcement in the next couple of weeks that will make that much more public.

But as with deals like that, they are typically very RFP-driven, so it was an award. And we believe that we were awarded not only because of our capability to manage a customer that size, which by the way, is not inconsequential, it certainly distinguishes us from most of the others in the geographies that we play. But also in our ability to have connectivity into our legacy technologies, which that customer is also a purchaser of the capture technologies in addition to the services.

Daniel Rosenberg, Paradigm Capital Inc., Research Division - Analyst 30

So digging a little deeper, that's quite [a fit] between direct and distribution. Actually, I'm sure there's some drivers behind that. Are there any key partners that you view or maybe key types of partners that are accelerating that shift?

Susan Sumner, VIQ Solutions Inc. - COO 31

Well, yes. I'm sorry, go ahead, Seb.

Sebastien Paré, VIQ Solutions Inc. - President, CEO & Director 32

So there's -- go ahead, Susan. Go ahead, you go.

Susan Sumner, VIQ Solutions Inc. - COO 33

No. I was just going to say, yes, there are -- I mean -- and they vary by segment. So I will say a part of that number, a part of that flip is also a little misleading in that it has a lot to do with our pipeline, right? The partners have brought us a lot of pipeline for legacy products that we've just matured and because of some of the downward trends in the court industry, you're seeing an uplift in what we will do over the course of 2021. We're also going to announce some very important key strategic partnerships that will expand the portfolio in 2021. So to say that it is a complete distribution model is kind of misleading. It is revenues that will come from partnerships and distribution in addition to what we consider traditional VARs and integrators. There are new kinds of service models that we're exploring with partners that are not what have been traditional partners in the past. And a lot of that just has to do with where the industry is moving post-COVID.

Sebastien Paré, VIQ Solutions Inc. - President, CEO & Director 34

Daniel, does that answer your question?

Susan Sumner, VIQ Solutions Inc. - COO 35

I think we're going to have to move to the next question and final -- sorry, next and final.

Operator 36

Next and final question comes from the line of Jim Byrne with Acumen Capital.

Jim Byrne, Acumen Capital Finance Partners Limited, Research Division - Equity Research Analyst 37

I'll just be brief here. But I did want to just maybe get your thoughts on the M&A pipeline, if there's certain regional or geographic areas that you're focused on in the short term? And what do you feel the run rate capacity for either number of deals or size of deals kind of in the next 12 to 24 months might be?

Sebastien Paré, VIQ Solutions Inc. - President, CEO & Director 38

That's a great question, Jim. And from what we said before is there's really 2 data points that we like to consider. I think we've got a very strict metrics in terms of where does the target company has to be in terms of enterprise value as well as ability to be migrated into our platform and then the uplift on the gross margin. So I think we've well-defined that. The current pipeline has expanded drastically in the context of COVID-19. As many of you can appreciate, as Susan referred to, a lot of the smaller companies between \$2 million and \$5 million in revenue, if you were not diversified and you add all your eggs in 1 vertical, then the last basically 9 months has been pretty a bumpy road from that perspective. So I think that has basically allowed us to open up quite a bit the pipeline.

And then the other thing, Jim, that we like to focus on is we tend to add targets in geographies where we already

have a footprint, both in terms of operational capacity, but also on the front end, capturing technology. So with that, obviously, that's what I was mentioning. Obviously, United States being 72%, a growing number in Australia. But there's also, I made reference to a growing percentage of our revenue in the EMEA. And if you look at that whole region from the U.K. all the way to Africa and Middle East, that is growing quite a bit as well. So Susan, from your perspective on that, but those are 3 data points, Jim, that from my end, we have institutionalized internally.

Susan Sumner, VIQ Solutions Inc. - COO

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I think that we have an obligation to -- you've heard me say this before, right? We will acquire customers, companies where we can have a favorable impact on the customer experience and on the gross margin of the organization that we acquire. That we now know that we are going -- we have the ability to execute not only in North America, but we've built a leadership team that will allow for a growth model globally. And so you will see targets that are larger than we have historically made that are -- and certainly more global. You may also see us looking at nontraditional transcription companies and looking more toward technology companies that may expand our product portfolio more rapidly. So we're very bullish. But I think what you will see less of is a North American focus and more of a global focus.

Operator

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And there are no further questions in queue at this time. I will now turn the call back to Sebastien for any further or closing remarks.

Sebastien Paré, VIQ Solutions Inc. - President, CEO & Director

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Well, thank you for joining us today. It's been a very high-quality dialogue and very high-quality Q&A. And we look forward to speaking with you all again, actually, next spring when we expect to report our year-end results. Until then, be safe and wishing you and your family a safe holiday season. Thank you.

Operator

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And this concludes today's conference call. Thank you for your participation. You may now disconnect.
