VIQ Solutions Inc. Q3 2021 Earnings Conference Call & Webcast
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C: Alexie Edwards; VIQ Solutions Inc.; CFO
C: Susan Sumner; VIQ Solutions Inc.; President and COO

P: Scott Buck; H.C. Wainwright; Analyst
P: Daniel Rosenberg; Paradigm Capital; Analyst
P: Brian Kinstlinger; Alliance Global Partners; Analyst
P: Marla Marin; Zacks; Analyst

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Operator^ Good morning, ladies and gentlemen. My name is [Mel], and I will be your conference operator today. We are hosting a conference call to discuss the Third Quarter 2021 Financial Results for VIQ Solutions Incorporated.

At this time, all participants are in a listen-only mode. (Operator Instructions). We will have a question-and-answer session at the end of the call. (Operator Instructions).

Your host for today is Ms. Laura Kiernan, Head of Investor Relations for VIQ. Ma'am, please go ahead.

Laura Kiernan^ Thank you, [Mel], and good morning, everyone, and welcome to VIQ Solutions' Third Quarter Results Conference Call.

Before we begin, I would like to point out that certain statements made on today's call 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 SEDAR.com and on SEC.gov.

As a reminder, all dollar amounts are in U.S. dollars unless otherwise stated.

With us today, we have Sebastien Paré, CEO; Alexie Edwards, the CFO; and Susan Sumner, President and COO of VIQ, all of whom will be available for questions following these prepared remarks.

I will now turn the call over to Sebastien Paré to begin.

Sebastien Paré^ Thank you, Laura. Welcome everyone to our third quarter 2021 earnings call. Just three and a half weeks ago, we provided an interim update for you on the third quarter following some exciting news related to our M&A activity.

We announced that we had acquired 100% of the issued and outstanding shares of The Transcription Agency for approximately $1.7 million. TTA is a leading supplier of secure outsourced transcription services to clients in private and public sectors throughout the United Kingdom.

The acquisition provides VIQ with important government contracts and a team with decades of operating experience in the UK. This acquisition positions us to provide localized end-to-end offerings to government agencies with immediate cross-selling and growth opportunity. It also adds significant audio and video volumes to our localized AI assist engines, driving the accuracy of FirstDraft and provides synergies with our existing CapturePro technology business in the region.

We are so delighted to add their talented staff as an integral part of our next phase of our growth. The combined organization will benefit from the outstanding reputation of each company as we accelerate the adoption of our AI power digital workflow into the judicial criminal justice and government markets.

In October, we also announced the definitive purchase agreement to acquire the assets of Auscript Australasia, known as Auscript, a leading supplier of secure recording and transcription services for courts and law firms throughout Australia for a total purchase price of approximately $7.6 million.

Due to the confidentiality agreement in place with the seller of Auscript, we can only disclose very limited information about the acquisition until after it closes.

The proposed Auscript acquisition is expected to close in the fourth quarter of 2021 subject to the satisfaction of regulatory approvals and other customary closing conditions. The process is moving along as expected.

Both acquisitions are very strategic, and they are a very important next step in our clearly-defined growth plan that includes M&A and an investment in organic growth and scalability to meet the rapidly-changing client needs towards a much higher level of digitization and new ways to consume and deliver the documentation.

Now that we've executed the majority of our major corporate initiative this year to fortify our strong foundation, we are firmly positioned to accelerate disruption. Our focus is on execution of our growth plan by investing in and enabling organic growth and accelerating the M&A transactions in the pipeline. While our underlying technology-enabled productivity gains continues to get more and more accurate.

Even though we were still dealing with the challenges associated with COVID-19 in Q3, which included labor shortages in the U.S. as well as the return to full productivity in Australia, these are mostly in the mirror view now. And we are extremely excited with our plan to exit 2021 and look forward to carrying the strong momentum into 2022.

Our cloud and AI documentation service platform is now operational in each of our operating regions globally. Productivity gains are increasingly flowing to our margins. Gross margins in our U.S. editing services have now crossed a record high thresholds and yet we're at the early stage.

We're seeing real productivity gains following the transition to machine versus human FirstDraft using NetScribe powered by AI assist for our organic clients as well as the acquired client base. We now have the global foundation to look beyond 2022 and to the next generation of disruption in the markets we serve.

The capital we raised was earmarked to complete our targeted acquisition, and to accelerate our technology innovation. We are making great progress in both areas. Our core focus remains on change, and that is to deliver documentation in a new way to improve the way that audio and video editing is captured, digitized, and consumed.

Now, I will hand it over to Alexie to provide a high-level overview of our financial results. He will be followed by Susan, who will provide some insight into our operations. Then we'll take some of your questions. Alexie?

Alexie Edwards^ Thank you, Sebastien. Depending on where you are good morning, good afternoon, and good evening.

Our third quarter 2021 financial highlights include the following. We reported revenue of $7.1 million, which compares to $8.2 million in the same quarter of 2020. The decrease of approximately 13% was primarily driven by the slow recovery in the U.S., which was down 17% or $1 million in the quarter versus the prior year. As COVID-19 impacts resulted in lower transcription revenue mostly from the media and criminal justice verticals.

Additionally, there was an extended shutdown in Australia, which declined 6.8% or $0.2 million in the quarter versus the prior-year period.

Also, we -- please note that the prior period also presented difficult comparisons in our U.S. media segment where we saw increased volume related to the U.S. election cycle.

The two new larger U.S. media contracts recently announced valued at approximately $580,000 to provide rush verbatim transcripts and global newswire distribution to top global news agencies along with the five years renewal of our largest media client will more than offset that one-time softness moving forward.

Our gross profit of $3.6 million represented 51% of revenue compared to $4.9 million or 60% of revenue in the same quarter of 2020. In addition to the declining revenue, the decrease in gross margin for the three months ended September 30, 2021 versus the same period of prior year was primarily due to $1.1 million reduction in COVID-19 wage subsidies received at higher operating costs due to labor shortages in the U.S.

Note this was partially offset by improved efficiency gain following the transition to machine versus human FirstDraft through the use of NetScribe powered by aiAssist.

Now that -- now that we have integrated the first five acquisitions -- and despite the one-time significantly down quarter -- to have a 52.5% gross margin for U.S. services excluding substantive is on-track with our goals.

Excluding the impact of the COVID-19 wage subsidies, gross profits was $3.3 million representing 47% of revenue compared to $3.5 million representing 43% of revenue.

Adjusted EBITDA was negative $3.1 million versus the same quarter in the prior year adjusted EBITDA of positive $2 million.

In addition to the reduction in gross profit, previously mentioned, the decrease in adjusted EBITDA was driven by higher SG&A expenses in the quarter which increased by $2.6 million primarily driven by higher M&A costs, fees relating to TSX and Nasdaq listing and fees related to cancelled IPO.

In addition, COVID-19 wage subsidies in the current year quarter were $1.2 million lower versus the comparative period in 2020. Please note, we incurred approximately $2.1 million in one-time professional service fees in the quarter, which have not been excluded from our adjusted EBITDA calculation.

Excluding the impact of one-time expenses and COVID-19 subsidies, our normalized adjusted EBITDA for Q3 was negative $1.8 million versus negative $0.4 million for the same period last year.

Net loss was $3.9 million versus net loss of $0.3 million in the same quarter of 2020. Net loss for the current period was offset by $0.8 million gain on revaluation of derivative warrant liability that is remeasured at end of each reporting period. $0.5 million foreign exchange gain and $0.2 million left in amortization recorded on intangible assets.

We continue to focus on improving the quality of our revenue as we grow our SaaS strategy and AI innovation at a faster pace.

FirstDraft with aiAssist machine based document accuracy has proven to be around 85% gross margin with breakthrough accuracy results. We are improving our productivity and scalability which should continue to drive margin expansion in the future.

Now turning to our nine-month 2021 financial highlights.

Revenue of $23.5 million decreased 2% compared to $24 million in a comparable period of the prior year. This was driven primarily by 15.6% or $2.75 million decline in U.S. revenue year-to-date versus the prior period.

While Australia increased 12.4% or $0.8 million on a year-to-date basis with first half increases being partially offset by Q3 declines in Australia. In addition, technology related revenue increased $1.2 million or 109% in the comparison to prior period due to higher software license sales and professional services revenue.

Gross profit of $11.6 million represented 49% of revenue versus $13.2 million or 55% for the same period in 2020. Gross profit for the first nine months of 2021 was negatively impacted by the sect of COVID-19 shutdowns including delayed revenue and reduced COVID-19 subsidies of approximately $2.1 million.

As with the quarter, gross profit improvement related to efficiency gained are not readily apparent on the surface of our financial statement. However, further analysis shows a steady progression, excluding the impact of the COVID-19 subsidies, gross profits was $10.9 million, represented 46% of revenue compared to $10.3 million, representing 43% of revenue.

Adjusted EBITDA was negative $3.1 million compared to positive $4.3 million for the same period in 2020. The adjusted EBITDA was negatively impacted by lower gross margin and $3.5 million in higher SG&A expenses primarily related to corporate initiatives as well as approximately $2.3 million in lower COVID-19 subsidies versus the comparable period.

We incurred approximately $2.6 million in one-time professional service fees in the current year-to-date period, which has not been excluded from our adjusted EBITDA calculation.

Net loss was $16 million versus net loss of $8 million for the same period in 2020. $7.4 million includes $1.6 million decline in gross profits, $3.5 million in higher SG&A, and $2.3 million in lower COVID-19 subsidies.

The remaining $0.6 million relates to primarily $6.4 million of current period loss relates to non-cash stock-based compensation for the shareholder approval of a new Omnibus plan offset by $6 million in lower interest expenses related to -- due to the cost of conversion of the companies convertible note in 2020.

In the first nine months of the year, we generated 62% of our revenue in the United States, 30% in Australia and 8% in EMEA, Canada, and other geographies. Our $26 million cash balance at quarter end provides strategic liquidity to close on the existing planned acquisition and provide a fortified balance sheet as we enter 2022.

Now I'd like -- now I'd like to turn to our goals for 2021 and 2022. Achieving our revenue goal of $34 million to $35 million this year is dependent upon the timing of the closing for Auscript, which is expected to close during the fourth quarter of 2021. The company goals for '22 includes a full year of normalized revenue for TTA and Auscript; secondly, the new organic growth contracts delayed in 2021; and thirdly, processing backlog related to COVID-19 shutdowns.

Financial expectations include generating at least $50 million in revenue with 47% to 55% gross margin and 10% to 20% adjusted EBITDA margin.

[So much] the company's strategic revenue model included [fast], using AI as a driver, to automate transcription services. We expect to begin providing enhanced disclosures of KPIs beginning next year. We expect to share our plan with you when we report our year end results early next year.

These acquisitions, once again, will outline how we can layer on our existing platform to convert lower margin businesses into higher margin businesses through technology, AI, and operating efficiencies and cost savings synergies.

These transactions are reflective of this model and add significant revenue with an expectation that post-integration they will have a healthy, accretive contribution to our adjusted EBITDA margin.

We continue to invest in technology to improve our productivity gains, whether through the ongoing use of our NetScribe platform, industry and region-specific language models, or cross-selling or through our subscription-based renewal program. These actions bring sustained value to the company and allow us to continue to increase productivity.

Moreover, we have a robust balance sheet with over $26 million in cash, allowing us to strategically work through our acquisition pipeline on continued investment in innovation. And I'm extremely confident in our pace staying strong through the remainder of '21 and into 2022.

Now, I would like to hand it over to Susan to speak to our operational highlights.

Susan Sumner^ Thank you, Alexie. Given our detailed remarks a few weeks ago, I'm going to keep my remarks short and will save time for the Q&A.

As Sebastien and Alexie mentioned, we've made significant progress this year in enhancing our operations to gain value of the technology that we both sell and utilize. Our margins on the U.S. services are significantly improved year-over-year, even while adjusting to the U.S. labor market and the preservation of resources in Australia that need to be ready and aligned for the reopening of the region.

We are not waiting while the labor markets improve. We are actually adapting both technology and resourcing to be certain that regardless of how the world's labor market normalizes after COVID that we are prepared to meet the accelerated demands that we expect in 2022.

While we are certain that our markets will embrace the advantages of FirstDraft and NetScribe, the requirement for the final edited document will continue to expand as the world adapts to the increase in sources for audio and video and the need to preserve that content.

Our global editing resources along with our technology and AI augmentation layers are the goals that will anchor our foundation as the need for edited documentation grows. We continue to invest in both internal and external infrastructures to support our bundled solutions as the market adapts to this new concept of pricing.

Early next year, we will launch our suite of e-commerce solutions to allow our customers more autonomy in ordering, monitoring and collaborating on the content that we provide. This will support our expanded footprint in the global court space, enabling better solutions between the law enforcement, legal, insurance and court markets that are all users of this documentation.

Insurance companies use documentation from law enforcement officers. They use that content which will eventually lead to a statement of record. That statement of record becomes part of a legal proceeding which leads to a court report. The connectivity of our applications enable us to focus on how these separate industries have separate -- have similar requirements. We drive our technology not just from capture to document, but we also start thinking at the process of our client journey.

Those internal investments will also allow us to track critical KPIs that we've committed to report next year. We know the integration of our latest acquisitions will lead to operational efficiencies, as we have seen from the significant improvements in the U.S. services growth margin. Without subsidies, our U.S. services growth margins were at 43 point -- 45.3% in Q3 of 2020, compared to Q2 of ‘21 of 47% and a continued acceleration in Q3 of '21 to 52.5%. And we are still in the early stages.

This is meeting our expectations of the impact of our technology and the benchmark of what is expected globally from our integrations and our acquisitions.

As we look to 2022, we are confident that the foundation we have preserved and enhanced allows us to continue to disrupt, scale, and gain organic growth. Our investment in our global brand, our expanded sales team, and now our expanded services footprint reach -- and reach will continue to build from the great work we have done in 2021 as we start to see volumes delivered from the contracts that we signed this year.

And this concludes our formal updates.

Operator, please open the line for questions.

+++ q-and-a
Operator^ Thank you. (Operator Instructions) We have a first question comes from the line of Scott Buck with H.C. Wainwright. Your line is now open, you may ask a question.

Scott Buck^ Hi, good morning, guys, how are you doing?

Sebastien Paré^ Good morning.

Susan Sumner^ Good.

Scott Buck^ I was hoping you could give us a little bit of an update on maybe some of the problem geographies over the last few months. Are you back to 100% in Australia at this point, or are we still kind of working through the lifting of restrictions and kind of gradually opening there?

Susan Sumner^ Great question, Scott. I did a check on this yesterday. I think yesterday, we -- the two major quirks that were through shutdowns were at about 85% of our volumes from the prior year, so it's getting there. It's getting closer every day. It was -- it was up from 75% last week, so it's a fast acceleration but we're not quite there yet.

Scott Buck^ Okay. That sounds like great progress. And second one from me, I was hoping you guys could provide a little bit of color about how you think about balancing -- generating EBITDA profitability versus kind of investing in some of that organic growth that we're talking about for 2022.

Sebastien Paré^ I think that's -- we made it very clear on the last call as well, Scott, that we're obviously returning to cash flow positiveness this quarter, and that's going to -- that was part of the momentum kind of exiting 2021, after a number of quarters where a lot of the one-time expenses related to the corporate milestones.

So if you actually ripped out and take out a lot of those one-time expenses, you could see that the trending and we are returning to that base profitability in the fourth quarter, that's the plan, and then we'll carry that forward in 2022. But we've got some really, really aggressive targets and that includes maintaining our momentum on the technology.

Susan made reference to the ecommerce, that is coming into commercial release and it's shortly as well. So we've got a balance approach between exceeding obviously minimum requirements for profitability, but also we're very much aware that we need to keep our pace on the R&D and we will be providing some very good clarity on that when we report the year end. But we've got a balanced approach but that return to profitability is actually in the works for this quarter, and that’s going to grow starting next year as some of the organic contracts and the contribution of the recently acquired acquisition are going to come into the mainstream.

Scott Buck^ Great. That’s very helpful, Sebastian.

Last one for me. If you guys could just touch on the M&A pipeline, it sounds like still a number of opportunities out there that you could take advantage of. What in particular are you looking for? And should we expect kind of a continuation of kind of what we’ve seen in the past?

Sebastien Paré^ Susan?

Susan Sumner^ Sebastien, you want me to take that one?

Sebastien Paré^ Yes, (inaudible).

Susan Sumner^ Yes, sure. We are busy. As you know, I said a few times that we would not really accelerate the additional transaction until after the time when we could go meet with these owners, go actually have more valid conversations about how their business would evolve post COVID. And so, we feel very, very good.

Scott, nothing has really changed from what we said in the last few public statements. We are looking at new kinds of acquisitions. Typically, we will be focusing on our normal core, which is medium-sized transcription companies throughout the world that you will see an expanded view of new kinds of acquisitions that may involved technology and also additional ways that we can document to add value to that customer stack that we've historically focused.

Scott Buck^ Great. That's helpful, Susan. And just to be clear, are there additional acquisitions baked into the 2022 revenue guidance number?

Susan Sumner^ No.

Alexie Edwards^ No. No.

Scott Buck^ Okay. Perfect, guys. Thank you so much for the time.

Sebastien Paré^ Thank you, Scott.

Alexie Edwards^ Thanks, Scott.

Susan Sumner^ Thank you.

Operator^ Thank you. We have the next question comes from the line of Daniel Rosenberg of Paradigm Capital. Your line is now open. You may ask your question.

Daniel Rosenberg^ Thanks for taking my question. I wanted to ask about you mentioned normalized EBITDA being negative $1.8 million if you excluded one-time items. I'm just wondering if you could explain your thinking behind not adjusting adjusted EBITDA for those one-time items.

Alexie Edwards^ Thanks for your question, [Brian]. When we reviewed the $3.1 million in our analysis, the reason why we provided $1.8 million as being normalized is because when you back out those one-time expenses and back out the one-time COVID subsidies as if how the business would have performed excluding these items, that's where we're arriving at $1.8 million in normalized adjusted EBITDA last.

Daniel Rosenberg^ Yes. I understand that you're getting that number and you're providing it verbally, but why didn't you do it within the numbers themselves? You already adjust EBITDA for six, seven other line items, so can you help me understanding that thinking?

Alexie Edwards^ Yes. Because it's those expenses are legitimate expenses. And just to provide more color for the shareholders and investors why we decided to provide a normalized number for adjusted EBITDA. The one-time expenses and COVID subsidies that we have back [put] in arriving at a normalized EBITDA, Brian, is based -- are legitimate expenses that should form part of the EBITDA calculation.

Daniel Rosenberg^ Okay. I guess I'll move on. And it's Daniel by the way. So in terms of the guidance, you're reiterating your guidance in your release, but in your previous release with guidance, you had mentioned targeting 10% to 20% adjusted EBITDA for 2022. So I was wondering was there any change in your thinking or are you saying you still are targeting 10% to 20% adjusted EBITDA for 2022?

Alexie Edwards^ Yes. We are still -- we are confirming that our adjusted EBITDA for 2022 is in the range of 10% to 20%. So, we're sticking to that forecast or guidance that we have provided.

Daniel Rosenberg^ Okay. And then in terms of this year's guidance to achieve $34 million to $35 million also in your language you mentioned the timing around closing Auscript will -- that will be -- achieving guidance will be dependent on that. So, on the low end of your guidance of $34 million, what is your assumption for closing the acquisition?

Alexie Edwards^ Brian, I'm limited to -- Daniel, sorry. I'm limited to what I'm -- I can say about the acquisition, the impact the -- you know the Auscript acquisition will have on the revenue in terms of the actual absolute number due to the confidentiality agreement.

What we have assumed that Auscript will close in the fourth quarter and that assumption is reflected in the guidance that we provided of $34 million.

Daniel Rosenberg^ Okay. And lastly in the selling and administrative expense. So, last quarter you're at $3.9 million, it jumps to $6.5 million this quarter. So, you mentioned a number of one-time expenses. So, as we look to Q4, is it fair to say looking historically to Q2 and Q1 that would reflect the going forward selling and administrative expense run rate? Or should we be thinking about that differently? You might be investing in some other growth type investments?

Alexie Edwards ^ Yes. Great question, Daniel. We continue to invest in our sales, infrastructure, and marketing infrastructure, and R&D. However, if you -- if you back out the one-time expenses out of the selling and G&A expenses for Q3, we're going to be -- the run rates are going to be within that range or plus or minus another half a million, I would say.

It's hard to say the exact number because we have different projects going on at the same time. But what I can say is that a number of the one-time expenses that we have taken on corporately for -- based on the corporate initiative that we undertook in Q3 is behind us. So, Q4, excluding any future acquisition Q4 would be a good indication or -- and Q1 will be a good indication of what our G&A run rate is going to be going forward.

Daniel Rosenberg^ Okay. And maybe I'll sneak one more in here. So, that helps me understand Q4 and things that are reopening and what not. So, should we expect that to increase as we look at '22?

Alexie Edwards^ Could you repeat the question again, Daniel?

Daniel Rosenberg^ So, that selling and administrative expense you mentioned that -- you just said that Q1 was a good proxy for where you'll be at give or take. But you're also seeing reopening and increased business. So, should we expect that additional business to drive further expense on that line item?

Alexie Edwards^ Yes. Absolutely. As to the impact, those future acquisitions will have, it's hard to tell. However, please know that as we buy new companies, selling and G&A expenses will increase. However, that will be the -- offset by any synergies, cost-saving synergies as we integrate these acquisitions.

So, it may not be reflected in first quarter, it takes some time to integrate companies. And that impact will be -- will reflect in our results going forward may be in the second quarter post-acquisition. But selling and G&A is -- will increase based on our marketing and sales initiatives as well in our G&A expenses as we take on new acquisitions.

Daniel Rosenberg^ Okay. Thank you for taking my question.

Sebastien Pare^ Thank you, Daniel.

Alexie Edwards^ Thanks, Daniel.

Operator^ Thank you. We have the next question comes from the line of Brain Kinstlinger of Alliance Global. Your line is now open. You may ask a question.

Brian Kinstlinger^ Hi. Good morning, guys.

Alexie Edwards^ Good morning.

Sebastian Pare^ Good morning.

Brian Kinstlinger^ You talked about how -- good morning. You talked about how FirstDraft as well as your subscription-based offering will help insurance companies increase the percentage of initial claims calls that digitally get transcripted in case they go to court. Can you talk about your recent ability to gain share or how you expect this is going to drive market share gains within this vertical over the next year or so?

Susan Sumner^ Absolutely. So we're already seeing it, Brian, by the way. If you look at the contract renewals that we've had in the insurance space, we are -- we are actually in trial with several of our largest insurance customers to be able to, as you know, we're current -- well, maybe you don't.   But we're currently only documenting a very small percentage of the statements of record that are between the auditor and the customer.

And they're -- while every call is captured, only a small percentage of those that they believe will end up in legal dispute actually get transcribed. So what we are in trial now doing with these customers is actually to deliver FirstDraft as a first round of digitizing all of the documents as opposed to just those that have a high probability of downstream litigation.

So we believe that we will expand that beyond just the three major carriers that are currently in test with us. And I think that you'll see that application in not only providing us expanded wallet share from the current customers that we have. We're certainly seeing that through our contract renewals. But also you will see it through our aggressive outreach through organic growth with net new named customers as well.

Brian Kinstlinger^ Now, if I'm not mistaken most insurance companies use multiple companies to do digital capture or just capture whichever way it is. And so you gain share from them in addition to getting more volume, is that right?

Susan Sumner^ So we've done both in the last two years. And I would say it's not the capture piece of it, it's actually the documentation piece. Most insurance companies have their own proprietary capture while we will be working with some of the insurance providers to use our mobile applications as an alternative to their capture. We have gained additional market share from them on the pure edited document side, the traditional stuff.

And all of the stuff that we're getting through these trials is incremental and sort of sits outside of that core multivendor panel, if you will. So you're correct in the assumption that it will provide not only expanded revenue for us but also incremental addressable market growth.

Brian Kinstlinger^ Great. And then on Australia, I think you guys mentioned to one of the first questions that you were at 75% of volumes maybe a couple of weeks ago. This week, you're at 85%. As I try to understand the transgression of how you're improving, third quarter on average was at what, was it at 50%, was it at lower, higher just so I understand how much December is better than [these 10] months?

Susan Sumner^ It was -- it was -- it was on the services business, it was under 50% -- it was -- and Alexie keep me honest here, but I believe it was -- it was slightly under 50%.

Alexie Edwards^ Yes.

Brian Kinstlinger^ Great.

Alexie Edwards^ You're correct, Susan.

Brian Kinstlinger^   Great. That's helpful. And then lastly, you've talked about it, everyone talks about labor shortages in the U.S. So first, is this leading to increased wages for you? And if so, what percentage, kind of, are you having to see an increase in your salary base?

And then can you talk about -- as you're growing, it sounds like you have to make investments and [higher head]. Do you have a significant number of open positions right now that you're recruiting for or is the company waiting a little bit until the revenues materialize to be a little bit higher?

Susan Sumner^ So it's a great question. The wages are not -- so when I speak to the labor, we certainly don't have a labor shortage when it comes to our -- what I would call non-editing staff.

And on the editing staff, we have capacity to meet the demands that we have today. Those rates are not going up. They're going down. But they may not go down as quickly as we had hoped because of the demand of new applicants.

We had expected that because of the transition from transcription to editing that we would actually rotate through our base of editors and that we would have about 30% replacement in those technology -- in that editing base. We are not seeing that rotation.

What we are seeing though is collaboration with our clients that allow for both incremental use of FirstDraft to offset some of that demand, which is really good for us because the gross margins are so much higher. That helps us to manage capacity planning and turnaround time.

And then we have a major project underway to make sure that we are maximizing global labor. The two acquisitions, one that closed in the UK and certainly the new one that is pending in Australia along with other projects that we have going on globally, will allow us to be very innovative -- and I'll speak to this more at the end of next quarter -- around the way we're utilizing the combination of technology, geography and labor to be able to source this to not just have decreases in labor costs but to continue to accelerate the improvements in gross margin that we've committed to the Street.

Brian Kinstlinger^ Great. Last question I have, when you make these acquisitions obviously the benefit to you and the shareholders is to leverage your AI and make it much less manual, of course. So how long does it take once you close an acquisition to get them to your fully leveraging your automative capabilities so that margin profile has changed? Thank you.

Susan Sumner^ It's a great -- it's a great and interesting question. And I would say we have a very precise methodology that we use in the way that we do the planning around that. We are certainly very different today in the way that we are integrating TTA than the way that we did the original acquisitions with [TE] and with Net Tran. But if you look at the difference between the way that we will integrate a $2 million acquisition that is -- that is largely single-industry focused, it's very different than the size and the scale of the integration of an Auscript, as an example.

So the methodology is normally that we will begin after three months to integrate. We've kind of jumped the fence on that one with TTA. You're seeing an acceleration of that where we just jointly signed a new big contract with the Houses of Parliament in the United Kingdom. That will go immediately onto our new technology because NetScribe, as you probably saw in one of our press releases, is now available in the UK.

So you'll see an acceleration there for many reasons. The customer is demanding a higher level of innovation in the United Kingdom relative to the segment and the size of the customers that we’re selling to here.

In Australia, I would say it will be a very consistent integration. Again, I’m limited around what I can say with that, but what I will say is that it is a prime opportunity for us to really take advantage of the infrastructure that we have created to be able to accelerate these acquisitions.

And so, a short answer is starts after three months, probably takes 12 months depending upon the size of the company. A small $3 million acquisition we can have integrated in six months end-to-end. We just need to preserve customer experience, and that is first and foremost in our objective. So understanding that company and understanding how to preserve the revenue stands above the integration, but it normally takes around six months.

Brian Kinstlinger^ Great. Thanks so much.

Sebastien Paré^ Thank you, Brian.

Operator^ Thank you. Next question we have the line of Marla Marin of Zacks. Your line is now open. You may ask your question.

Marla Marin^ Thank you. So I would like to follow up on one of the questions you addressed earlier about the labor shortages across the board. Do you think there’s a possibility that labor shortages might actually be a catalyst here to accelerate your gaining market share and also migrating some customers that are still not -- have still not migrated?

Susan Sumner^ It is absolute, and that's why we're investing in these major projects to be able to look at innovative ways to handle that incremental capacity. We know that what we experienced in 2021 particularly in the first two quarters is not unique to us. We've gotten feedback from the companies that we support and service on the law enforcement side and on the insurance side that it's not unique to us, but it has because of our scale and because of our size allowed us to absorb a lot more of that volume that couldn't be handled by the smaller transcription service providers.

It will absolutely allow us to accelerate that volume as we being to integrate. And if you look at -- like, for example, we've been waiting for a year and a half in Australia to get the Victoria Police to approve the ability to move to the cloud technologies. COVID has accelerated the desire for the larger governmental agencies to migrate to secure cloud technologies, which puts us right in the sweet spot of how we're going to accelerate our organic growth in 2022.

Marla Marin^ Okay. And I have a couple of other questions, brief questions. So I'm switching topics here. Media -- media is a fairly new vertical for you, but it's quickly become an important one. So, firstly, what's your rough sense of where you could go with that vertical in terms of potential growth? And would that growth be organically or via M&A?

Susan Sumner^ I would say every time we talk about growth in a new vertical, we will always talk about both organic growth and M&A. Some of these contracts consistent with government [are] larger. We just got two big contracts for national broadcasting companies in the U.S. We will -- this will be one of the acceleration points for our footprint in the UK to be able to replicate what we've done. We will also be doing that in Africa as well as in Australia.

We have been very, very, dual-focused in Australia because of limitations of capacity and scale. We now have that solved with the Auscript acquisition. So we are hiring a sales organization that will handle that global, organic prospecting, and we are looking, also, globally in the ways that we will target inorganic growth.

Much of that work right now is delivered offshore, that's why you see such extraordinary margins on that side of the fence. And so we'll be looking at acquisition targets that will allow us to not only expand the media footprint but also to use offshore labor in a more controlled way in the other markets that will allow for that kind of balancing of the labor model.

Marla Marin^ Okay. Thank you.

Sebastien Paré^ If I could add to, Marla, to that point, particularly in media, the pattern has been the same over the years is you win, you get a percentage of their volume, then you meet their KPIs. That basically gives you the right to go and expand your footprint.

So what we've seen on the insurance side over the years is the same pattern on the media, it's all about protecting the KPI and meeting the demand, particularly with the accuracy, the turnaround time and all of that.

But once you do get through that, it takes one or two cycles and then it starts expanding, and I think that the last two contracts with the U.S. national media agencies that we've announced, basically that's the starting point.

So when you question about how far can you go, it's all about going in, landing, and do extremely well for the two first reporting periods and then from there that gives you the right to start going after additional volume, and we're planning to build those two customers the same way.

Operator^ Thank you. There are no other questions at this time.

I would like to turn back the call over to our CEO, Sebastian Paré. Sir?

Sebastien Paré^ Well, thank you everyone for joining us today on the call. We're really looking forward to our next earnings call when we report Q4 results, which should be really late March, early April. Meanwhile, if you've got any questions or any follow-up that you need to do, please do not hesitate to get in touch with Laura Kiernan. We'll schedule the one-on-one with us. Be safe out there, take care and thank you.

Operator^ Thank you. This concludes today's conference call. Thank you all for participating. You may now disconnect.