VIQ Solutions, Inc.

Q4 and Full Year 2020 Earnings Conference Call

11:00 a.m. ET, April 8, 2021,

OPERATOR: Good day, ladies and gentlemen. Today, we are hosting a conference call to discuss the Fourth Quarter and Full Year 2020 Financial Results for VIQ Solutions, Inc.

At this time, all participants are in a listen-only mode. For those that dialed in, should you require any assistance during the call, please press "star" then "0" on your touchtone phone.

We will have a question and answer session at the end of the call, at which time all participants wishing to ask a question will be instructed to press "star," "1" and identify themselves before asking a question. Please limit yourself to one or two questions so that others may have a chance to ask questions. You may reenter the queue at any time.

Your host for today is Ms. Laura Kiernan, head of investor relations for VIQ. Please, go ahead.

LAURA KIERNAN: Thank you, Deborah. Good morning everyone and welcome to our Fourth Quarter and Full Year Results Conference 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 and on the OTC in the United States.

Please note that we plan to file our audited year-end MD&A and consolidated financial statement disclosures in the next few days. In the meantime, we've included our income statement, balance sheet, and reconciliation to adjusted EBITDA in our press release filed last night. All amounts are in U.S. dollars unless otherwise stated.

With us today, we have Sebastien Pare, CEO, Alexie Edwards, CFO, and Susan Sumner, president and COO of VIQ, all of whom will be available for questions following this conversation. Following comments from each of them, we will do a Q&A session.

I would now like to turn the call over to Sebastien to begin.

SEBASTIEN PARE: Thank you, Laura. Welcome everyone to our Fourth Quarter and Full Year 2020 Earnings Call.

For the benefit of many of our new institutional and retail shareholders, I would like to provide a very high level summary of the evolution of VIQ over the past few years. I will speak to the 2020 execution, then I'll hand it over to Alexie to speak to some our actual results and financial summary. After that, our president and COO, Susan Sumner, will speak to our operational highlights and M&A strategy. Then, I'll update you on the outlook and then we'll take you through some of the questions.

Last night we published results that met our latest financial guidance for the year, including a record revenue of $32 million, a record adjusted EBITDA of $5 million and positive free cash flow. This reflects solid execution of our strategy during the COVID-19 global pandemic.

We remain committed to the Company's continued evolution and growth and we're delivering strong results to shareholders, despite the challenges faced this past year with the lockdowns globally. We are in a better position to today than at any time in our corporate history despite the pandemic. The info-tech sector that VIQ is in, combined with our market segmentation, diversification and global reach has a lot to do with those results. Our equity performance in 2020 was recognized as one of the top performer, ranking in 10th place on the OTCQX Best 50.

In addition to delivering our financial goals, VIQ generated strong growth for a fourth consecutive year, expanded globally and expanded its portfolio to solve more customer needs. We expanded our foundational AI, successfully executed global organization realignment, and redefined our growth strategy to keep pace with market dynamics during and post-pandemic.

Our significant investment in technology and infrastructure created a solid foundation to scale consistently and steadily, enabling VIQ to become a global leader of secure, AI-driven, end-to-end solution services in four key growth verticals. Investment in innovation expanded our technology stack with the successful launch of FirstDraft, CapturePro Conference, CapturePro On-the-Go, and MobileMic Pro, strengthening our market leadership.

We've been on a relentless journey to use disruptive technologies to create a better tomorrow for our clients. Our journey is marked in phases to highlight advancement in innovation, organizational structure and financial growth.

During the first phase of VIQ 1.0, we were laser-focused on creating a solid foundation for growth. We made significant investments in technology infrastructures to enable the transformation of a single market company with less than $8 million revenue a few years back to VIQ 2.0, the global provider of secure, AI-driven, end-to-end solution services with $32 million in revenue last year.

VIQ 2.0 focused on the transition of our revenue base to long-term recurring revenue contracts. We acquired and integrated five companies and hundreds of clients, enabling the company to generate strong cash flow and adjusted EBITDA. We transitioned to a global, cloud-based, machine supervised workflow platform, enabling our workforce with tools and insight to increase overall operational excellence and we created clear focus and accountability within the organization.

We're excited as we enter 2021 to launch VIQ 3.0, the next step in our digital transformation focusing on AI-powered workflow to support monetization of the vast amount of digital content recorded annually in our four growth markets. These new, value-added hybrid services broaden our portfolio to solve more customer needs with the next generation of actionable documentation from a single data set to support a number of use cases within our expanding global market.

The large multi-industry data sets that VIQ creates, edits, and annotates fuels our commercial machine learnings to drive improved productivity, new products and business insight, all optimizing agency workflow around the world. The data is the foundation of our growth and commercial competitiveness.

VIQ 3.0 also includes our capital markets evolution. We graduated to the TSX in January this year and we plan to uplist to a national exchange in the United States in the near future. Alexie will provide more specifics on our planned uplisting.

We delivered on what we said we will do last year when we reported our 2019 results last April, except for reaching organic growth target. Our organic growth was negatively impacted by COVID shutdowns and a significant portion of the organic net new revenues from last year were pushed into the backlog for this year.

Our four core objectives at this time include,

number one, improving the revenue quality by continuing the transition to recurring SaaS accounts and by migrating by – VIQ towards higher quality and higher margin recurring revenue, which we successfully did.

Number two, growing VIQ clients and talent base to organic growth and strategic acquisition. While we added many net new customers, we did see organic declines in revenue during 2020 as approximately $4 million revenue moved into the backlog awaiting relief from COVID-19. We have already started to recapture and recognize these revenues as we enter a post-pandemic environment in Q1.

Number three, cross-selling a range of purpose-built software products and services to increase wallet share within our existing client base. One example of this was the large, $30 million, 5-years (ph) contract with Queensland in Australia, and there's more to come.

Number four, implementing country-specific technology stacks to enable the migration of the clients in the United States, Australia, EMEA and Canada to a groundbreaking end-to-end workflow using a highly secure cloud computing infrastructure. All of these objectives were accomplished last year.

From the financial strategy point of view, our two objectives included, number one, supporting our operational and acquisition strategy with low cost liquidity, which we did through the generation of cash flow and the November capital raise. Number two, expanding gross margins through VIQ's unique cybersecurity, AI, and cloud workflow solutions that are applied to a substantial volume of voice and video data.

While we did see improvement in our gross margin the past year, the view is understandably clouded due to the loss of the top-line revenue due to COVID-19 and the related offsetting subsidies and contingent consideration gains. The subsidies, of course, help us to maintain employment and compensation for a global workforce when production volume did not support it.

Contingent consideration was a downward price provision for the WordZ acquisition that we did. WordZ was heavily impacted this year as a result of the impact of the insurance space, but started to rebound back in February and the actual March results are trending in all the right directions.

In February, we announced strategic executive leadership appointments to accelerate our transformation plan and position the company for its next growth phase. Susan Sumner was appointed president and COO and Elizabeth Vanneste joined VIQ as Executive Vice President of Product and Strategy.

We continue to execute on our M&A strategy. We had a couple of transformation acquisition that we expect to complete this year that will expand our portfolio to solve more customer needs across more markets. This will bring us closer to be the number one position globally in our specialized industry specific SaaS and AI category. And Susan will provide a little bit more details on our M&A strategy in a couple of minutes.

Now I will hand it over to Alexie to speak to some of our actual results and financial strategy. Alexie, over to you.

ALEXIE EDWARDS: Thank you, Sebastien. Our financial strategy this past year focused on providing sufficient capital to fund both organic growth and acquisitions improving our cap table and preparing us to uplist to the national exchanges, the TSX in January 2021 and Nasdaq, which is anticipated to occur in 2021.

Overall we generated approximately $3.4 million in cash flow from operation, $5 million in adjusted EBITDA and we ended the year with $16.8 million in cash, providing us with ample liquidity as we entered 2021. We improved our cap table by converting notes in 2020 and exercising all outstanding warrants earlier this year. We also graduated to the senior exchange in Canada, the TSX in January.

Now we are positioning the company for sufficient access to capital to fund this acquisitions, scale operations and drive productivity. This is expected to result in strong top line and bottom line growth while continuing our investment in our infrastructure. Susan will speak more to our growth and infrastructure investment plan for 2021 and beyond.

Our fourth quarter 2020 financial highlights include revenue of $7.8 million which increased 28 percent compared to the same quarter last year. The increase was driven by the acquisition of ASC and WordZ made early in the year. Note, we were able to record contingent consideration income this quarter of $0.9 million relating to reduction in earn-out payable as a result of decreased revenue forecasted due to the impact of COVID-19 on the acquisition.

Gross profit was $3 million or 38.1 percent of revenue compared to $2.4 million or 39 percent of revenue last year. The decrease in gross margin for the three-month ended December 31, 2020 was primarily due to the impacts of COVID-19 on volume while we maintained our non-variable payroll, as well as the processing of post migration backlog resulted in overtime costs and accelerated hiring costs across all segments to change workforce profile to editors.

Our adjusted EBITDA was $0.6 million versus the prior negative of adjusted EBITDA of $0.3 million, representing an increase of approximately $900,000. Partially offsetting the positive impact of higher revenue and a gain on contingent consideration of $0.9 million. The adjusted EBITDA was negatively impacted by the pressure on gross margin as well as higher SG&A expense as we invested in scalability and innovation.

Our full year 2020 financial highlights include record revenue of $31.7 million which increased 27 percent compared to the $25.1 million in revenue 2019. Geographically, we generated 70 percent of revenue in the United States, 27 percent in Australia, and 3 percent in EMEA and Canada. Our gross profit of $16.3 million represented 50.9 percent of revenue versus $10.8 million or 43.1 percent in 2019.

Gross profit for the year includes $2.8 million in COVID-19 relief subsidies. Excluding the COVID-19 impacts to both revenue and expense, our gross margin for the year was favorable impacted by higher revenue and increased productivity and was partially offset by the cost of integrations. Susan will speak more on this topic shortly.

Our record adjusted EBITDA of $5 million increased significantly when compared to the $0.9 million reported in 2019. It is important to note that the $4.1 million increase in adjusted EBITDA includes the negative impact of COVID-19 on revenues and a positive impact from the related wage relief subsidies, as well as gain on contingent consideration of $0.9 million. Excluding estimated impacts from COVID-19, the increase in adjusted EBITDA was primarily driven by higher revenues and productivity gains, which Susan will speak to.

Our outstanding shares increased to $23.6 million at the end of 2020 from $10.9 million at the end of 2019. Our share count increased primarily as a result of the conversion of the Company's convertible note from debt to equity during the year. The issuance of new shares in November as part of the $15 million capital raise and exercise enough warrants, all of which were important for preparing us for Nasdaq.

Now I would like to provide you with some information about our outlook for 2021. Due in part to uncertainty surrounding the future in the COVID-19, we are not providing specific financial guidance for 2021. As a growth oriented company, disrupting a fast changing global industry, we plan to maintain accelerated investment in the next generation of aiAssist, increased investment in sales and marketing and to continue acquiring strategic assets globally.

We anticipate these growth-oriented investments made from time to time pressure gross margin and adjusted EBITDA during 2021. We would like to caution against forecasting leverage on margins and adjusted EBITDA margins as we continue to increase our investments in technology, machine learning, sales and marketing and acquire strategic assets and invest in our organic growth capabilities.

We have met several tests to be listed on Nasdaq, including stock price minimum, stock liquidity, shareholder minimum, public market capitalization minimum, and of course our governance and operating history requirements. Our goal right now is to complete the uplisting to NASDAQ this year using the accelerated pathways enabled by our foreign private issuer status as a Canadian listed company.

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

SUSAN SUMNER: Thank you, Alexie. I just want to say I'm honored for my expanded leadership role to President and Chief Operating Officer. VIQ's position in the market has never been so compelling and I feel incredibly lucky to have the opportunity to lead the company to its next phase of success.

As Seb stated, we have delivered on several key initiatives this year that have set the stage for a successful 2021. In particular, I would like to focus on our growth and infrastructure investment plans while providing some context of our past results. 2020 was a critical year for VIQ to prove our assumptions related to productivity and efficiency gains.

We validated the productivity gains in migrating our clients to NetScribe powered by the aiAssist platform. Our results showed a 30 percent improvement by our highest volume editors. We migrated 80 percent of our U.S. services operations to this technology and successfully built what we believe is the largest group of editors in the U.S. in the segments that we serve.

We intentionally preserve staffing to ensure that we could manage our expected volume recoveries in mid-2021. We also seeded the organization to accelerate our organic growth by expanding our sales and marketing and preparing our technology to monetize the value of an audio value, maximizing the options for the content we deliver.

While the impacts of COVID-19 are difficult to parse out, particularly on the top line and significantly impacted our organic growth plans. Our gross margin and adjusted EBITDA for the year were favorably impacted by higher revenue, driven by acquisitions, and increased productivity was partially offset by the impact, cost of integrations, which created pressure on margins and will continue to as we execute our rollup strategy by continuing to make acquisitions and organic growth especially due to our larger customer wins.

Following the end of COVID-19 subsidies, we were able to execute an organizational consolidation to drive efficiencies to improve our ability to service our vertical market sectors more effectively and gain an expected annual cost savings of over $1 million. This consolidation is driven by the evolution of our company and doing what’s right for the organization rather than overall cost cutting.

In fact, we were able to generate savings from the consolidation that we're reinvesting back into operations to further expand, invest in and build out our optimal operational team. This is important when forecasting our near-term profitability measures, including gross margin and adjusted EBITDA.

Along with building out the capabilities of our global functional teams, which we need to position to effectively run and serve a much larger organization, changes were required. The consolidation of the management team designed to add focus to the vertical sectors the company supports globally, the consolidation of the global production operations to drive uniformity and all business processes, a newly formed innovation team focusing solely on the expansion of the proprietary AI and the extension of technology innovations that exist outside the company's intellectual property, and a realignment of all existing corporate functions to drive more effective operations across the three international geographies where we are aligned. These changes will help to ensure cross-functional efficiencies and support business group functions. In terms of growth in infrastructure investment, this is the year of big and bold for VIQ.

During 2021, we will concentrate on refining our client-focused strategy to increase same-store sales. We will continue to invest in our offerings to meet client expectations. And while we will continue to grow our client migrations and increase the foundation of the 2020 migrations, this will allow us to expand the value of our content. We are focused on acceleration of organic growth, by making investments in sales and marketing to expand distribution outside of traditional channels through partnerships with companies that inherently broaden our access to the verticals we support, to bolster our sales force and to accelerate product integrations that further enhance our solution suite.

Our marketing investment will support the delivery of innovative solutions and services, with a focus on high-growth markets and our current client expansion. Additional funding will be allocated to increase brand awareness, optimize SEO and SEM and to conduct targeted campaigns that are designed to promote the services and solutions that are applicable to the specific vertical and geography we support.

In 2020, we used VIQ technologies to capture an audio or video file and transform it to useable digitized content. In 2021, we will be about expanding what we do with that content, reshaping the options our clients have in using data, whether it is first draft of a document, a fully edited document, a streamed snippet speech to text to final content, translated text or tagged data.

This evolution of our expanded footprint will also be our approach to M&A, where we are focusing on acquiring technology that is transformative for VIQ and would accelerate our ability to monetize the value of our digital content repository.

Our M&A targets will best leverage our AI and machine learning technology platform and be focused on broader use of content and the acceleration of those solutions and services globally. Unlike prior years, our acquisition strategy will be much more bold and much more broadly focused on the acceleration of AI to make our capture and content much more usable.

And now I'd like to hand it back to Seb.

PARE: Thank you, Susan. Before we get to the Q&A, I would like to outline our priorities for this year. Our industry is undergoing rapid digital transformation and globalization, largely driven by the advancements in technology; the accelerated migration to the cloud and the need to manage the large, diverse and complex volumes of digital content that are captured each and every day.

The introduction of innovative technologies that complement our technology stack and an expanded geographic footprint to strategic acquisition are transformative steps that provide significant value creation and a growth platform that enables us to scale more quickly.

To summarize our strategic priorities for this year, the company is focused on seven core initiatives to drive growth in revenue and profitability and defensibility, including driving organic revenue growth to a step-up investment in infrastructure, including sales, marketing, finance, operations and technology; integrating prior acquisition and driving productivity gains to an enabled workforce; migrating clients the full stack; further global expansion to our net new clients, contract and acquisition; the continued development of our AI-driven solution for our clients; and the continued mitigation of the impact of COVID-19 on the results and process customers' backlogs; and complete and begin to integrate at least two more strategic acquisitions for this year.

A core aspect of the company plan is doubling down on AI and machine learning investment, operational infrastructure and organic growth driving capabilities. Over time, this is expected to result in top line and bottom line growth, driving continuous increases in shareholder value.

We believe this long-term growth strategy will and continue driving the 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 2021 and beyond.

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

OPERATOR: If you would like to ask a question, please press “star,” “1” on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from Patrick Walravens, JMP Securities.

PATRICK WALRAVENS: Oh, great, thank you, and congratulations, you guys. So one question for Sebastien and then one for Susan. So Sebastien, can you just help us understand a little more what exactly the COVID impact was, so what sorts of things were derailed by it? And then as the vaccine rolls out this year and hopefully COVID fades, how would you see that benefit playing out?

PARE: So there's been really two particular segments of the volume that were negatively impacted by the lockdowns. One was regarding the automotive insurance segments, which obviously is part of our insurance portfolio and insurance revenue. We have seven of the nine largest insurance companies in the United States, and a number of them were related to automotive insurance. So that's the number one answer on how we got impacted.

It was related to that part of it. The second aspect is, one of our...

WALRAVENS: And that's just because no one's driving and so no one's getting in accidents, so there's no transcription required?

PARE: Exactly, so what we actually (inaudible)...

WALRAVENS: Right, yes, yes.

PARE: ... if you go back, Patrick, to some of our previous earning calls last year, Susan was making a reference that if you look at the way the automotive insurance workflow works is despite the lockdowns that really started in May in the United States, our volumes were pretty much protected all the way to the end of June because there's always a one to two month backlog that kicks in.

But we really started to see the impact when the automotive traffic and the rate of accidents really decrease, we really saw the impact towards the second half of the summer and all the way to the end of the year.

But obviously, what I was mentioned earlier, is now that we've got a lot of the actuals are in for the first quarter, we saw a bouncing back to normal volume a slow in progress towards February. And I think March, we're pretty much back to where we've been historically in terms of normal volume from that particular segment.So that will be one aspect.

The other one, Patrick, is one of our core clients was not basically quite fully equipped to deal with the migration from the work from office to the work from home and the mobility, and that obviously has impacted some of the volume that came in. And obviously, we've rectified that. They accelerated their digital transformation that they're in with mobile apps, new cloud infrastructures that we put in place.

And now we're starting to see them coming back to normal. So those are really the two core areas that we saw that really impacted. But despite all of that, what we've said last year, is we saw an incredible amount of growth in some of the other sectors. You heard us last year talking about law enforcement. We talk about our media exceptional growth last year as everything pivoted to be online.

So despite those two segments that I talked to you about, overall, we were able to protect the top line revenue. We were able to exceed the EBITDA expectations for the year. And I think it speaks volume to diversity that while we might have one or two segmentation that were negatively impacted, we were able to offset those impacts with incredible growth in the other areas.

So all of this now is coming back to normal. And that's why we're really bullish about 2021 organically because some of those delays from last year have now been completely rescheduled for delivery in 2021, and we started to see that as the economies are starting to reopen from Australia to the U.K., all the way to North America. So that's really what happened on that side.

WALRAVENS: OK. That's super, that super. Thank you. And then Susan, so when you're talking about AI and machine learning investments, I'm just wondering what's an example of something that you can't do today that you'd like to invest in to enable your platform to do?

SUMNER: We've got this vast content. We're at a very rudimentary level today doing data tagging or labeling, but we want to be able to take advantage of that so that when we are able to do content throughput and really digging deep as we're building these language models, being able to much more appropriately tag and label the content that we're pushing through in the verticals that we're supporting. So we're not only delivering on the edited text, but we're also delivering on the ability to sell the – annotated data. Patrick, back to the customers that we're selling to. In addition to that, just getting much more effective and efficient in – we have publicly stated that we are not – we were agnostic towards speech engines, right? As we look at this AI and a much more investment in AI, allows us much more granularity around the flow of our audio capture through the workflow engine with improvements in sophistication.

We'd also like to get into areas such as summarization and much more sophistication around translation. So those are key areas, again, taking one audio file and turning that into five to six different products that we can sell to the same customer.

WALRAVENS: That's great, thank you very much.

PARE: Thank you, Patrick.

SUMNER: Good day.

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

PARE: Good morning, Scott.

SCOTT BUCK: Hi, good morning, guys. I'm curious, how do you think about the existing opportunity within the current customer base? I mean if you think about wallet share, are you guys 30 percent of their business currently, 70 percent of their transcription business currently? I mean, what is the opportunity within the existing customer base?

PARE: Well, the – Susan, let me start on this. So part of what we want to do, Scott, is today, with our existing footprint, we want to double and triple our revenue footprint within that customer base because as we've been talking about earlier, it's that same set of highly specialized audio and video, that multi speaker, verbatim content that we get.

Once we get it at the moment, we're servicing, depending with the customers some of the Fortune 500, we could be 30 percent, we could be 40 percent, in some cases, we're 100 percent of their service providers. But clearly, as we continue to expand our services, the way that Susan was describing it, then we start going into that next level of tagging, which allows us to enter into other form of services such as the summarization. which will lead us towards some of the work that we do already on the translation and things like that.

So there's basically – there's a very specific plan that has been put in place with the success that we had last year in terms of mining all our existing customers, it's the ability to now really starting to double and triple by one or two x factor, the overall expandable revenue because it's the same data that gets secure, and then when we're providing that back to the client, an acknowledgment that we fit into a broader workflow at the client end and they also need added services on top of what we're doing, which was well positioned to do, we're really bullish.

And I think what we've seen in some of the customers, Scott, a year ago, we might have been 30 percent, 40 percent. I could tell you right now with some of the customers, we've expanded above the 50 percent. There's a couple of Fortune 500 that are moving towards master contract with us because now we could do more volume.

We can actually shrink the timeline for delivery, and we are able to maintain the same level of accuracy. I think you heard me saying that more than once. Those are three factors that are absolutely critical to our customer base in order to expand that revenue, you need to earn the right to do it, and it comes down to those three factors. So that's really what we're planning to do this year. Obviously, last year was a record year on so many fronts. And now it's really about driving that expanded entity within that customer base.

Susan any additional comments from your side on that?

SUMNER: Yes. I would say that if you've seen our first draft – if you saw our first draft announcement, you'll realize that we – that was a product that was created by requirements from our customer base. If you're looking exclusively at transcription services, I would say we probably have 30 percent of the overall share of wallet from all of the customers that we currently serve. And of the industries we serve, it's probably less than that, just because it's also fragmented.

But if you look at the expansion of FirstDraft and the ability to expand our addressable market, we don't believe that any of our major customers have a solution like that which is not cannibalistic in nature. It is incremental in terms of an opportunity to digitize either additional content or content that they have never paid for before, and it just sort of sat in a repository. So we believe that the organic growth opportunities to sell to same-store sales, as we call it, it's pretty remarkable, not just within the products that we historically have sold, but also in what we'll be launching in 2021.

BUCK: That’s great, that’s very helpful guys. Second one for me. I'm curious, Sebastien, I know you mentioned a couple of industries specifically, but more broadly across the business, have you seen pickup in volume and vaccines have been rolled out and maybe business has returned to at least somewhat closer to a normalized state?

PARE: Yes. We've – yes, we've been – if you look at – we've got daily, weekly and 24 hours monitoring of all those volumes. What we've said last year twice, very clearly, Scott, was we saw first the impact of COVID-19 and the impact on the lockdowns on our customers in Australia. It really started in Australia back in early January of 2019.

And we always said all along, there's about a one month, one month and a half delay between the beginning of the lockdown and the actual impact on the on the volume as our customers' work force and customers' clients move into a virtual world.

So we've been able to monitor that and give it (ph) to the rest of the team, I think it's been quite remarkable that despite all of those lockdowns, starting with Australia that went into the U.K. where we have a very large customer base and then the United States, that despite all of those lockdowns, we were able to pivot.

We were able to navigate and the growth in some of the other verticals, i.e., media line enforcement was enough to offset any of those impacts. I think from an operation perspective, The record results last year kind of speak volume for the management's ability to flexibly realize what was going on and then pivot on that side, number one.

Number two is now we're on the other side of it. As Australia is pretty much fully reopened, as the U.K. is coming out of their second and third lockdowns, we're starting to see the volume getting back to normal levels. So obviously, the same thing is going to happen as well. And we saw that with the actuals in February. And I think what I said earlier when Patrick asked the question that we believe that the March actuals are pretty much back to normal.

But the main thing, Scott, is the normal levels now have been restored at the end of March. But what really is happening with our client base is the status quo from the past is not going to work anymore. In other words, every one of our customers has learned from it the same way as everybody else.

And now they're accelerating their investment into digitizing the entire workflow because they know they can no longer afford to be caught off guard, where suddenly one of the mission-critical applications of capturing multi-speaker verbatim is not completely in the cloud, which really shuts down the whole workflow.

So we started to see an acceleration of investment. And I think the Queensland contract late last year, $30 million over five years, is the tip of the iceberg. We're starting to see that across every region where now customers are starting to realize the criticality of capturing the right audio and video remotely and the ability to move that workflow in the cloud virtual to allow people regardless of their location, whether or not it's in the office or work from home or somewhere else to be able to participate in that workflow.

And I think that's really what's fueling the growth is you're starting to see a lot of those accelerated investments at the customer site. And I think that speaks volume for what happened late last year and then how it's happening now because our pipeline reflects that. So when Susan talks about big and bold for 2021, it really gets driven by the numbers and how we see it.

Susan, any additional comments on that?

SUMNER: Yes, the only other comment that I would make is I caution that the courts are – a lot of our revenue is tried to court business. And while we're seeing that open up, it is – the vaccines are not as prevalent in areas like Australia and like Africa and like Europe, where a lot of our emerging markets have been really great opportunities for us.

If you see that many of the capture technologies, a lot of the software that we had in our backlog, we're beginning to see that opening up, and it is very favorable from initial goals. But again, I'm cautiously optimistic because we are subject in those regions to a slight contraction if they have to go back on lockdown again.

BUCK: All right, that's all very helpful. I appreciate the additional color, guys.

PARE: Thank you, Scott. Thank you for joining us today.

OPERATOR: And your next call is from Daniel Rosenberg with Paradigm Capital.

PARE: Good morning, Daniel.

DANIEL ROSENBERG: My first question was around margin (INAUDIBLE) …

PARE: Sorry, Debra, do you mind.

SUMNER: Yes, we can't hear you.

PARE: I cannot hear him.

OPERATOR: Daniel, your line's open. Please speak up.

ROSENBERG: Can you hear me now?

PARE: Yes.

SUMNER: Yes.

ROSENBERG: OK, sorry about that. (INAUDIBLE) work from home these days, but anyhow. So the first question was around the margin profile. I realize there are some puts and takes here. You mentioned some cost savings, $1 million annually, but increased investment. At the same time, you're transitioning more customers on to NetScribe.

So I'm wondering what does that profile look like as we look through '21 from a margin perspective? If you could provide some context, if not specifically, maybe directionally on how that's impacting your margins.

PARE: Yes. That's – there's a couple of variables, Daniel, that we spoke to you about. And I think one of them that I would like everybody to fully appreciate, and there's been a number of new reports coming out that are very comprehensive in that area. But every time we do an acquisition, we need to appreciate that we've got a pretty defined proven methodology where acquisition really comes on the back of the first priority is the retention of the customer base, improving the customer's experience, and then we move them to a methodology of migrating them into the technology stack, turning on the first draft, cross-training the editors as well.

So that really puts pressure post acquisition into the gross margin. And obviously, now we've done five of those. So you've got the model in terms of the length of time.

Susan, any additional comments you want to make on that side?

SUMNER: The only comments I would make is that, again, a lot of what affected the margins in Q4 were related to preserving overhead. So once we got out of subsidies in the third quarter and we were into fourth quarter, we still felt it was essential to preserve mid-level management that was above the line that would allow us to accelerate as the volumes started to come back. We did in mid-February, a major reorganization for a couple of reasons.

One, it was time. It was time because after you acquire five companies, you have organizational consolidation that is just the benefit of creating a functional model. So that favorably impacted margins. We now have a fully trained editors base in the United States. So their ability to add more throughput in the infrastructure that they are now trained on is favorable.

And also, we're continuing to see, as we add additional speech engines to the workflow platform, you're seeing more efficiency gains than we even had last year. So I don't feel that there is anything that is – assuming that we are on target for what we have predicted relative to, and I use predict lightly, that we are beginning to exit this COVID impairment in the first half of the year.

I believe that we're on target, and we're also making functional decisions to ensure that the gross margin is preserved regardless of the COVID volume. So we have moved our – what was fixed infrastructure costs to variable to meet that ebb and flow of COVID volumes as we extend into 2021.

Also, you're going to see some improvements relative to the opening up of the emerging markets where we're able to sell the software solutions that we just didn't get to sell last year. Those have higher margins inherently than the services business. So – and as does FirstDraft. We're seeing incredible response from our existing customer base on the FirstDraft offering, and that is coming out the gate as a SaaS offering. And we are very optimistic about where that's going to take us.

I'm not going to overstep and provide guidance because I think the guys were pretty clear that we're not going to go there. But I am going to say that I think that we're trending very favorably. There's nothing that is going on now that should negatively impact our ability to do nothing but improve gross margins in 2021

ROSENBERG: Thanks for the color. And in terms of the COVID impact and the backlog that you see, I was wondering if we're going to see a catch-up in terms of revenue in Q1? Or does – is that kind of dispersed out through '21? How does that fall from a quarterly basis?

PARE: Daniel, that's – from our perspective, we've done very, very detailed modeling on that, and I could tell you with a high level of certainty that it's basically throughout every quarter. Let's really, just for example, let's take our first major component of that backlog, which was that Queensland $30 million contract, because of the shutdown throughout the holiday from December to end of January in Australia, now they're back, so that had an impact.

So if you look at our model, where basically, particularly that one is the second half of this year, that will really come into full force. And for the other – the $4 million from last year, that got pushed to this year, we are starting, as I mentioned earlier in the script, we started the recovery of revenue recognition on that backlog in early March. And it really is going to start building up in Q2 and throughout the rest of the year.

So there's really – it's all scattered across, but really, March was the key month for us internally. to now acknowledge that things are pretty much reopened and that the normal levels that we've seen are starting to all coming back to where it used to be. And then on top of that now, we're starting to see customers' commitment on what was delayed last year when it will be slated for production, and I think we're starting to see that in March.

ROSENBERG: OK, thanks for that. I'll pass the line.

PARE: Thank you, Daniel.

OPERATOR: Your next question comes from the line of Marla Marin with Zacks.

PARE: Good morning, Marla.

MARLA MARIN: Thank you. Good morning. So a couple of questions. I mean, as we're hearing from your prepared remarks and from some of the responses that you've given, there's a lot going on and a lot of opportunities for growth. It sounds like growth potentially could be coming increased spending per customer and geographic expansion and then maybe even down the road potentially new verticals. We saw you add one over the past few quarters.

So you talked in your prepared remarks about how you strengthened the management team and have some plans to expand sales and marketing to support growth. Where do you think you are right now in terms of your ability to support this kind of growth in terms of the management bandwidth?

Do you expect that you can continue to see the opportunities available to you with the team that you have in place? Or should we be thinking about potentially seeing some expansion down the road?

PARE: Marla, it's – I have to say, it's a great question, and we spent a lot of time last year at the Board level as well. Based on the record numbers that we've been able to achieve and the confidence that the AI was doing what it's supposed to do, and as Susan stated earlier, once we basically cross the threshold that the productivity was starting to be increased and the productivity gains that we committed to were going to happen, we kind of pivoted.

Then it really came down to, I will say, mid-November last year when we realized despite the pandemic, the kind of record years that we're having that – on that note, basically, we decided to accelerate. And so Susan taking on the presidency was a big part of that process, which led to, what I mentioned, Elizabeth Vanneste to join us as our Executive VP, Product and Strategy.

Those were all part of basically a commitment that we've made to our Board, but also to our largest strategic shareholders that we now truly have a management team and an operational infrastructure globally. And at this point, we're kind of basically set, and we're comfortable that the current infrastructure, both on the management and technology and operation, were good for about $100 million.

So that's really the run rate that we've been planning is the changes that we've made and the restructuring that Susan talked about earlier that we did on the back of all the acquisitions we've done. We did all of that in January and February in Q1, and you'll see that when we release Q1.

But that was the outcome of the well thought out process to make sure that the company, as we begin the process to enter NASDAQ this year, that we have the capacity and we've demonstrated that, that we can scale quite globally.

And I think at this point, we are very confident that what we've got in place now particularly with the last consolidation that took place in Q1, plus all the successes we had with the technology and the kind of financial results we got that we now we are in a position to scale by many, many factors over the next couple of years, and the management team and the infrastructure could accumulate that.

Susan, do you have any comments on your side?

SUMNER: The only thing that I would say, Marla, to add to what Seb was saying, I feel that our senior leadership team is baked. I think that we – you will see us adding resources globally to add infrastructure in emerging markets like Africa, Asia Pac, and we will be playing a much bigger role in the U.K. toward the end of 2020. We will be adding technologies that will allow us for product expansion there.

So those are investments that we're going to make, not necessarily in actual headcount. But potentially an increased focus on distribution and product expansion. You'll also see us adding investment in our marketing spend that was pretty below industry standards in 2021 because we were so focused on the limitations of COVID and how that was going to actually be effectively – the most effective utilization of spend.

So you're going to see those two pivots going into 2021 as we're seeing some normalization to really be able to capitalize on the opening up of these markets, but also on the integrated solution set and expanding those into the new geographies.

MARIN: OK. Thank you for that. I have one other question, which is, switching gears a little bit, you talked a little bit about M&A and said that – I think you said we could see something bold. So can you, without, obviously, giving us – I'm not asking for detail that I know you can't give. Can you give us a sense of whether there are any candidates in the pipeline? Or where you are in the process? Any color would be appreciated. Thank you.

PARE: Yes. We do have, obviously, a very active pipeline and really the narrative has changed and obviously with the results that we've been able to post last year plus the year prior to that. So the brand, VIQ, has changed quite drastically among the markets.

And so that's being reflected in our ability to start adding meaningful productive discussions with a number of targets globally. So we're no longer just focusing on traditionally the United States, but we also have opportunities across every regions where we operate, that are really important.

The other thing also, Marla, is now that the technology has been proven, that the productivity gains out of the AI have now started to roll in in our financial statements, then now we're starting, as Susan mentioned earlier, that we're starting to look and pivot some of our M&A lenses and criteria towards some of the additional complementary technologies that could come in against our platform to allow us to accelerate some of the expandable revenue that we were referring to in our conversation with Scott earlier.

So it's pivoted in that way. It's getting bold in terms of what we're going to do in terms of size, but also on the technology side that now we're starting to be perceived as an aggregator of many other technologies, all in need of that high-end verbatim content that we capture, we process and secure. So it kind of opened up a little bit.

So we have, obviously, a number of opportunities that we're working on at the moment. Some of them are more advanced than others. But we have committed, as I said earlier, to close on at least two of them this year. And they are very transformative in many ways, and a little bit of additional colors will be provided as we get closer.

Susan, from your perspective, additional comments on the M&A comment – on the M&A question from Marla?

SUMNER: No. I think that bold is the best answer that we can give you because I think we're doing things that are outside of what we've ever done before. So I would say the traditional model that VIQ has used, why we will always preserve those core strategies that we're going to acquire companies that enrich our customer base and also provide us an opportunity to improve gross margin and contribution to the organization.

We will add a new flavor to that, which will be to help us to accelerate the technology stack that we are able to build solutions off of or solutions that we can add to the current product mix of customers that we have.

So while not particularly specific, it is a change that we are much more focused on technologies. than we are services organizations. I guess that would probably be the best indication of directionally where we're going.

MARIN: OK. Thank you.

OPERATOR: Your next question is a question from Scott Buck with H.C. Wainwright.

BUCK: Thank you guys, appreciate the follow-up. Sebastien, I just want to clarify something I thought I heard in the prepared remarks. Did you say that you expected the company to be net income positive for 2021?

PARE: Yes, that’s correct.

BUCK: And does that include contribution from some of these M&A – potential M&A transactions we're talking about?

PARE: Yes. No, at this point, no. Because if you look at the – and there was a table included in the press release last night and as Alexie stated earlier, all our filings on the financial statement and disclosure, all of that, are coming in, in the next few days.

And – but I invite you to take a look at the reconciliation table for the EBITDA, and then you'll – in that list, you'll see that we did a lot of work last year on the convertible note. That basically is something of the past. It happened last year. So that's not going to repeat itself.

So that alone is a big component of that net income from last year that basically was going to change drastically this year. The other piece also is the amortization. Because now that we've successfully deployed aiAssist and NetScribe in the commercial world, and we've got the tangible financial results to demonstrate that, we obviously took a hit on the amortization of that. So a lot of that is not going to get replicated year-over-year.

So – but that's really the plan moving forward for this year. We're really, really committed to that. And I think if you look at our revenue, if you look at the adjusted EBITDA, and it tells the story. And then within the net income, I invite you to take a look at the reconciliations behind it, and you'll realize a lot of that was related to onetime event that took place last year. And once that's behind us, then we're basically able to commit to this for this year.

BUCK: Great. I appreciate you clearing that up for me. Thank you.

PARE: Thank you. No, thank you, Scott.

OPERATOR: I would now like to turn call over to Sebastien for closing comments.

PARE: Well, thank you, everyone, for your interest and investment in VIQ Solutions. It's been quite an hour, and I think the Q&A speaks volume for the depth of where we're at with our journey.

And I think clearly, more than ever now, scale, globalization and segmentations are absolutely critical. We've demonstrated that last year and now more than ever, scale globalization and segmentation. It's really critical to VIQ's ability to change the game in the global documentation that we're in.

Our ultimate goal is to be the number one provider of the digital data content repository that offers highly secure SaaS AI-powered workforce solution for clients across the globe.

And repeating Susan's words earlier, this is the year for being big and bold, and we're planning to execute on that. For our shareholders, we look forward to speaking with you at our Annual General Meeting, scheduled for April 29. Please follow-up with Laura Kiernan if you've got any following questions.

On that note, thank you very much.

OPERATOR: Ladies and gentlemen, this does conclude today's conference call. Thank you for participating. You may now disconnect your lines.