

EQUITY RESEARCH

August 9, 2023

Earnings Update

Q4 INC

Signs Of The IPO Market Awakening

Our Conclusion

QFOR remains focused on achieving positive EBITDA and cash flow by the end of 2023, with the majority of the cost optimization efforts announced in Q1 expected to flow through the P&L in the second half of the year. Gross margins continued to improve in Q2/23, up 1,180 bps Y/Y and 100 bps ahead of consensus. Management reiterated its target of mid-70% gross margins by the end of the year and the company expects continued revenue momentum and margin expansion in H2, with QFOR returning to double-digit revenue growth in the quarter. The step-up to positive adjusted EBITDA implies a significant ramp in the back half of the year, and Q3 results will be an important indicator of the achievability of that target. We currently forecast adjusted EBITDA of -\$2.5MM for Q3, vs. the Street at -\$1.3MM. We retain our Neutral rating at this time, but increase our price target to \$4.00 (from \$3.75) as we value the company in line with small-cap SaaS peers.

Key Points

Profitability Outlook: QFOR reported adjusted EBITDA of -\$3.8MM in the quarter, below consensus of -\$2.9MM, with adjusted EBITDA margins 560 bps below expectations. Despite the EBITDA miss, adjusted EBITDA improved 16% sequentially. On the call, management reaffirmed the company's target of positive EBITDA and cash flow by the end of 2023, noting a few additional expenses that weighed on margins in Q2, including bad debt expense from uncontrollable churn, higher-than-typical audit fees and elevated expenses associated with the Q2 IR conference season, totalling ~\$0.6MM. Additionally, management noted that the incremental \$6MM in cost savings announced in May had a limited impact on Q2 margins, with the majority of the savings expected to flow through the second half of the year. Gross margins continue to improve, increasing 1,180 bps Y/Y to 68.3% this quarter, and QFOR remains confident in its target of mid-70s by the end of 2023. Looking further ahead, management noted a target terminal gross margin in the 70s and low 80s.

Expansion Sales Driving Growth: Amid a weaker IPO market, QFOR continues to focus on expansion sales, with average revenue per account (ARPA) growth of 12% Y/Y outpacing ARR growth of 4.5%. Clients with two or more subscription services now represent 68% of ARR, with 104 clients purchasing additional "upsell" subscriptions in the quarter.

Signs Of IPO Awakening: Last quarter, QFOR noted some green shoots in the IPO market, and this quarter the company highlighted recent IPO clients, including Cava and Savers Value Village. Management noted an uptick in the number of IPO listings it is seeing, and a Wall Street Journal article published this morning echoed this commentary as it detailed the reawakening of the battle between the NYSE and NASDAQ for IPO listings. The NASDAQ recently won Instacart's listing and chip-designer Arm, while the NYSE won Klaviyo and Birkenstock. Given its partnership with NYSE, we expect QFOR to benefit from a recovery in the IPO market.

Stephanie Price, CFA
Analyst
+1 416-594-7047
Stephanie.Price@cibc.com

Scott Fletcher, CPA, CA
Analyst
+1 416-956-3229
Scott.Fletcher@cibc.com

Erin Kyle, CPA
Associate
+1 416-313-9851
Erin.Kyle@cibc.com

Neutral

QFOR-TSX, Sector: Information Technology

Current Price (8/9/23): C\$3.85

Price Target (12-18 mos.): ↑ C\$4.00

Previous: C\$3.75

CIBC Estimates and Valuation

(Dec. 31)	2021	2022	2023	2024
Revenue(mln)	55.39A	56.08A	60.56E	67.75E
Prior			60.95E	67.86E
Adj. EBITDA(mln)	(13.6)A	(25.4)A	(11.3)E	2.9E
Prior			(10.0)E	1.0E

Revenue(mln)	Q1	Q2	Q3	Q4
2023	14.50A	15.10A	15.38E	15.58E
Prior		15.31E	15.47E	15.67E
2022	13.95A	13.75A	14.18A	14.20A

Adj. EBITDA(mln)	Q1	Q2	Q3	Q4
2023	(4.5)A	(3.8)A	(2.5)E	0.1E
Prior		(3.6)E	(2.0)E	0.4E
2022	(7.1)A	(8.7)A	(7.5)A	(4.5)A

Valuation	2021	2022	2023	2024
EV/Sales	1.8x	1.8x	1.7x	1.5x

Stock Performance and Key Indicators

Avg. Dly. Vol.:	6K	Shares O/S:	40.0M
Market Cap.:	C\$154M	Float:	25.5M
52-wk Range:	C\$1.98 - C\$4.59	Div. / Yield:	C\$0.00/0.00%

TSX Composite Index vs. QFOR-TSX



(Source: FactSet)

All figures in US dollars unless otherwise stated (C\$1.343:US\$1.00).

Please see "Price Target Calculation and Key Risks to Price Target" information on page 4.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 5.

Q4 Inc (QFOR-TSX) — Neutral

Price (8/9/23) C\$3.85 12-18 mo. Price Target C\$4.00

Sector: Information Technology

Stephanie Price, CFA +1 416-594-7047 Stephanie.Price@cibc.com

Per Share Data	2021	2022	2023E	2024E
Diluted EPS	(1.71)	(0.91)	(0.47)	(0.10)
Income Statement	2021	2022	2023E	2024E
Revenue	55	56	61	68
Cost of Goods Sold	24	23	18	16
Gross Profit	32	33	43	52
Gross Margin %	57.03%	59.18%	70.29%	76.51%
Tot Operating Exp	47	63	56	51
Adj. EBITDA	(14)	(25)	(11)	3
Net Income	(27)	(36)	(19)	(4)
Net Margin	(48.5%)	(64.9%)	(31.3%)	(5.8%)
Cash Flow Statement	2021	2022	2023E	2024E
Net CFO	(12)	(32)	(8)	1
Acquisit & Invest	0	0	0	0
Net CFI	(1)	(8)	7	(1)
Net CFF	74	(0)	(0)	0
Net Cash Flow	61	(41)	(1)	1
Free Cash Flow	(13)	(33)	(8)	1
Balance Sheet	2021	2022	2023E	2024E
Cash & ST Investment	9	10	7	7
Total Current Assets	78	46	33	34
Total Assets	109	74	56	55
Tot Curr Liab	22	21	18	20
Total Liabilities	30	29	29	31
Shareholders' Equity	79	44	26	22
Tot Liab & SE	109	74	55	53

Source: Company Reports, FactSet, and CIBC World Markets Inc.

Company Profile

Q4 operates a cloud-based, end-to-end capital market communications platform connecting companies, investors and investment banks. Major services include websites, virtual events, analytics, and CRM.

Investment Thesis

1) Dominant North American market position offers significant cross-sell opportunity 2) Geographic expansion (Europe) & industry (sell-side) expansion opportunities 3) Acquisitions could provide further upside.

Price Target (Base Case): C\$4.00

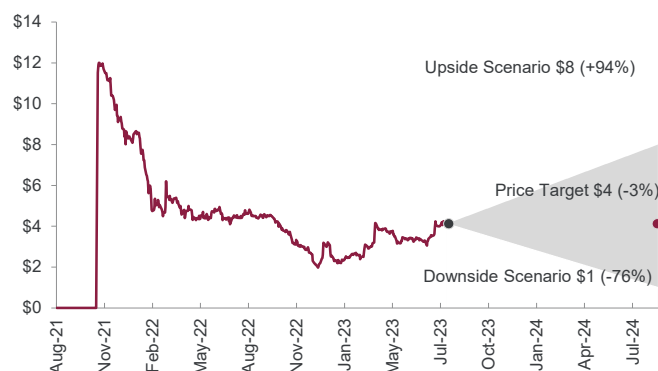
Our price target is calculated using a 1.5x EV/Sales multiple on our 2024E revenue estimate.

Upside Scenario: C\$8.00

Our upside scenario is calculated using 40% revenue growth and a 2.5x EV/Sales multiple of our 2024E revenue estimate.

Downside Scenario: C\$1.00

Our downside scenario is calculated as the value of Q4's net cash holdings.

Scenario Analysis:

Q2 Results: QFOR reported revenue of \$15.1MM, in line with consensus and our estimate (\$15.0MM/\$15.3MM). Overall revenue was up 10% Y/Y, with revenue from Capital Markets software coming in 3% below our estimate (\$14MM), while Platform Services revenue was slightly above at \$1.5MM. ARR grew 0.4% sequentially to \$55.8MM. Gross profit of \$10.3MM was slightly above the Street, but in line with our estimate (\$10.1MM/\$10.3MM), with gross margin of 68.3% 100 bps above consensus. Adjusted EBITDA of -\$3.8MM was below the Street, but relatively in line with our estimate (-\$2.9MM/-3.6MM).

Cash Flows: QFOR ended the quarter with cash and short-term investments of \$21.7MM, after using \$1.4MM in cash flow from operations during Q2. We expect the company to continue to focus on its cost optimization efforts to extend the cash runway as it waits for a broader capital markets recovery.

Exhibit 1: QFOR – Q2/23 Financial Results

	Q2-F2023			Q2-F2022	Y/Y%	Q1-F2023	Q/Q%
	Actual	CIBCe	Cons.				
Consolidated							
Net Revenue (\$MM)	15.1	15.3	15.0	13.8	9.8%	14.5	4.1%
Capital Markets Platform	13.6	14.0	NA	12.5	8.2%	13.2	2.9%
Platform Services	1.5	1.3	NA	1.2	26.1%	1.3	16.1%
Gross Profit (\$MM)	10.3	10.3	10.1	7.8	32.7%	9.5	8.8%
Gross Profit Margin	68.3%	67.0%	67.3%	56.5%	20.9%	65.4%	4.5%
Adj. EBITDA (\$MM)	(3.8)	(3.6)	(2.9)	(8.7)	56.7%	(4.5)	15.6%
Adj. EBITDA Margin	-24.9%	-23.2%	-19.3%	-63.2%	60.6%	-30.7%	18.9%
Adjusted EPS	(0.15)	(\$0.14)	(\$0.10)	(\$0.29)	47.5%	(\$0.18)	14.9%

Source: Company reports, FactSet and CIBC World Markets Inc.

Changes To Our Model: We have updated our model to reflect Q2 results.

Exhibit 2: QFOR – Estimate Changes, 2022A-2024E

	Revenues (\$MM)	Gross Profit (\$MM)	EBITDA (\$MM)	EPS	CFO (\$MM)
2022A	56	33	-25	(\$0.91)	-32
2023E					
CIBC est. – new	61	43	-11	(\$0.47)	-8
CIBC est. – prior	61	43	-10	(\$0.44)	-9
Consensus	61	43	-9	(\$0.39)	-8
2024E					
CIBC est. – new	68	52	3	(\$0.10)	1
CIBC est. – prior	68	52	1	(\$0.15)	1
Consensus	70	53	2	(\$0.13)	3

Source: Company reports, FactSet and CIBC World Markets Inc.

Price Target Calculation

We derive our price target of C\$4.00 by applying a 1.5x EV/Sales multiple to our 2024E revenue estimates. The multiple is in line with the small-cap SaaS peer average.

Key Risks To Price Target

The primary risks to our price target include the following: 1) a lack of demand in foreign market; 2) IPO market decelerates; 3) profitability remains a challenge; 4) lack of acquisition synergies; 5) upsell rates stagnate or shrink; 6) rising rates lead to software valuation contraction.

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CIBC World Markets Inc. Price Chart

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