



Optiva Inc.

Fourth Quarter 2022 Financial Results Conference Call

March 9, 2023

C O R P O R A T E P A R T I C I P A N T S

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P R E S E N T A T I O N

Operator

Good morning, ladies and gentlemen, and welcome to the Optiva Inc. Fourth Quarter 2022 Financial Results Conference Call.

Note that at this time all participant lines are in a listen-only mode. Also note that the call is being recorded Thursday, March 9, 2023.

I would like to turn the conference over to Ali Mahdavi. Please go ahead, sir.

Ali Mahdavi

Thank you, Operator, and good morning, everyone. Thank you for joining us for the Optiva Fourth Quarter 2022 Financial Results Conference Call.

Joining me this morning are Optiva's President and Chief Executive Officer, John Giere, and VP of Finance, Dinesh Sharma. If you have not seen the fourth quarter earnings news release which was reported yesterday after the close of market, it is available on the Company's website at optiva.com and on SEDAR, along with our MD&A and interim financial statements. I would also like to remind you that a replay of this call will be accessible on the Investors section of the Company's website.

With apologies given management's time constraints today, we will not be hosting a Q&A session. Should you have any questions following today's call, please feel free to forward them to me directly by email.

Before we begin, we are required to provide the following statements regarding forward-looking information which is made on behalf of Optiva Inc. and all its representatives on this call. Remarks today may contain forward-looking information about future events or the Company's future performance. This information is subject to risks and uncertainties that may cause actual events and results to differ materially. Any information regarding forward-looking statements is made as of the date of this call, and the Company does not undertake to update any forward-looking statements. Please read the forward-looking statements and risks factors in the MD&A as these outline material factors which could cause or would cause actual results to differ.

The Company will not provide guidance regarding future earnings during today's call, and management does not anticipate providing guidance in future quarterly or interim communications with investors.

I'd like to turn the call over to John now. John?

John Giere

Thank you, Ali. Good morning, everyone, and thank you for joining us on today's call.

Before I get into the details of Q4, I would like to start off updating the progress we made in calendar year 2022. TCV sales were \$91.7 million with a growing pipeline of new logos supported by our investments in R&D and sales.

We are also observing continued willingness on the part of our customers to consider commercial cloud-based business models. In Q4 we renewed two consumption-based deals, both tied to public cloud deployments. One, a customer upgrade and another, a customer migration (inaudible) be from a private cloud to a public cloud.

We carefully managed costs reflected in our leader (phon) results and reduced some longstanding housekeeping items on our balance sheet.

It is important to note we continued the work of stabilizing our legacy revenue baseline and will continue to work closely with every customer in this category to understand their going-forward requirements in order to see how we can fit into their future transition plans as we have done successfully in a number of customers to date. However, this continues to be a challenging part of the business.

We also see momentum building in the market thanks to two significant market catalysts: cloudification, public and private, and 5G rollouts, which are picking up pace and leading customers to actively reevaluate their options for procuring a new BSS charging solution.

Going into 2023, our focus on operational performance remains high. We can see the uncertainty in the market as customers navigate the macroeconomic environment, and we will continue to monitor the impact of our marketing customers and adjust accordingly.

It is important to note that the investments in R&D and sales have been central to our success in revitalizing our performance thus far and are essential to securing new customer opportunities in the future.

Moving forward, we are continuing on our journey to become a leading software vendor in our domain. We will drive forward, leveraging cloud technology, automation, 5G adoption that will deliver software license growth in due course.

In summary, the net impact of our actions in Q4 resulted in revenues of \$15.1 million, total contract bookings of \$21.5 million, gross margin of 70%, an Adjusted EBITDA margin of 20%, and \$20.3 million in cash.

Now, I will turn the call over to Dinesh for a more detailed quarterly financial review.

Dinesh Sharma

Thank you, John, and good morning, everyone.

A reminder that Optiva's fourth quarter results were released after the close yesterday. Our results are presented in accordance with International Financial Reporting Standards and presented in U.S. dollars, unless otherwise noted.

For the three-month period ended December 31, 2022, the Company's revenues decreased to \$15.1 million, within the Company's revenue stabilization levels. The change by revenue type for the quarter ended December 31, 2022, is a \$2.8 million decrease in support and subscription revenue, \$1.8 million increase in software and services revenue, and \$0.1 million decrease in third-party software and hardware revenue.

Gross margin for the fourth quarter remained strong at 70% compared to 75% during the same period in 2021. The decline in gross margin is primarily due to impact of higher customizations with lower margins ordered by customers compared to the previous period and lower percentage of revenue from support and subscription revenue that has a higher margin. Gross margins may fluctuate as the Company proves out its cloud-native model and product capabilities to new and existing customers when they onboard the public or private cloud in future periods.

Total operating expenses in the three months ended December 31, 2022, decreased to \$9 million as compared to \$10.7 million in the same period last year. Excluding depreciation and amortization and share-based compensation costs, total operating costs in the quarter decreased to \$7.6 million, or 51% of total revenue, compared to \$8.4 million, or 52% of total revenue for the same period last year. The decrease in overall operating expenses excluding depreciation and amortization and share-based compensation costs is mainly attributable to lower general and administrative costs and lower R&D costs.

Sales and marketing expenditures marginally decreased to \$2.5 million, or 17% of total revenue, compared to \$2.6 million, or 16% of total revenue compared to the same comparable period.

G&A expenditures decreased to \$3.4 million, or 23% of total revenue, from \$4.8 million, or 30% of total revenue compared to the same comparative period. The decrease in G&A expenditures is mainly due to lower compensation costs, lower legal costs, and lower stock-based compensation.

R&D expenditures decreased to \$3 million, or 20% of total revenue, from \$3.3 million, or 21% of total revenue compared to the same comparative period. The decrease is mainly due to decrease in cloud-related costs offset by a ramp-up of the Company's in-house R&D team as compared to the same period last year.

As a result of the foregoing, Adjusted EBITDA amounted to \$3 million during the fourth quarter of 2022, representing the 10th consecutive quarter of Adjusted EBITDA margin coming in at or exceeding 20%.

The Company reported a net loss of \$1.5 million in the fourth quarter of 2022 compared to a net loss of \$3.3 million during the corresponding period in 2021. Excluding the impact of change in value of the warrants, the Company had a net loss of \$1.5 million for the three months ended December 31, 2022, versus a net loss of \$2.5 million during the corresponding period in 2021.

This concludes today's call. Thank you for joining.

Operator

Thank you, sir. Ladies and gentlemen, this does indeed conclude today's conference. Once again, thank you for attending, and at this time, we do ask that you please disconnect your lines. Enjoy the rest of your day.