Trickle Research

Every raging river, every great lake, every deep blue sea starts ... with a trickle

Q1F24 Earnings Update

oneSOFT Solutions Inc.

OneSoft Solutions, Inc.

(OTC: OSSIF, TSX-V: OSS.V)

Report Date: 05/30/24

12- 24 month Price Target: US$.82

Allocation: 5

Closing Stock Price at Initiation (Closing Px: 09/27/22):US$.34

Closing Stock Price at This Target Increase (Closing Px: 08/21/23):US$.62

Closing Stock Price at This Allocation Increase (Closing Px: 11/16/23):US$.52

Closing Stock Price at This Update (Closing Px: 05/29/24):US$.505

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Disclosure: Portions of this report are excerpted from OneSoft's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

For Q1F24, OneSoft reported revenues of $2.9 million and a net loss of <$729,000>. Those compared to our estimates of $3.14 million and <$87,000>. (All of these numbers are reflected in Canadian Dollars). Much of the earnings miss stemmed from lower gross profit (as a result of lower than anticipated revenues) as well as some G&A expenses we did not anticipate related to *"professional fees in its investigation of potential merger and acquisition opportunities"*. On one hand, it is unclear to us if these will be ongoing, occasionally ongoing or more likely extraordinary, but on the other hand, it tells us that they are apparently actively pursuing acquisitions. That by the way is not necessarily surprising, but it does bring the issue a bit more to the forefront. Obviously, we have not attempted to model any acquisition activity, but conceptually, given the Company's high quality (and growing) customer base, it is not hard to imagine the potential for them to make (additional) acquisitions that they could leverage across that customer base. To translate, we submit, the extra G&A, while perhaps unanticipated, may prove to be money well spent. We would add, despite the quarter coming in a bit below expectations (both ours and we think theirs), the Company reiterated their revenue guidance "between $15 million and $16 million, and a net loss of between <$435,000> and <$178,000>". That brings us to another observation.

While the Company provides us with metrics around the number of pigable miles they have contracted, the timing around when those customers actually consume those contracted miles (and the Company recognizes the associated revenue) is subject to some variability. That may explain why in the face of an (albeit small) revenue miss, the Company is comfortable reiterating the full year guidance. We suspect that reality may impact results (higher or lower) from one quarter to the next, but generally, the provided metrics provide reasonable visibility over the course of a handful of quarters.

Aside from the above, there were a few issues raised on the call that we thought provided some insights into the future and in our view, were collectively a bit of a mixed bag. For instance, we asked a question concerning international TAM that they answered by referring us to the Fiscal 2023 MD&A but was really not what we were looking for. The information they referred us to is reflected in **Table 1.** below:

Table 1.

TAM Estimate by OneSoft Management

Oil & Gas - Estimated Total Addressable Market (TAM) USA, Rest of World & Global						
	Est USA % of Global Infrastructure			*60%*	*40%*	*100%*
SaaS Product/Module	Product/Market Status	USA Applicable Mileage (1)	Rate (US$)	TAM USA (US$)	TAM Rest of World (US$)	TAM Global (US$)
Core CIM	Developed	642,162	100	64,216,200	42,810,800	107,027,000
Internal Corrosion (Chemical) (2)	Developed/Early	642,162	15	9,632,430	6,421,620	16,054,050
Crack (PCFA)	Developed/Early	642,162	5	3,210,810	2,140,540	5,351,350
External Corrosion - CIS/CP/ACVG/DCVG (3)	Under Development/Mature	1,113,424	25	27,835,593	18,557,062	46,392,656
Risk	Under Development/Mature	1,886,460	25	47,161,500	31,441,000	78,602,500
Geohazard	Under Development/Early	642,162	10	6,421,620	4,281,080	10,702,700
ML/AI Application (Data Augmentation)	Under Development/Early	1,886,460	10	18,864,600	12,576,400	31,441,000
Mobile (Field Submission)	Potential	1,886,460	10	18,864,600	12,576,400	31,441,000
Acoustics	Potential	229,331	10	2,293,310	1,528,873	3,822,183
Facilities (4)	Potential	500	50,000	25,000,000	16,666,667	41,666,667
Asset Mgmt	Potential	1,886,460	10	18,864,600	12,576,400	31,441,000
				$ 242,365,263	$ 161,576,842	$ 403,942,106

(1) PHMSA source data 2022. Data Source: US DOT Pipeline and Hazardous Materials Safety Administration. Portal Data t /17/2023. Excludes Type R Gas Gathering.
(2) Internal Corrosion includes liquid and gas gathering and transmission as well as some facilities.
(3) External Corrosion includes liquid and gas gathering, transmission pipelines as well as Steel Cathodically Protected (CP) and Steel Cathodically Protected (CP) bare Gas Distribution pipelines.
(4) Facilities includes, refineries, tank farms, chemical and other downstream facilities.

Specifically, there was some discussion on the call regarding who actually owns the data the company collects, and the short answer to that is that their customers own the data, (however, we think the Company still has the ability to leverage some of the conclusions of that data, which fits into our prior notions around why we think OneSoft is a good example of an enetrprise that could immediately leverage emerging technologies around Artificial Intelligence). Advancing that notion, the issue was addressed on the call that some potential foreign customers are particularly sensitive about who can access or otherwise see *their* data, and our inference from that, and the point of our question regarding the addressable internation TAM, is that those particular potential customers/jurisdictions, *may never be a CIM customer* because of those data issues. We suspect the Company has some ideas about the pipeline owners who will likely never be a CIM customer because of the data issues, and our question was really how/if the exclusion of those particular entities impacts the "Rest of the World TAM" referenced in the table? Here is why that is important…

They estimate in **Table 1** above that the US TAM is $64.2 million, based on 642,000 miles of pigable pipe at their stated rate of US$100 per mile. However, those pigable miles are ostensibly required to be monitored every five years. Doing some simple math, that puts the annual TAM at 1/5th of $64 million or about US$12.8 million per year, which equates to roughly CAD$17.5 million. If our math is correct, the current guidance of "between CAD$15 million and CAD$16 million", represents between 85% and 90% of the annual addressable TAM. (We submit, that analysis may discount some additional revenue associated with new engagements). That notion raises two concerns for us. First, the analysis assumes a linear/equal distribution of the TAM, that is, 1/5th each year. However, we know they do not have the entire TAM customer base under contract, which leads us to believe that the recent results may be a bit front loaded with the miles of the existing customer base. To edify, if the existing customers are processing more than 1/5th of their miles early on in the engagement, that suggests fewer miles in future periods until the 5-year cycle starts over again. If that is the case, assuming they do not capture the remaining addressable customer base, one could expect subsequent quarters to reflect lower comparable quarters, which was manifested in the results of Q1F24, which we believe is the first sequential down quarter they have had in quite some time. That may be completely anecdotal, but it does raise the concern. Circling back to our original point, adding international TAM, which it appears they will likely do, is an important element to growing the business beyond the existing US TAM which they may be bumping up against. The question is (again) how much international TAM can they realistically hope to add, which we think is becoming more topical in terms of where future growth (and associated profitability) might come from? Just to reiterate, we have not modeled any international business at this point.

Beyond CIM, some (perhaps much) of the answer to the growth question centers on the success of their new and planned modules. To be clear, much of our enthusiasm for valuations beyond current levels depends on their success on that front. **Table 1** above also provides some color around *that* potential, and as it indicates the Company believes, and we tend to agree, that the collective TAM for modules, **is multiples of** the CIM TAM. That said, we are assuming that future filings will provide additional visibility around the progress of modules. Again, much of our assessment of higher valuations is centered on projections around their success in upselling modules to existing (and future) CIM customers. In short, we think the upselling of at least some of these modules should be less intensive and shorter than the cycles involved in selling CIM. Again, our assessments around higher valuation depend largely on the accuracy of that notion.

Lastly, we asked an additional question on the call related to pricing power, which we also thought led to an uninspiring answer. We have raised this issue more than once, and we recognize that discussions around pricing can be sensitive, especially given the nature of their customer base (a limited number of large companies). We suspect their reference customer (Phillips 66) probably gets better pricing than a newer customer, and ostensibly every new customer is going to use their own clout to get the lowest price they can, which become problematic if they actually know what others are being charged. We get all of that. However, they chose to provide pricing metrics in the filings (probably reluctantly), so we do not think it is out of line to keep asking the question. To be clear, some of our valuations assessments are also driven by assumptions around better forward pricing.

Granted, to this point our projections therein are more in line with anticipated inflation adjustments rather than increases around pricing power, but *they are higher* than the US$100 metrics they reference and that brings us to our greater question around the question.

Our assumption with respect to OneSoft's technology is that it represents marked improvements and advantages over legacy approaches on various fronts. Frankly, if this were not the case, we cannot see how a small technology Company could possibly have aggregated the Fortune 500 customer base it has, especially around the trust that is required around access to data sets that are critical to the maintenance of some of those customers' most valuable assets. Put another way, the Company often suggests that pricing seems to be quite topical to the sales process. Again, we would expect any company to lobby for better pricing regardless of what they are buying, but conceptually, limited pricing power is not something we would typically equate to goods/ services with high relative value propositions. That just seems counterintuitive to us.

To summarize, while the quarter was mildly disappointing, we think our thesis for higher valuations remains largely intact. Granted, as we noted, we have some concerns around the timing of revenue recognition, as well as the ramp of new initiatives (most notably module rollouts and the addition of international customers), but assuming that the lower sequential Q1F24 comp is not the start of a new trend, and by extension, the guidance continues to prove reliable, we remain constructive on our assessment for higher valuations. As a result, for now, we reiterate our price target of USD$.82, as well as our allocation of 5.

Projected Operating Model

(Reflected in Canadian Dollars)

OneSoft Solutions Inc.					
Projected Operating Model					
(Reflected in Canadian Dollars)					
By: Trickle Research					
	(actual)	(estimate)	(estimate)	(estimate)	(estimate)
	3/31/2024	**6/30/2024**	**9/30/2024**	**12/31/2024**	**Fiscal 2024**
Revenue	**$ 2,898,651**	**$ 3,681,524**	**$ 4,004,221**	**$ 4,579,627**	**$ 15,164,024**
Direct Costs	$ 729,470	$ 857,452	$ 910,696	$ 1,005,639	**$ 3,503,257**
Gross Profit	**$ 2,169,181**	**$ 2,824,073**	**$ 3,093,525**	**$ 3,573,989**	**$ 11,660,768**
Salaries and Employee Benefits	$ 1,600,408	$ 1,665,413	$ 1,710,591	$ 1,791,148	**$ 6,767,560**
Sales and Marketing	$ 419,212	$ 390,253	$ 424,778	$ 469,587	**$ 1,703,830**
General and Adminsitrative	$ 607,081	$ 327,261	$ 340,169	$ 363,185	**$ 1,637,696**
Operating Expenses	$ 2,626,701	$ 2,382,928	$ 2,475,537	$ 2,623,920	**$ 10,109,086**
Capitalized Costs	$ (98,047)	$ (69,744)	$ (71,777)	$ (75,402)	**$ (314,969)**
Operating Expenses, net of Captialized Costs	**$ 2,528,654**	**$ 2,313,184**	**$ 2,403,761**	**$ 2,548,519**	**$ 9,794,118**
Loss Before Other Expenses	**$ (359,473)**	**$ 510,889**	**$ 689,764**	**$ 1,025,470**	**$ 1,866,650**
Stock Based Compensation	$ 440,128	$ 225,000	$ 225,000	$ 225,000	**$ 1,115,128**
Amortization of Intangibles	$ 91,248	$ 92,160	$ 93,082	$ 94,013	**$ 370,503**
Depreciation of Property and Equipment	$ 4,921	$ 4,600	$ 4,600	$ 4,600	**$ 18,721**
Interest Income	$ (51,358)	$ (29,106)	$ (32,452)	$ (36,937)	**$ (149,854)**
Foreign Exchange Loss	$ (115,524)	$ -	$ -	$ -	**$ (115,524)**
Other	$ -	$ -	$ -	$ -	**$ -**
Total Other Expenses	**$ 369,415**	**$ 292,654**	**$ 290,230**	**$ 286,675**	**$ 1,238,975**
Gain (Loss) Before Income Tax	**$ (728,888)**	**$ 218,234**	**$ 399,534**	**$ 738,795**	**$ 627,675**
Income Tax					
Net Gain (Loss)	**$ (728,888)**	**$ 218,234**	**$ 399,534**	**$ 738,795**	**$ 627,675**
Other Comprehensive Gain (Loss)	**$ (119,715)**	**$ -**	**$ -**	**$ -**	**$ (119,715)**
Net Gain/(Loss) per share -Basic	**$ (0.01)**	**$ 0.00**	**$ 0.00**	**$ 0.01**	**$ 0.01**
Net Gain/(Loss) per share - Diluted	**$ (0.01)**	**$ 0.00**	**$ 0.00**	**$ 0.01**	**$ 0.01**
Basic Shares Outstanding	**122,088,685**	**122,379,870**	**122,661,120**	**122,942,370**	**122,518,011**
Diluted Shares Outstanding	**122,088,685**	**124,622,171**	**125,354,442**	**126,336,875**	**124,600,543**

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There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals $250) and 10 representing 10 investment units or $2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit $25,000 to buying micro-cap stocks, that would assume an investment of $1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at $1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same $250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting $1000 into the position ($250 * 4). If we later raise the allocation to 6, you might consider adding two additional units or $500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

- A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.
- A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.
- A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.