Docebo Inc. TSX:DCBO

FQ4 2022 Earnings Call Transcripts

Thursday, March 9, 2023 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FQ1 2023-	-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.02	0.07	250.00	0.02	0.01	(0.09)	NM	0.28
Revenue (mm)	38.62	38.96	0.88	41.42	142.74	142.91	0.12	185.60

Currency: USD
Consensus as of Mar-06-2023 6:23 PM GMT

	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ1 2022	(0.06)	(0.10)	NM
FQ2 2022	(0.06)	(0.05)	NM
FQ3 2022	(0.03)	0.01	NM
FQ4 2022	0.02	0.07	250.00 %

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Presentation

Operator

Good morning, everyone, and welcome to Docebo Inc. Q4 2022 Earnings Call. [Operator Instructions] I'd now like to turn the call over to Docebo's Vice President of Investor Relations, Mike McCarthy. Please go ahead, Mike.

Michael W. McCarthy
Vice President of Investor Relations

Thank you, operator. Before we begin, Docebo would like to remind listeners that certain information discussed today may be forward-looking in nature. Such forward-looking information reflects the company's current views with respect to future events. Any such information is subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those projected in the forward-looking statements.

For more information on the risks, uncertainties and assumptions relating to forward-looking statements, please refer to Docebo's public filings, which are available on SEDAR and EDGAR. During the call, we will reference certain non-IFRS financial measures. Although we believe measures provide useful supplemental information about our financial performance, they are not recognized measures and do not have standardized meanings under IFRS.

Please see our MD&A for additional information regarding our non-IFRS financial measures, including reconciliations to the nearest IFRS measures. Please note that unless otherwise stated, all references to any financial figures are in U.S. dollars.

Now I'd like to turn the call over to Docebo's CEO, Claudio Erba.

Claudio Erba
Founder, CEO & Director

Hello, everybody, and thanks for joining us for our fourth quarter earnings call. With me today are Alessio Artuffo, our President and COO; and Sukaran Mehta, our CFO.

Let's get right into the results. On a constant currency basis, revenue for the year was up 41%, while the fourth quarter revenue grew at 35%. I'm also pleased to announce that adjusted EBITDA margin for the fourth quarter was 6% and 1% for full fiscal year 2022.

Our ability to deliver strong revenue growth and improving profitability are a reflection of our consistent execution and operating discipline, with Q4 results again exceeding analyst estimates.

Our performance through 2022 was strong when set against the macroeconomic headwinds. In terms of the demand environment, not much has changed since the last quarter. We continue to see longer deal cycles, more C Suite involvement in decision-making and increased budget scrutiny. These trends carried into the fourth quarter, but it's not worthy to share that they did not get worse.

Looking ahead to 2023, growth remains a top priority for Docebo. This is well within our reach given the size of our market opportunity, the strength of our balance sheet and our improving profitability. Docebo continued to prioritize high growth with extreme efficiency.

We emphasized high performance for our employees and maintain a flat organizational structure with fewer layers of middle management. Additionally, we are deploying technology internally to our tech stack to scale and gain operating leverage for the next phase of growth.

For example, in Q1 2023, we implemented a major CRM system upgrade for our quote-to-cash process that will drive further efficiency. Sukaran will provide further details on efficiency initiatives in 2023.

In term of innovation, Docebo been investing in AI for the past 4 years. We see the next wave of investment in generative AI as fundamental or now Docebo delivers its learning solutions. We were early to this market with solutions like Docebo Shape, our generative AI-based content creation model. Docebo Shape had its best attachment rate in Q4, and we are glad to see the strategic investments that we have made are starting to pay back.

Next week, I will be hosting a webinar to discuss in more detail how generative AI will impact the learning automation. Registration details for this event are available on our Investor Relationship website.

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During the quarter, we also launched Docebo Learn data. This is a powerful enterprise solution that seamlessly integrate our customer business intelligence ecosystem to Docebo's learning data and provide KPI for broader analysis, faster insight and the high quality that we were making. In terms of M&A, we believe that the well-designed attacking strategy that support our build versus buy methodology will be accretive to our shareholders.

Our M&A road map is carefully thought through and continuously reviewed. We come at it from the lens of solutioning by use case such as customer education, onboarding and sales enablement. We prioritize the investment to provide fast time to market and to deliver new capabilities to our customers.

In 2023, we expect valuation in the private market to become more reasonable and we are taking a closer look at tuck-in deals that support 2 principles: first, great adjacent products and features; and second, innovative teams that fit into the Docebo culture.

In closing, I want to emphasize that we are very excited about the year ahead. Our investment has built a strong foundation for Docebo and it is our disciplined execution that will enable us to remain a disruptor in the market for enterprise learning. Now I would like to turn the call over to Alessio, who will give you an operational update.

Alessio Artuffo
President & COO

Thank you, Claudio, and good morning, everyone. Throughout 2022, Docebo executed effectively as we invested to support the future growth of our business in an environment shaped by economic headwinds and longer enterprise deal cycles.

As Claudio noted, we saw the deal elongation trends carry into the fourth quarter, but they did not get worse. In quarter 4, our company-wide average contract value, or ACV, increased 10% to just over $46,000 from approximately $42,000 at the end of the fourth quarter of 2021. ACV for new customers in the quarter was approximately $53,400 compared to $41,700 in the previous quarter.

We signed 149 net new customers during the quarter, including a number of notable enterprise deals. In North America, enterprises continue to select Docebo for our ability to seamlessly support the multiple use cases. One of these customers was VMware, an enterprise cloud computing company also well known for their performance and innovation. They are using Docebo to support their customers and partner training.

We also landed Haier U.S. Appliance Solution. The company that acquired the appliances business from General Electric. They selected Docebo for multiple external and internal use cases, including customer and partner education, sales enablement and onboarding.

In Canada, we won a major enterprise deal with a large entity within the Government of Quebec. This organization selected Docebo because of our ability to provide configurable learning solutions that are being tailored to multiple audiences that include external customer and internal employee training.

And finally, Europe, we closed the deal with Agria, a pet health care insurance company. Agria chose Docebo to educate their 5 million-plus customer base by integrating Docebo directly into their own insurance portal. This was a channel deal brought to us by our European partner, TicTac.

This is a flagship deal for us in a number of ways. It is the largest deal we have closed in the Nordic region and is one of the largest Docebo Flow deals being implemented in Europe today. Docebo Flow is a solution that brings online learning directly into any software, providing the learner to knowledge in their flow work.

What makes this implementation unique is that customer education is expected to decrease insurance claims, a measurable economic benefit to Agria while also resulting in more attractive premiums for their customers, a true win-win.

In terms of geographies, North America continues to be our largest and strongest market, with Europe and Asia continuing to scale into the investments we have made in those regions. OEM partners delivered another solid quarter led by Ceridian. We continue to see good traction into their customer base, adding depth and quality to our pipeline while expanding our reach into the enterprise space.

As we move into the first half of 2023, we see a healthy level of demand and are focused on investing in areas that provide resiliency to grow our business in the current macroeconomic environment.

Let me frame out a couple of strategic initiatives that will enable this for 2023. First, we're focusing on the productivity and efficiency of our business development organization. And while doing this, we brought in leadership in senior operators with very valuable enterprise selling experience.

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We expect these investments to pay off in 2023 and prepare us for a strong 2024. Second is the use of the channel partners, system integrators and partnerships to replicate the success we have had across the EMEA region. Our channel partners have been effective in sourcing more deals at the local country level, where they have a better feel for the nuances of a country's culture and how to optimize the positioning of our solution. TicTac in Europe is a very good example of one such channel relationship.

Earlier this week, we announced our partnership with ELB
Learning, a company that focuses on bespoke learning development and learning experiences for enterprises with strong presence in the Fortune 500. The combination of the 2 companies' core business is one of high impact for all customers aiming to implement the complex learning
projects. The Docebo platform, combined with ELB Learnings' innovative content development services provides our customers with an end-to-end services and technology solution that is unique in the market. Although this partnership is still in its very early stages, we expect it to grow throughout the year.

In conclusion, I want to emphasize two reasons why we are excited about 2023. First, our market is large and ripe with greenfield opportunities, especially for external use cases, where we continue to build on our leadership position and product focus every day.

And second, we're making the strategic investments necessary in both innovation and systems, processes and people needed to continue to disrupt the enterprise learning market.

With that, I would like to hand the call over to Sukaran.

Sukaran Mehta
Chief Financial Officer

Thank you, Alessio, and good morning, everyone. For those interested, a detailed breakdown of our financial results for the 3 months and fiscal year ended December 31, 2022, can be found in our press release, MD&A and financial statements which are now available on our website and are also filed on SEDAR and EDGAR.

As reported, total revenue for the fourth quarter grew to $39 million, an increase of 31% from the prior year. Total revenue increased by 35% after adjusting for the impact of foreign exchange.

Subscription revenues were $36.3 million, representing 93% of total revenue for the quarter. Annual recurring revenue was $157.1 million, an increase of 36% after adjusting for the foreign exchange impact from the strengthening of the U.S. dollar, which was about 2%.

Customers using Docebo for external or hybrid training represented 65% of our total ARR, flat with Q3. In 2022, we reported a net dollar retention rate of 109%, down from 113% in 2021. The decrease was primarily related to macroeconomic conditions that impacted expansion of the current customer base.

However, gross retentions actually improved year-over-year. We can attribute this improvement to a couple of key factors. First, external use cases are tied to revenue-generating activities that are strategic in supporting core operations with key stakeholders such as customers, channel and supply chain partners. Second, we have an all-in-one solution that is designed to handle both internal and external use cases. About 80% of our ARR is derived from customers using Docebo for 2 or more use cases where we become embedded in their tech stack as a core platform to their operations.

Gross profit margin for the fourth quarter improved by approximately 100 basis points year-over-year to 81% of revenue. This was in part driven by our ongoing work to optimize hosting architecture efficiency and higher subscription revenue.

Total operating expenses for the fourth quarter increased to $31.5 million from $26.7 million for the prior year period. G&A as a percentage of revenue declined to 19% for the fourth quarter compared to 21.2% for the third quarter.

Growth and scale are driving natural leverage in the G&A line, and I will speak to some of these 2023 initiatives later in my remarks.

Sales and marketing expense decreased as a percentage of revenue to 39.8% from 42% for the fourth quarter. The sequential reduction in expense reflects cost discipline and timing of certain marketing events in Q3 compared to Q4.

R&D investments in the fourth quarter were $6.4 million or 16.4% of revenue and flat as a percentage of sales compared to the third quarter. As a reminder, our core R&D operations are based in Europe.

During Q4, the strong U.S. dollar resulted in a 1 percentage point benefit as a percentage of revenue to the R&D cost structure.

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Moving on from the expense line. We are extremely pleased to report a positive adjusted EBITDA of $2.3 million for the fourth quarter of 2022 compared to an adjusted EBITDA of $0.6 million for the third quarter. This equates to an adjusted EBITDA margin of 6% for the fourth quarter. We are deeply committed to driving performance in the areas we can control and expect to exit Q4 2023 with a low double-digit adjusted EBITDA margin.

We reported net income of $1.6 million for the fourth quarter of 2022 compared to $10.3 million in net income for the third quarter. Adjusted net income for the fourth quarter of $3.4 million increased sequentially compared to $1.5 million for the third quarter. We generated positive free cash flow for the third consecutive quarter of $2 million, which equated to 5% of revenue.

At the end of Q4, we held cash and cash equivalents of $216 million. Share-based compensation accounted for a modest 2.8% of Q4 revenue, flat to Q3 quarter. Adjusting for the impact of share-based compensation, free cash flow would have been 2.2%. We are acutely aware of the impact of equity compensation on cash and dilutions, and we'll continue to be responsible stewards to ensure that equity grants are selectively given to high performers that align with our long-term objectives.

Starting with the reporting of our Q4 results, we are going to begin providing quarterly guidance. So let's turn to our Q1 2023 outlook. We expect total revenues to range between $41.3 million to $41.6 million, representing 29% growth at the midpoint.

Adjusting for foreign exchange impact, this represents 32% growth. We expect gross margin to range between 80% and 81%. We expect adjusted EBITDA margin to range between 4% and 5%. Our guidance reflects 2 noteworthy points. There are 2 fewer days in the first quarter compared to the prior quarter impacting subscription revenue by $800,000, and we are impacted by the timing of payroll taxes, which are higher in H1 of each fiscal year.

Before opening the call to questions, I want to emphasize a few points. Our top priority is still growth, and we have set up Docebo to achieve this while delivering a balanced rule-of-40 performance over the long term. Operationally, our focus is on improving profitability by controlling what we can. This starts with aligning our workforce to scale with our profitable growth strategy.

We have created a high-performance environment with a relatively flat structure that reduces middle management to accelerate decision-making and innovation. One of the key drivers of efficiency is our investment in technology.

Docebo utilizes its own platform and leading partner's vendors to automate its processes and systems. One example is the major sales force CRM system upgrade implemented in Q1 2023 to automate a large portion of our quote-to-cash process and to provide greater visibility to our organization in one place. This, in effect, enables smart and faster decision-making, and we have several similar initiatives planned for 2023 that will drive even greater operating leverage.

In addition, we have optimized our real estate portfolio to better serve our hybrid employee strategy by consolidating leases and partnering with WeWork. In conclusion, I would like to highlight the fact that as we approach the end of Q4 of this year, we are confident that we can deliver low double-digit EBITDA margin level while maintaining investments to drive future profitable growth. That concludes my prepared remarks. I'd like to turn it over to the operator now to take some questions from the analysts. Operator?

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Question and Answer

Operator

[Operator Instructions] Your first question comes from Robert Young, Canaccord Genuity.

Robert Young
Canaccord Genuity Corp., Research Division

Thanks a lot for the Q-end guidance. Can you just give us a sense into how you are constructing that guidance given it's new. Is that based on current deals or are you projecting a little close by the end of Q1? And then the EBITDA margins are down a little bit quarter-over-quarter, I don't know if that's FX, maybe just give us a sense of how that's constructed?

Sukaran Mehta
Chief Financial Officer

Yes, I'll take that, Rob. Good morning. Sukaran here. In terms of how we construct the guidance, I'll speak to revenue first. When you just think about revenue, it's pretty straightforward in our world. Take the ARR for the prior quarter, divide that by 365, multiply with number of days in the quarter, it gives you kind of your base or subscription revenue.

A good chunk, I would say, a good 70% of our deals closed in the latter part of the quarter, meaning the last month, which is typical for enterprise companies. And so we factor in a very minimal amount of revenue flowing in from deals in quarter into revenue. And then from a professional services perspective, really is a factor of onboarding on new deals as well as some customer SOWs that we do.

So you would say that generally, you can look at it from a perspective of what the ARR is in the prior quarter, which will flow into the following quarter from a PS perspective. In terms of your question around expense, the EBITDA margin, it's really straightforward.

You have 2 factors that I call out in the guidance, too. One is there's 2 less days in Q1 compared to the prior quarter, which almost is close to $1 million or $800,000 in revenue that's less compared to the prior quarter just by the number of days because of February.

And then secondly, Rob, you note that in North America, specifically, the first half of the year, you have higher social payroll taxes. And so some of that gets you at the front end of the year, but you kind of normalize it as we go through the year. So apples-to-apples, it will be slight improvement if you didn't have these 2 factors.

Robert Young
Canaccord Genuity Corp., Research Division

Okay. Great. My second question, Claudio, you gave a little bit of color on your efforts in generative AI in the prepared remarks. That's a rapidly changing, exciting and evolving space clearly. For those investors who are tracking your AI road map, you already -- I think you said that you had record attach on shape, I'm not sure if I heard that right. But if you could tell us or give us a sneak peek on where Docebo was heading on this generative AI road map? That would be really helpful and I'll pass line.

Claudio Erba
Founder, CEO & Director

Yes, Rob, thank you for the question because this is a funny question for me. I'm a product guy. So actually, we have invested initially in the Docebo Shape, at least we started the R&D 4 years ago, where generative AI was not a thing.

And the first papers in generative AI were published in the probably 2020, 2019. So we have deployed many algorithms in Docebo. And I think that you can categorize the AI that will have an impact in the organization in 2 main categories. One is increase the automation, means AI does the work of the human.

And these -- the algorithm we have in place are keyword tagging, skills tagging, transcript, translations and this is an improvement on productivity, which will benefit and provide direct ROI to the company's -- to our customers.

There is another segment which is very -- which is way more disruptive, which is content generation, where generative AI plays a role. Content generation is not only you ask a question and ChatGPT or whatever other algorithm create training for you, but allows you to create slides, modify slides, add simulation into the slide, like asking provide direct feedback to an AI, and AI will provide a directed loop-back feedback to you.

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And this is where the industry is going. What we have discovered is that ChatGPT is super powerful, especially in certain areas like it provides a very reliable outcomes when the text they are working on is very low quality. Our algorithm, for example, the keyword tagging now perform better than ChatGPT when the text is sophisticated and long.

That said, we think that injecting ChatCPT and others, like we are working also having some fun with DALL.E, which is the image generation of open AI, will increase the potential of the Docebo Shape, but not only in Docebo Shape, we are already working on some other initiatives that are specific for some use cases, and I don't want to spoiler, but sales enablement is some area we are having fun making experiments.

And onboarding is another area. Yesterday, we were joking with Alessio that if we build an AI that recognize an accent, we will fix the problem of many people not pronouncing Docebo correctlyfor example. That said, I mean, when I say experiment, if not that we are doing something that will go-live in 3 years. These kind of technologies can go in an alpha or MVP stage in 6 months.

We have a very clear idea where to implement additional AI system. Another point, Rob, it's important that -- to understand and I understand that we are in a very early stage of adoption in the world of those technologies, that those technologies are not plug-and-play.

I mean, they require great experience on deploying these on scale, serving million users. I mean this
require a knowledge that -- that companies that haven't deployed yet AI inside their software, require years to deploy.

Because I mean, scalability means auto scaling means you create an algorithm and those algorithm need to parse billion or gazillion megabytes of data. So it's not a simple job. And there are way other elements that we will be happy to discuss during our webinar next week.

Operator

The next question comes from Josh Baer of Morgan Stanley.

Joshua Phillip Baer
Morgan Stanley, Research Division

Great. You mentioned that the elongating deal trends continued in Q4 but did not get worse from Q3. Just wondering how those trends have gone into Q1 now that we're almost on the quarter or sort of the same stabilization there or better or worse?

Alessio Artuffo
President & COO

Alessio speaking. We haven't seen material changes in those trends. The one thing that I'd note is we've doubled
down our efforts in the generation and strengthening our enterprise pipeline quantity, and then quality of execution, where we are focused constantly in order to hedge against the macro that as you explained and shared attempts to drag cycles is getting really good at outlining value.

The one thing we're focused on is being really good industrially, methodically to explain that Docebo is not a nice-to-have, Docebo saves money and makes money for companies and we do have examples of how that happens across our internal adoption of use cases of our customers and external use cases. So the answer to your question is, no specific changes in that trend, we are seeing growth in our enterprise pipeline and are focused on winning the business of enterprise customers, in particular, by getting really good at value engineering and
outlining value.

Joshua Phillip Baer
Morgan Stanley, Research Division

That's really helpful. The follow-up is on a point that you brought up about nice-to-have versus must-have. And I think that dynamic is reflected in the comment that you made that gross retention rates actually improved this year. Just wondering if -- like if that piece of the results for this year was a surprise to you or any other context for an actual improvement in gross retention in a really tough macro?

Sukaran Mehta
Chief Financial Officer

Yes, I can jump in first, and then -- sorry, Claudio, go ahead.

Claudio Erba

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Founder, CEO & Director

Please go ahead, Sukaran. I may add something if you don't address it, but please carry on.

Sukaran Mehta
Chief Financial Officer

Yes. So yes, Josh, you picked up on that nicely. I think from a -- the important factor as you think about gross retention improving year-over-year is reflecting items that we talked about earlier, which is a lot of -- majority of our customers, 65% of our customer base, we are supporting them on external hybrid use cases. 80% of our customers use it for 2 or more use cases. The more problems we solve for our customers, the more we are embedded in the core operations, generating revenue, protecting revenue, whether it's customer education, partner, supplier education, et cetera, or we are also enhancing the employee workforce from a compliance professional development perspective.

So when you have an all-in-one solution like Docebo, which is embedded in multiple departments, multiple stakeholders, and in multiple tech stacks within that same enterprise company, this is a much, much stickier solution that is strategic to an organization and these companies take a significant amount of time and thought on how they want to run those learning programs across the organization. So that is a reflection of what you're seeing in terms of gross retention from our perspective.

Claudio Erba
Founder, CEO & Director

Sukaran, I was going to add 2 things just to wrap on this. Number one, the concept of -- the advantage of being an horizontal player that edges against any particular one industry and we are reaping the benefits of that positioning in the market. The other thing that I was again mentioning in the topic of value and on the topic of not being a nice-to-have and the follow-on on gross retention. If you think about a couple of examples, they're all public on our website.

But I think it's important to kind of resurface them. Companies in the 4,000, 5,000 employees stage like [inaudible], they reported that since they implemented us, they cut down employee churn by about 40%.

If you run the math of that result, it's significant for a company that size. If you think about Zoom, according to the public data, employees more than 200 CSMs reports saving hundreds of hours per year per CSM that -- those are real topline savings.

Docebo, where our data is very known to us. We have in excess of $1.5 million in savings and support costs alone because we've implemented our software as a university and we reflect our implementation efforts, reduced them by more than 15% and save 20% of CSM time by using our software on the academy and university side.

So the area where we have to get really good at and we are in the journey of it is being able to recognize that we affected the unit economics of all the companies that we work with and we delivered true economic value and return. And we're in the journey of really creating an engine that not only is able to implement the product but also can explain and then market the advantages of it.

Operator

The next question comes from Stephanie Price, CIBC.

Scott Fletcher
CIBC Capital Markets, Research Division

This is Scott Fletcher on for Stephanie Price. I wanted to ask a question over just the pace of margin improvement. You talked about ending the year, I had a double-digit margin. Is that -- should we expect sort of a consistent increase from the sort of 4% to 5% in Q1 over the course of the year?

Sukaran Mehta
Chief Financial Officer

Yes, morning. Sukaran here. I would say the way to think about -- I mean, the way to think about how the trajectory has. So if you look at the past year as well, the biggest improvement you would have seen is coming, of course, from G&A line. And that's something that we should be delivering, and we will continue to deliver.

If you look at a company like us, and as it scales, you should be dropping that closer to lower double digits where we are today at 19% to a much lower, maybe by 8% or 9%. Now nothing that is going to happen this year in its own right, but on G&A, a company on my side of the skills will be close to 10%, 12% G&A margin over our, let's say, say, medium to long term. So there's going to be that

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element is going to be the biggest area from where which you're going to get leverage coming in from as well as, as you've seen small incremental improvements, both in our COGS line, where we've done an incredible amount of work in our hosting architecture.

So our gross profit -- gross margin has improved even that 0.51% you're seeing that there, as you look through sales and marketing and throughout this year, you'll see some efficiencies come through in that element, too. But all of that, whilst we are focused on growth and that growth continues to move forward, and we did continue to drive discipline in G&A as well as some of the other elements.

You can kind of derive the math pretty quickly to see that we'll get to low double digits as we exit 2023.

Scott Fletcher
CIBC Capital Markets, Research Division

Okay. And then I wanted to ask on the partner piece of the business. Obviously, you had a nice win that you announced in the quarter. Can you sort of speak to what is driving that sort of improvement in the partner experience? Is it more just them getting more comfortable selling your product or is there a different strategy or approach that you've sort of worked with them to take to help improve the performance?

Alessio Artuffo
President & COO

We are maturing -- hello, it's Alessio speaking. We're maturing our overall posture and vision of our partner business well beyond the OEM that remains a critical area of focus for us in order to continue to win the businesses of the likes of Ceridian and MHR.

And we're making very significant progress in that area with a continuously growing pipeline. With that said, OEM is not the sole area of focus anymore. We believe that in an environment in which creating demand becomes more and more costly, there are different avenues to optimize demand creation in a more efficient way and to create, if you will, pipeline in ways that are partner-friendly.

We have announced a partnership with a premier player in the content world called the ELB, formerly known as eLearning Brothers, you may have noticed the PR about it. And this is just an example of our efforts to partner with companies that are adjacent to our capabilities.

Adjacent means that they may complement our capabilities strategically or they may be software technologies that are in adjacent spaces. This can be rewards products, coaching platforms, LXPs, talent mobility platforms, the customer success platforms. We're extremely active on all fronts because we believe that when companies that share common audiences partner, the flywheel that we can generate together becomes very interesting.

And finally, I would say partners are not only about demand generation, but they are also about implementation capabilities. In the enterprise segment, we understand that in hybrid model of implementation, adding true consultative capabilities is necessary. And so we're strengthening our ability to not only be very good at implementing a complex project directly, but also really leverage some of the best companies in the world in value-added services.

Claudio Erba
Founder, CEO & Director

And Ale, I will add something about this integration ecosystem because OEM partnership, product integration, it's all part of a big network of ecosystem and also adding training capabilities to other software, like I have seen our prototype of Docebo for Microsoft Team.

These attach the software to the enterprise software stack and enterprise ecosystem where people can have training inside other software. So I mean, the OEM is one angle, the ELB partnership is another, the integration with software, it's also another part.

Operator

The next question comes from Daniel Chan of TD.

Daniel Chan
TD Securities Equity Research

So ACV expanded nicely. Just wondering if you could provide any color on what drove that expansion? I think you mentioned that new customers came in much higher than the average ACVs [indiscernible] existing customer expansion go and then how you see these, is a lot of that coming from more seats or customers taking on more product?

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Sukaran Mehta
Chief Financial Officer

I'll start that. Sukaran here. Good morning, Dan. I would say, from an ACV perspective, it's a mix of items, you would think. And in terms of the ACV number, that will refer to the fact that new logos enterprises contributing to higher deals this quarter, as expected, drove some of that expansion and some number of deals that we talked about also in the enterprise space also drove some of that higher ACV.

Within the in-quarter ACV that I also gave in my prepared remarks or I think Alessio gave in his prepared remarks, that is more so driven by -- that's because that only includes new logos and cross-sell. So that is primarily driven by enterprises that are larger in size.

And in terms of color, I'm sure Alessio would give some color, but I think that, that kind of speaks to the fact that we saw some strength in the back of Q4 in the enterprise segment that helps lift that number.

And as you know, the mix between sales and -- sorry, the mix between SMB or what we call commercial major and enterprise can drive that number up or down, but the more enterprises you have in the quarter, the higher that ACV will be.

Ale, I don't know if you want to add...

Alessio Artuffo
President & COO

Yes. Agreed on the general sense that it's a mix of a few factors alongside the fact that quarter 4 usually lands with more enterprise impact in I'd say also that given the comments made before as our enterprise pipeline continues to grow, we certainly look forward to continue to perform well, in terms of ACV averages as we land more and more enterprise deals in the future.

Claudio Erba
Founder, CEO & Director

Yes. And Ale, there is another point. I mean we now have a lot of large -- I mean large enterprise deals in the pipeline that are slipping from one quarter to another, so maybe in the future, we will land more enterprise deal altogether that will create a spike in the ACV and then we will see this ACV going back because this macroeconomic downturn is not killing deals, it's just delaying deals, but the pipeline in flow continues. So there is a elongation of large enterprise deals that are still healthy in the pipeline but did not happen. Yes.

Daniel Chan
TD Securities Equity Research

That's very helpful. And then maybe just any more color on the pipeline. You talked about it growing. Any metrics you can provide around that? You also talked about 65% using it for external and 80% coming in with 2 or more use cases. When you look at the pipeline, would you say that the customers in there are actually using [indiscernible] that you're seeing in your current customer base?

Alessio Artuffo
President & COO

I'd say the following, that we continue to see a very healthy mix of companies that are looking to solve a mix between what we refer to as internal training and learning issues as opposed to external and externally impact issues, right?

So there's a healthy mix in terms of the use cases in the pipeline. One thing that I'd like to point out is our efforts of focusing on solutions and marketing on solutions, meaning use cases, have begun not too long ago. We are now extremely focused on a joint product management and product marketing function that allows us to tell better stories of how we solve against various problems.

We're not necessarily focused on trying and winning the business of every function in a company where we -- when we land them. We have said this over and over. We'd rather solve the one problem in time and then create fidelity in the account and grow them over time. So that's our approach right now.

Operator

The next question comes from Martin Toner of ATB Capital Markets.

Martin Toner
ATB Capital Markets Inc., Research Division

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Congrats on a good quarter. Most of my questions have been answered, but I think it might be useful to give you guys a chance to reiterate conservative nature of how you build the Q1 guide. Can you repeat the -- what is in the guide for sort of like the rest of the quarter from here? You mentioned minimal deals flowing into revenue in the remaining part of the quarter.

Sukaran Mehta
Chief Financial Officer

Yes, Martin, I'll kind of reiterate that. So when you think about forecasting revenue for a quarter, your starting point is always the prior quarter's ending ARR. And so from a subscription perspective -- subscription revenue perspective, your math at a minimal is saying, what's my ARR at the start of the quarter divided by the number of days in the quarter multiplied by the days -- divided by 365, sorry, multiplied by the number of days in the quarter. That gives you a baseline for your subscription revenue.

In terms of in-quarter deals, as you know, a large part of our deals are enterprise and they close towards the latter part of the quarter because our enterprise buyers are also smart in terms of when they procure it and align their budgets, et cetera. So you should expect a good portion of our ARR closes within the quarter towards the end with enterprise being the heavy lift there.

And so therefore, give or take, close to 70% of our deals will -- if they're signed within the last month of the quarter, you don't necessarily see a benefit to the revenue until the following quarter because you take that or add up over the course of the contract.

And then you add PS revenue, which I talked about earlier when Rob asked the question, which is a factor of similar to last quarter, that ARR is, let's just call it, extra $10 million if you generate x dollars of PS revenue, that's what we take into the quarter because the PS revenue split, give or take, between 3 to 6 months based on the onboarding packages we sell to our customer.

Certain customers have a slightly higher implementation period if it's a major enterprise deal. So just adding those 2 will give you your revenue for the quarter. But in a simple nutshell, subscription revenue is just pretty much what you have in the prior quarter with some small incremental flowing in the quarter. And then PS revenue is a flat 3- to 6-month projection that we do.

Martin Toner
ATB Capital Markets Inc., Research Division

Perfect. Any thoughts on capital allocation going forward?

Sukaran Mehta
Chief Financial Officer

Yes, I'll start with this. I'm sure Claudio will have some thoughts on it. I think as you think about our cash, we've got $260 million on the balance sheet right now. We are -- we talked about the fact that on an M&A front, we continue to look at opportunities. This year will be an interesting year for us as we look at great products, modules and teams that can support our organic engine.

And so you should expect that we are at least eyes much more wide open than we were before as we look into 2023, and there are certainly some interesting technologies that I'm sure Claudio if you want to jump in and give a perspective on.

Claudio Erba
Founder, CEO & Director

Yes. We do have, and it's not only AI related. A good deal of it is on how to improve our product in order to provide better value to our customers. We are prioritizing 3 main use cases: sales enablement;
customer and partner education, that means external training; and we are having a good feedback from the market in terms of onboarding, which sounds like a paradox because people are laying off employees and stuff like that, but there is a good, good interest on employee onboarding.

So our idea is to explore the opportunity, to do tuck-in M&A, to add functionalities, features new training opportunities, new value to our customers in those 3 particular use cases. That said, there are many other use cases which are very interesting, well performing in Docebo, paradoxically compliant training that is very -- the first use case that we were working on in 2005 when I founded the company, it's still hot.

So, we are exploring different opportunities. But all those opportunities will be tied to offer additional new modern learning experiences to our customer. We don't want to become a dinosaur, so we need to invest and continue to innovate.

Martin Toner
ATB Capital Markets Inc., Research Division

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That's great. Last one for me. How confident are you that Europe will be a strong contributor to revenue growth 2023?

Alessio Artuffo
President & COO

I'm so sorry,we couldn't hear the question on this side.

Martin Toner
ATB Capital Markets Inc., Research Division

I'll try one more time. How confident are you that Europe will be a strong contributor to revenue growth in 2023?

Sukaran Mehta
Chief Financial Officer

Thank you for that question. Yes, sure. On Europe, we actually have a pretty high degree of confidence on the basis of the fact that our teams have been staffing up. We have been ramping leadership, and we've seen very good results coming from the growing regions. As you may recall, our newest team is the one in the DAC region, and we're seeing very encouraging signs on the demand and execution side both. The France and Benelux region have had a very positive uptick in our demand in our pipeline.

And we've signed some significant large deals in Europe, which historically large deals were in the majority in North America. So now the sign that we continue to see large enterprise deals happen in Europe also allow us and give us a position in the region to continue to bear the fruits of that segment or the enterprise segment.

Finally, I would say that in Europe, we have a very strong channel play that we've invested in for the past 2 years. We do have partners that we mentioned in the script like TicTac and others that continue to give us the benefit of getting deep in the dynamics of each and every country.

And so we're leveraging that a lot, and they are part of the success we're having even with these large enterprise deals. So the level of confidence is high. The trend of performance is very good, and we continue to invest and manage performance very tightly.

Claudio Erba
Founder, CEO & Director

Also, U.K. is holding up well.

Alessio Artuffo
President & COO

Yes. Yes.

Operator

[Operator Instructions] The next question comes from Suthan Sukumar of Stifel.

Suthan Sukumar
Stifel Nicolaus Canada Inc., Research Division

Congrats on a strong Q4. It's good to see strong customer win activity despite what's going on in the macro. I was wondering if you could talk a little bit about what you're hearing from customers today with respect to the new wins that you've secured and the expansion opportunities with existing customers, especially in the latter with little softer this last year. You've touched on vendor consolidation as a theme in the past. Just curious if there's been any change there?

Alessio Artuffo
President & COO

Sure. There's -- the trends we're seeing are consistent on one side with some macro aspects, the aspect of consolidation that you just mentioned is a frequent one, meaning companies that are trying to reduce the complexity of their learning techonomy and trying to centralize learning operations with less platforms in a more cost efficient but also more productive environment.

And this is why we more and more frequently engage with CIOs and CFOs as opposed to what perhaps was happening years ago. On the other hand, another trend we're seeing that continues to be material is Docebo is more and more recognized as a leader in training the support, not only internal L&D teams.

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We have a very significant, I would call them a go-to-market projects with the very large companies whose goal is to maximize the return from the marketing in a way or another of their knowledge and training capability, whether it's B2B2C scenarios or B2B2B scenarios, there is a lot of variety there.

And finally, even those institutions that have an internal only problem where historically, Docebo, I would say, gave a lot of credit to the more institutional players in our industry, we're seeing a trend very strong in financial services and automotive, where these mega companies are frankly bothered by using for many years out-of-date systems and are looking for new, fresher interfaces.

They want to increase employee engagement. And to do so, they opt for modern learning platforms. And so we're having conversations with, again, the very large Fortune 500 companies in banking, in insurance, in automotive and just for internal projects. So it's a mix of these trends, in particular, that we're seeing in the demand.

Sukaran Mehta
Chief Financial Officer

Suthan, I'll just quickly add that if you just take a step back, what's important to
remember, even with -- when Alessio talked in his prepared remarks about that deal from Agria, it's a good reminder of the external use case when we talk about the fact that anything that touches beyond the employee, which is what we call external use case, customer education being one example, Agria as you noted, is trying to train all of the pet insurance customers in Europe, over 8 million, using our platform.

That's a much bigger total addressable market compared to just the employee base that Agria would have. So when you think about the market opportunity when you spoke about the TAM, even just in the U.S., was $8.6 billion, 2/3 of that was external learner. This is really where it shows you why that's a greenfield opportunity out of that 2/3 of TAM, where we can target certain external use cases that drive higher clear ROI and value for the customer, but a much higher total addressable market than just the internal employee too.

Suthan Sukumar
Stifel Nicolaus Canada Inc., Research Division

Appreciate the color, guys. The platform does an interesting win with the government of Quebec. Can you talk a little bit about the public sector as an end market? Just kind of curious, how much does it account for in terms of business mix today? And what is the opportunity you see with the public sector longer term?

Alessio Artuffo
President & COO

Yes. Very good question. And let me share a couple of thoughts on that. So as of right now, Docebo has, I would say, an immaterial sub-5% total business across government for state local education, what we could refer to government type that doesn't include necessarily those big federal agencies.

We believe this is a market that is very interesting. And winning the deals like the one of the government of Quebec is just proof that our solution meets the needs of these organizations.

Now, we have and are actively doing a lot of research in the overall government space that spans from SLED through federal and are in the discovery phase of the opportunity and the cost. And our initial findings are that this is very interesting for us. But we remain extremely focused on what we do.

And when and if the time is right, we will be sharing updates as to further investments in that area. But at this point, we remain extremely opportunistic. We'll catch and bid all those RFPs that we have the requirements to win.

In terms of the future, midterm future, yes, we believe this is a market that can yield a lot of success for us, but today, we're not prepared to say more than that.

Operator

The next question comes from Christian Sgro of Eight Capital.

Christian Sgro
Eight Capital, Research Division

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I wanted to ask a question about winning new enterprise business and the use cases that are sold at the time of deal signing. On average, is it common to win a new enterprise customer with 1, 2 or 3 use cases in place? What trends are you seeing with a number of use cases that they're taking on at the onset?

Alessio Artuffo
President & COO

Sure. It is common to see an enterprise come in with a very large amount of users for a single use case, that is not uncommon. What we see though is that as we further conversations and as we get more intimate and grow, frankly, are the level of trust and respecting that account, the people that we work with that are humans as they get to understand us, our company and our product better and they get deeper, they immediately connect our capabilities to what they do in other functions.

And it's very common that our process and our methodology leads them to introducing us to other functions in that organization. And again, this is a mega large company that may have in short order initiatives of looking at additional vendors. So I would say the entry point is usually 1 unit, but it's very common that ones we do already, let's say, time 0 net new logo, others join the conversation.

Now that in itself, of course, is a really good dynamic, where we are cautious is ensuring that this is not a cause for deal elongation because as you may infer that causes various buyers who want to have more depth and analysis of requirements and it is not uncommon to go through a deal, be done almost ready to sign and now a new group with additional 100 requirements comes to the table.

And so we navigate that by trying to be methodical and again, have a methodology to close the deal and then continue to grow it. But at the root of elongation of deal cycles in enterprise, this multi-audience dynamic is also a factor. Again, it's a positive factor because we see the deal value, the deal ARR grow, but at the same time, it can be a cause of push.

So I don't know if that answers your question. But that's kind of what we see.

Claudio Erba
Founder, CEO & Director

Ale, let me make a joke. I mean we have such a great product that when we are in a negotiation stage, department goes and ask other departments to join the deal, which is because the table is great. But on the other side, these elongate the sales cycle. So we don't like when the customer gets too excited about us on day 1.

Alessio Artuffo
President & COO

Mixed feelings about it.

Claudio Erba
Founder, CEO & Director

Yes.

Christian Sgro
Eight Capital, Research Division

That's a good problem to have. And for my follow-on, on the same vein, maybe you can give an example or if there's a trend you could speak to it? But what's the most common first use case you see winning new business? And then what becomes the most natural upsell of the next conversation that you have? I'm curious to see where it starts and where it goes quickly, what makes sense for your team?

Alessio Artuffo
President & COO

We started analyzing this. And currently, I don't have a definitive one or the other. We see a mix of entry points in the external use cases with folks implementing customer-related or partner-related projects and then eventually open up on the flip side into internal initiatives of sales mastery or onboarding and learning and development, professional education. And the flip side is also very true.

Now I don't want to get in the weeds too much. This dynamic is multifactorial and changes can change depending on the industry and the sector. So we see certain dynamics and patterns in, say, technology and services and different patterns manufacturing and pharmaceutical and others. So It's, again, pretty complex to the whole spectrum of entry point and how it evolves over time. It depends

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on the business and the industry of the company itself. But again, we like the fact that it varies because it gives us a very good hedging against one specific industry behavior.

Operator

There are no further questions at this time. I will turn the call over to Claudio Erba for closing remarks.

Claudio Erba
Founder, CEO & Director

Thanks again for listening to our Q4 call. We look forward to having you join us on the generative AI and ChatGPT who have been on March 14. Registration information is available on our IR website. Thank you so much.

Operator
Ladies and gentlemen, this does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.

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