

Docebo Inc.

Third Quarter 2020 Results

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PRESENTATION

Operator

Good morning, everyone, and welcome to the Docebo Inc. Third Quarter 2020 Earnings Conference Call. All participants are currently in a listen-only mode. Following the presentation, we will open the line for a question-and-answer session for analysts. Instructions will be provided at that time for research analysts to ask questions.

I would now like to turn the call over to Docebo's Investor Relations, Dennis Fong. Please go ahead, Dennis.

Dennis Fong — Investor Relations, Docebo Inc.

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 these forward-looking statements. For more information on the risks, uncertainties, and assumptions related to forward-looking statements, please refer to the Docebo's public filings, which are available on SEDAR.

During the call we will reference certain non-IFRS financial measures. Although we believe these measures provide useful supplemental information about our financial performance, they're 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 for reconciliations to the nearest IFRS measures.

Please note that, unless otherwise stated, all references to any financial figures are in US dollars.

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

Claudio Erba — Chief Executive Officer, Docebo Inc.

Thank you, Dennis, and good morning, everyone. I hope you are all keeping safe and well. Joining me on today's call is Ian Kidson, our Chief Financial Officer, and Alessio Artuffo, our Chief Revenue Officer.

In the third quarter we continued to see strong momentum across our business, driven by the increased need for digital training around the world and growing demand for Docebo's products and services.

Our ARR at the end of the third quarter grew by 55% year over year to \$65 million, and this was supported by subscription revenue growth of 54% and total revenue growth of 52%. The strong growth in revenue along with disciplined investing resulted in our first positive adjusted EBITDA quarter, a milestone that we have reached a year faster than expected. The health of our business, despite these unprecedented times for the global economy, is allowing us to restart investing into growth, as maximizing profitability is not our main target at this stage.

I should point out a change we have made this quarter on how we report total customer count. Previously, we counted two different departments within the same organization that use two separate

instances of Docebo as two customers. However, we think investors, like us, would see this as an example land and expand. We've adjusted our customer counts in the MD&A to reflect this change in definition and a single logo is counted as a single customer, regardless of how many departments we sell into. This had only modest implications on our average contract values today, but it will provide metrics that better reflect the performance of our business going forward, as we focus on expanding our product suite and increasing adoption of Docebo across multiple departments within a large organization.

At the end of the third quarter we had 2,025 customers. Our average contract value grew both quarter over quarter and year over year to nearly \$32,000. This was driven by the higher value of our new customer additions, where the average contract value was approximately \$50,000.

We had another record quarter of new logo sales and up-sell performance. This spanned a broad range of use cases across different industries, showcasing the flexibility of our platform. In September, we announced that Amazon AWS had selected Docebo for a multi-year agreement to deliver AWS training and certification products to its vast network of clients and channel partners across the globe. This is a great testament to the strength and scalability of our platform and we were honored to be selected by them.

Other new customers we were happy to add in the third quarter include Economical Insurance, Sirius XM, and the World Anti-Doping Agency. Economical was looking for a modern, learner-centric platform and selected Docebo for its ability to deliver a personalized learning experience to train both internal employees and their broker partners. Sirius XM chose Docebo for internal training to support onboarding and professional development. And the World Anti-Doping Agency selected Docebo for global

athlete education, practitioner training, as well as creating an opportunity for community and peer learning.

We also had a number of great customer expansion wins. In the third quarter we expanded our business with Syngenta Group, the world's largest agrochemical company. Previously used within small pockets of the organization, Syngenta now looks to scale learning across the entire organization and Docebo's technology will play a crucial role in this.

We are also thrilled to announce that in Q3 Docebo was selected by one of the largest operators of quick-service restaurants in the world to scale their learning across the globe. Originally signed in November of 2018 to train 3,000 restaurant locations, beginning in 2021 Docebo will extend training across 24,000 locations worldwide and will include some of world's most prominent and iconic quick-service restaurant brands.

Our OEM business is also continuing to progress, growing both quarter over quarter and year over year, and is our largest single contributor to our ARR. Onboarding our first OEM partner and developing Docebo's white label solution took more than a year from initial agreement to first revenue. Naturally, we learned a lot through this experience and are able to move much faster now. In the third quarter, we realized first revenues from a second OEM partner just one month after signing our initial agreement. Every OEM agreement is different and the revenue timing is not something we directly control, but we are excited about the potential for OEMs to become an increasing contributor to our business over time.

Moving on to our product, in September Docebo was recognized as the first Learning Management System of 2020 by eLearning Industry. At the annual Brandon Hall Learning HCM Excellence awards we

were proud to receive 14 Excellence awards alongside our customers. We are now taking the same approach in building a best in class LMS to expand Docebo into a multi-product suite that supports learning needs across the training cycle.

Last week we were excited to announce the closing of our first acquisition of forMetris. This acquisition provides us with two significant benefits. First, they are innovators and leaders in learning impact analysis, which means we will have the capability to cross-sell our customers a powerful survey engine that captures qualitative data and real feedback to determine the effectiveness of their learning strategies, understand the retention of knowledge, and incorporate a feedback loop to measure return on learning. This product has been rebranded and launched as Docebo Impact that we can sell alongside both Docebo LMS customers and customers that are not using the Docebo LMS. Second, forMetris gives us a physical presence in France. France is one of the largest economies in the Europe. It is a mature market for online learning and having a local presence is important to have meaningful success there.

In summary, we are seeing positive momentum across all of the main pillars of the growth strategy we outlined at our IPO, including new logo sales, land and expand, OEM, and product expansion. We are still not immune to overall macroeconomic challenges that may arise, like a second wave of COVID that could bring a potential threat to our customers businesses and our revenues, but we believe we are still only scratching the surface on the market potential for digital learning and that is why we will continue to invest and position Docebo for growth in the future.

With that, I will now pass the call to Ian to speak to the financials.

Ian Kidson — Chief Financial Officer, Docebo Inc.

Thank you, Claudio, and hello everyone.

As always, you can find a detailed breakdown of our financial results for the three months ended September 30, 2020 in our press release, MD&A, and financial statements, which are now available on our website and on SEDAR. We also now have a slide deck to accompany our earnings call discussion that is available on our Investor Relations website. For those who want to follow along, I'm starting my remarks on slide four.

As Claudio indicated, we saw growth on all fronts this quarter and are very pleased with our results overall. Total revenue grew to \$16.1 million, an increase of 52% from the prior year period. Subscription revenues grew 54% from the prior year and were \$15.1 million or nearly 94% of total revenue for the quarter. Professional services revenue in the third quarter was \$1.0 million, an increase of 27% from the prior year period.

Our new logo additions and up-sell performance in the third quarter established a new record for us and I was particularly pleased by the fact that we experienced lower churn in the quarter after seeing an increase in the second quarter from companies that were most impacted by the pandemic. This resulted in the net ARR growth of \$7.6 million in the third quarter when compared to the second quarter of 2020.

At the end of the third quarter we had \$64.6 million in ARR, an increase of 55% from the \$41.7 million at the end of the third quarter in 2019. As we have noted in most previous calls, while ARR is not an accounting measure, it is the key metric that we use to evaluate our progress as it is an excellent predictor of future revenue.

The growth in ARR was driven by an increase in the number of customers as well as average contract value. Our number of customers increased to 2,025 at the end of the third quarter of 2020, up from 1,632 at the end of the third quarter of 2019. Average contract values, or ACV, increased to approximately \$32,000 at the end of the third quarter of 2020, up 25% from \$26,000 at the end of the third quarter of 2019 and is up from \$28,000 at the end of the first quarter of 2020.

Slide five shows the gross profit for the third quarter, which was \$13.2 million compared to \$8.5 million in the prior year period, an increase of 56%. As a percentage of revenue, gross profit margin was 82.1% of sales, an increase from 80.1% of sales in the prior year period. The improvement in gross margin was driven by the realization of some benefit of scale in our infrastructure cost and going forward we expect gross margin to remain in the current range with some potential to move higher, maybe up into the 82% to 85% range over time.

On slide six you can see a summary of our operating expense lines. Total operating expenses for the third quarter increased to \$13.9 million compared to \$11.6 million for the prior year period, an increase of 20%. Included in our Q3 results is a foreign exchange loss of \$400,000 that relates primarily to the cash held on our balance sheet and, therefore, is for the most part unrealized. Operating costs excluding this loss were \$13.4 million and were generally in line with the \$13.3 million in operating costs excluding foreign exchange impacts that we reported in the second quarter of 2020.

Strong growth in revenue and improved gross margin, along with stable operating expenses, resulted in our first adjusted EBITDA positive quarter as a public company. We reported adjusted EBITDA of \$0.6 million for the quarter compared to a loss of \$1.4 million in the prior year. We also reported a net

loss of \$1.2 million this quarter compared to a \$3.7 million net loss for the prior year and, as just noted, the net loss for the third quarter reflects a \$400,000 million foreign exchange loss. One implication of our positive adjusted EBITDA performance this quarter was that we were essentially free cash flow neutral as well.

Looking at our balance sheet, in August we completed financing in which we issued treasury shares for gross proceeds of \$18.1 million. Cash at the end of the third quarter was \$60.8 million and we carry no debt on our balance sheet.

Looking forward, I think it's important to remind investors some of the comments we made on our second quarter earnings call, as they still apply today. We are in the process of executing our hiring plan to add about 50 people to support our ongoing growth. While we would expect to see operating leverage growing in our business, in the intermediate term most of this will likely come from the G&A line.

Achieving positive adjusted EBITDA this quarter was a great milestone for us but, as Claudio said earlier, being EBITDA positive was an outcome of this year's unusual circumstances and we do not intend to necessarily manage the business to remain EBITDA positive going forward. Instead, our focus will remain on optimizing our customer acquisition costs to maximize revenue growth, as long as there is a strong return on our investment.

With that, I'll turn it back to the operator now to take some questions from the analysts.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now take questions from research analysts. Should you have a question, please press the star followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. If you are using a speakerphone, please lift the handset before pressing any keys. In consideration of other callers and time allotted, we do ask that you please limit yourself to two questions.

The first question is from Robert Young at Canaccord. Please go ahead.

Robert Young — Analyst, Canaccord Genuity

Good morning. The positive EBITDA, you just said not to expect it to continue, but should we still think of the rough guidance of hitting free cash flow positive exiting 2021? Or are you signalling that growth at this level is more important and you're willing to push that out?

Claudio Erba — Chief Executive Officer, Docebo Inc.

Ciao, Rob. Can you hear me? Claudio speaking.

Robert Young — Analyst, Canaccord Genuity

Yes.

Claudio Erba — Chief Executive Officer, Docebo Inc.

Perfect. So, you know, we think that the market is very fragmented and there are a lot of opportunities to catch more quotas of these markets. And we can do it in several ways, developing product, investing in sales and marketing, be open to new geographies, stuff like that, which is part of our comprehensive strategy.

That said, when we say we want to continue to invest on growth, I will add one word. We want to continue investing on growth efficiently. And that means that we are not (inaudible) to burn cash just for the sake of unsustainable growth. The metrics that we really love, and Ian Kidson mainly loves, is the cost of customer acquisition, which is a KPI we want to keep under control as strict as we can.

I don't know if Ian wants to add something on that.

Ian Kidson — Chief Financial Officer, Docebo Inc.

No, I think that's fair, Claudio. Rob, we've said a couple of times this year that our hiring was restricted during the second quarter. We would have continued to grow our cost base and would not be EBITDA positive if COVID hadn't been around. That's what I meant when I said the acceleration of becoming EBITDA positive was a function of circumstance. All we're trying to say at this point is we are going to continue to aggressively grow this company's revenue base but, as Claudio has repeatedly said, it's always going to be in the context of making sure that the return on investment is appropriate.

Claudio Erba — Chief Executive Officer, Docebo Inc.

Yeah, and Rob, I want to add another point. I mean there is these (inaudible) signal, which is a trap, where COVID created extreme efficiencies on companies because companies were able to save on costs.

Some part of these costs were investment for the future. I mean not doing exhibitions, not having the possibility travel and stay in touch with the team, so all the companies has a cost. So another element we want to focus, we want to stress, is that we are aware of that and we are investing hard to mitigate this investment which has not been done but needed to find an alternative to continue to build the pipeline. So, the efficiency on cost is also a trap if not correctly addressed.

Robert Young — Analyst, Canaccord Genuity

Okay. Thanks for all that colour. I'm also curious about some of the timing of the wins and the ARR growth, which was ahead of top-line growth. I guess that would suggest that some of these deals came in late in the quarter. And the second piece is some of the wins you're announcing, including this quick serve win, I think in the press release you suggested it would ramp in 2021. And so should we think of ARR benefitting from that deal in the current quarter, Q3/Q4, or even Q1? Maybe if you could talk a little bit about the large wins and how they impact ARR the next couple of quarters.

Ian Kidson — Chief Financial Officer, Docebo Inc.

Sure. So the quick serve win will hit our numbers, both ARR and revenue, in the first quarter, Rob. Everything else is being (inaudible).

Robert Young — Analyst, Canaccord Genuity

And timing in the quarter? Were some of these large deals later in the quarter?

Ian Kidson — Chief Financial Officer, Docebo Inc.

Yeah, I think that's fair. Yeah. I mean the last month in a quarter is always, ah, always tends to be (inaudible), so if (inaudible)... I think the best thing, if you're looking at the numbers and thinking of where they were weighted, if you assume it basically came evenly over the quarter, all of the ARR, you're probably reasonably accurate.

Claudio Erba — Chief Executive Officer, Docebo Inc.

Alessio, do you want to give some more colour on operational details on the ARR and distribution?

Alessio Artuffo — Chief Revenue Officer, Docebo Inc.

Sure. Look, on top of what Ian said, and, Robert, it is generally true that, as you know, particularly larger deals tend to have a higher concentration tail end of the quarter. That is generally true. I'd say that certain large deals, for example AWS, are so programmatic and are so managed over time that we try to manage them, you know, without having to necessarily push them towards the end of the quarter, and so in that case that did not happen. But it's true that this rule of end of quarter for larger deals remains valid, so your inference is correct for the most part.

Robert Young — Analyst, Canaccord Genuity

Okay. And then you said that churn was a little bit better than you'd expected, Ian. Q4, is there any seasonality in Q4 from some of the smaller customers? Or would you expect that to kick up just seasonally or, you know, as some of the companies or customers impacted by COVID might be coming to the end of their existing contract? Then I'll pass the line.

Ian Kidson — Chief Financial Officer, Docebo Inc.

Sure. You know, it's interesting. When I look historically, and this is not what I would typically expect and, honestly, I don't know if it's just an artifact of circumstance or whatever, but Q4 churn is not historically our worst quarter. And I would have instinctively said it would be, but it's not. So, when we look at Q4, and Alessio has done a great job in putting a team together and managing our churn better than what we have in the past, so we're beginning to get a little bit more visibility into what we think is going to happen, I'm reasonably comfortable that there aren't going to be any shocks in Q4 like we had in the second quarter.

Claudio Erba — Chief Executive Officer, Docebo Inc.

Let's not forget that, ah, we are happy about the vaccine, but the COVID is not gone. So if the COVID will stay longer, there will be companies that are fragile but still operating that will suffer. So there are some variables that cannot be evaluated with the standard historical model. So COVID is still a factor here.

Operator

Thank you. The next question comes from Daniel Chan at TD Securities. Please go ahead.

Daniel Chan— Analyst, TD Securities

Good morning and congrats on the great quarter. Your deployments seem to be getting larger and larger. You've been targeting departments of large enterprises, but should we expect you to start doing more of these global deployments like you're doing with this quick serve operator?

Claudio Erba — Chief Executive Officer, Docebo Inc.

So, first of all, let's refer to AWS. AWS is a large deal, but it's a department deal, because it's made to train a specific vertical in the company, which are partners and so on and so on. And the same, if you go into a big restaurant chain, these projects are projects made to train the restaurant owners and operators. So it's a large deal, but it's still a departmental deal. It's not an ultra-global project with a lot of consulting activities that covers all the departments, because we think that this kind of project, I mean one size cannot fit all in eLearning.

So, if you were to imagine a large cheque signed to Docebo probably will be a large departmental deal, so like the AWS one, and not a global comprehensive project that covers multi departments.

Daniel Chan— Analyst, TD Securities

Okay. That makes sense. As you scale, as you continue to gain wallet share with these customers, as your deployments grow within their companies, do you have customers that want to adopt your solution across the entire enterprise, across multiple departments? And are you at a scale yet that you might be able to do that soon?

Claudio Erba — Chief Executive Officer, Docebo Inc.

Usually what happens is that departments negotiate their deal on their own. There is not a centralized orchestrator, let's imagine the HR, that buys the platform for the sales academy or buys the platform to empower the help desk team. What happens is that they can leverage the Docebo extended enterprise technology buying one only Docebo instance but with the extensive enterprise model that has an independent segmentation of the platform itself, which is different technologically, I mean methodologically speaking, of the approach to have one department that orchestrates all the learning.

I mean we never had imagined an LMS managed by the HR department that will deliver sales training to the sales academy. In this case there will be a unique LMS with multi layouts, multi entry points, multi domains where the (inaudible) administrators that are the owner of this business unit that will train their own audience.

Daniel Chan— Analyst, TD Securities

Okay. That's helpful. And then with regards to your growth strategy, you did mention that you're expecting to hire 50 people, but what role do acquisitions play here? Should we expect you to do more acquisitions like for Metris that give you a beachhead in some key markets?

Claudio Erba — Chief Executive Officer, Docebo Inc.

So, the Docebo growth strategy is mainly based for the future on two main pillars. The pillar number one is to become a learning suite. The fact that now Docebo has two products, Docebo Impact and Docebo LMS, with all the (inaudible) and models, is the first step to extend our offering to cover all the training cycle. That means from learning culture to content production, whatever it is, LMS can deliver learning impact and learning analytics. So the first step is having more product to sell to our customer base and to new customers.

The second is geographic expansion. Geographic expansion means, for example, that forMetris, which was performing incredibly well in France, was not that present in the US where are very strong with our sales machine. And so using forMetris to have an office in France, which is a very local market which needed be, you know, the negotiations, the contracts, they need to be in French, there needs to be cultural alignment, is the footprint that we needed to have more success in France where we had already a lot of customers. And you can expect that in the future we will cover some other meaningful countries. Meaningful means with a lot of internal demand with new offices.

The acquisition is part of our multi-product strategy, but it's not the only strategy we are pursuing to become a multi-product company, because, as you know, we have a lot of new products that after one year and a half of R&D are now ready or are already in beta testing with some of our customers that are helping us to validate the products. That said, acquisition is part of the multi-product strategy and if the target of the acquisition is in a specific country we need to cover, it's a good thing, because we don't have to open an office on our own.

Daniel Chan— Analyst, TD Securities

Okay. And then final question for me, because you mentioned that the customers or forMetris was strong in France but not so big in America, how big is that cross-sell opportunity for both selling—

Claudio Erba — Chief Executive Officer, Docebo Inc.

It's incredible. You know what we did when, when we started talking with forMetris, and this happened, I mean we are in touch in terms of partnership since a couple of years and we thought that the product was great, but they shared with us that they were struggling on selling in the US. So we bring forMetris to our customer event, I don't remember if in Boston or in Toronto, and they opened a booth. When our customers went to the booth and tried the product, they said, I want this integrated in Docebo. And then we started figuring out that there was a need in the United States on having a tool that (inaudible) the return of learning, which is, you know, the frequency of the training that you do, that was not covered by almost anyone, because the survey system is another tool, is a simplified system tool to run surveys, forMetris itself (inaudible) industry benchmark (inaudible), so when we run a learning impact analysis we can tell to our customers how they are positioned compared to the industry to a specific training that they have delivered in terms of satisfaction and return of learning. So, the fact that we run these empiric tests, opening a booth in our customer events and our North American customers were excited, started triggering in my mind that maybe we don't have to partner with a company like this, but we have to buy, because there is an incredible up-sell and cross-sell opportunity.

Daniel Chan— Analyst, TD Securities

Okay. Thank you.

Operator

Thank you. Your next question comes from Stephanie Price of CIBC. Please go ahead.

Stephanie Price — Analyst, CIBC World Markets

Good morning. Congratulations on (inaudible) the MHR OEM agreements so quickly. I'm just wondering what the pipeline of other OEM agreements looks like here.

Claudio Erba — Chief Executive Officer, Docebo Inc.

You know, I can say it looks bright, but (inaudible) that OEM can shift by six months easily. That said, we are starting learning, I mean we are starting learning on how to pitch the OEM integration. We start learning how to better engage our OEM partners. We start learning how to deploy fast the OEM.

And there is another opportunity, which is not completely related to the HR platform, but now talent management platforms are becoming an interesting OEM vendor because the shift that the talent, the old school talent management platform had, which is, you know, identify skills, internal mobility, upscaling, cross-scaling, rescaling are all actions that trigger one only thing: training. Because you can only upscale your workforce through the training, you can rescale your workforce through the training.

So, alliances like talent management and similar software, performance support, enablement, stuff like that, are all good targets for us. The pipeline is good. We are speaking with interesting companies that we think they can bring value in terms of potential, in terms of geography, in terms of use cases. But,

as you know, an OEM, this can shift easily from one quarter to another, because it's a complex deal that is not paying back immediately.

Stephanie Price — Analyst, CIBC World Markets

That makes sense. You've mentioned geography—

Claudio Erba — Chief Executive Officer, Docebo Inc.

Stephanie, sorry, Alessio wants to add one point here.

Alessio Artuffo — Chief Revenue Officer, Docebo Inc.

Hey, Stephanie. In addition to what Claudio shared, when we started approaching the OEM market, it was clear that the HCM players were particularly interested. What we've observed over time, Claudio alluded to this, is that there are other sources of addressable markets from an OEM perspective. One that we are observing and doing some good work in pipeline development in is also (inaudible) system integrators that want to not only do system integration per se, and so professional services, but bring to market products combined with technology that allows them to serve certain customers they're already serving or new markets. And we think that opportunity is also very interesting, because these firms are strategic, they have resources, and they have a deep penetration in the market already. So that's a new pocket, I would say, of players that have shown a great deal of interest in our OEM technology. I thought you would appreciate that colour.

Stephanie Price — Analyst, CIBC World Markets

Yeah, that's great. Thank you. The other question I had was around geographies. Claudio, you mentioned several times on the call, you know, trying to expand into new geographies. Just curious what areas you're looking to focus on.

Claudio Erba — Chief Executive Officer, Docebo Inc.

Yeah. So, Stephanie, first of all, sorry if we answer to the questions so long, but we really love these kind of conversations and we would like to talk about our business for like five hours.

Stephanie Price — Analyst, CIBC World Markets

No, exactly. That's great.

Claudio Erba — Chief Executive Officer, Docebo Inc.

If you want to bring the coffee, bring the coffee, we have five hours with you.

So the question here is there are markets that have proven to be more resilient to COVID and have strong internal demand. Let me shoot one name. Germany. Germany is the biggest European market, just in terms of population, the size of the company, and need of training, and leadership that the country itself had in Europe. And it's very close in terms of borders. Sorry, not borders, in terms of language, culture, so on and so on.

So, if there are opportunities to explore these kind of countries, saying Germany but it's only an example, with a strong internal market, we will be happy to explore the opportunity to work in these countries and to cover in person. I mean what do I mean in person? We want to have a footprint there.

Now with COVID, everything is remote, but we think that in certain countries it takes time to penetrate a market and to stay in a market and you can reduce this time of penetration or you can increase the conversion rates just because you are local and you hire local people that speaks the same culture (inaudible) and language that can be a benefit.

So, multi product plus geographic expansion is our strategy to dominate (inaudible).

Operator

Thank you. Your next question is from Suthan Sukumar from Eight Capital. Please go ahead.

Suthan Sukumar — Analyst, Eight Capital

Good morning, guys, and congrats on the quarter.

Ian Kidson — Chief Financial Officer, Docebo Inc.

Good morning, Suthan. How are you?

Suthan Sukumar — Analyst, Eight Capital

Pretty good, thanks. Pretty good. Guys, the first question for me, you know, obviously it was really good to see such strong expansion activity this quarter. Could you guys speak a little bit more about the kind of profile of these expansion deals? Curious if these are just a function of expanded seats or do they include a level of module adoption as well?

Claudio Erba — Chief Executive Officer, Docebo Inc.

Alessio?

Alessio Artuffo — Chief Revenue Officer, Docebo Inc.

Sure. In the context of the expansion business, the way that we manage that business, the up-sell and cross-sell business when we expand customers, we focus on two things. One, we focus on the health, happiness, as well as the success of the customer that we're serving at that very moment within that one or more installations that they have with other instances, for better word. And so the goal there is to maximize adoption, to grow that project with standard project (inaudible) horizons by adding modules and capabilities. The second area of expansion is looking beyond that very business and understanding whether the organization has either a parent or sister company or subs that would benefit from our services. And those activities are coordinated by leveraging the customer experience group that we put together that not only cares about the health of the customer but also analyzes and signals whether there is opportunity for expansion, which is then addressed via our account management team.

So, in the context of this engine that doesn't just necessarily look at the one instance, we have had success doing a couple things. For the big expansion in QSR, we have moved from a brand to a multi-brand within a large organization, which has expanded us and added the additional 24,000 restaurants which we mentioned in the press release. That you can see as an expansion of the cross-sell within the same organization, which resulted in additional seats. The products, in that instance, remain the same.

With regards to Syngenta, which we also announced publicly, in that instance we have a project, departmental, which was very successful, and over time the organization needed a broader solution and that corresponded to a true up-sell.

But, you know, I want to make sure that those are seen in the context of our up-sell/cross-sell engine, which really targets the broad spectrum of the organization beyond the single instance that we may be working with at one time.

Suthan Sukumar — Analyst, Eight Capital

Got it. Thank you. That's helpful. And just kind of talking about the customer success program you guys have, how are you investing in that as part of your ongoing growth investments? And how has kind of progress looked like on the land-and-expand opportunity with respect to driving more option of capabilities and modules?

Claudio Erba — Chief Executive Officer, Docebo Inc.

Suthan, you know that now Alessio has aggregated (inaudible) possibilities, not only the sales part but also the customer success, and we just, ah, we have added recently a great leader coming from the industry. So I'll let Alessio articulate this, but the fact that with now customer success and sales works together, like marketing, which one year ago was another independent department and one of the Docebo challenges during the past year was not work as a silo, now that these three elements work together we are more confident that all the benefits, (inaudible) benefits, can happen from up-sell to retention to catching opportunities. But I'll Alessio articulate better in tactically what is executing. I don't

want to be too much complimentary, otherwise the guy will relax a lot, (inaudible), but I'll let Alessio (inaudible) this.

Alessio Artuffo — Chief Revenue Officer, Docebo Inc.

Well, the answer is pretty straightforward. Look, the way we view customer success is beyond, right, the customer success or, in this case, our customer experience department. It's about, you know, it starts very early, market to the right people in the right way, sell in the right way according to capability, implement at excellence, continue the account management, the customer experience, according to segmented best practices by putting the best people, working with the right segment with the organization, which in turn is segmented within four segments that are strategic segments for us, and finally support the customers in excellence. So there's no success unless it starts from the very beginning, because you can do an incredible job at the tail end of the process, but if you've sold the wrong customers it's never going to work. So where we are learning and where we are really investing is ensuring that all these functions are in hyper synchronization so that by the time the customer is handed off after go-live, the customer is already set up for success. And that's a big job, but that's what we're pursuing. And I hope that answers.

Suthan Sukumar — Analyst, Eight Capital

That's helpful, guys. The next question for me, I just wanted to get an update on your Shape offering. I know you guys wrapped up your beta program recently. I just wanted to get an update on what the feedback might be from users and how you're thinking about kind of incorporating some of that feedback and what the go-to-market plan is for that offering going forward.

Claudio Erba — Chief Executive Officer, Docebo Inc.

You are referring to the Docebo Shape, the AI content creator. Is that correct?

Suthan Sukumar — Analyst, Eight Capital

Correct.

Claudio Erba — Chief Executive Officer, Docebo Inc.

Yeah. So, you know what's happening, and I want to be blunt, I know that, you know, my team doesn't want me to be blunt and they want me (inaudible), but I am not. So, what's happening now is that—sorry? Someone is saying shut up. I am kidding.

Unknown Speaker

I don't know what's coming, but I'm nervous.

Claudio Erba — Chief Executive Officer, Docebo Inc.

So you know what's happening, that our R&D department, the R&D that is creating new product, accelerated so fast and became so efficient that now not only Docebo Shape is close to be tested, beta tested by the customer, but also learning analytics, but also the other new product that we are building.

So, what is the main challenge now? It's not the product readiness, and some customers are already using it and they like it, but we cannot release all the products together because we need to learn how to sell multi-product in the company. Alessio is specializing and training multiple marketing teams for

multiple products. So, the situation is bright but the challenge is incredibly high because we now need to sell more products and we have to learn how to market different products and it's 15 years that we are selling only one product, the LMS itself.

Suthan Sukumar — Analyst, Eight Capital

Right. No, and I think that's fair. That's growing pains I think most companies go through anyway, so good to hear. And maybe one last one for me, guys, and maybe this is a question for Ian as well. Just kind of thinking about the profile of newer customers coming in, they're obviously larger and you're seeing higher contract values here. Do you guys see any opportunity to maybe change or tweak your pricing model?

Ian Kidson — Chief Financial Officer, Docebo Inc.

Pricing doesn't sit with finance. I'll let Alessio talk about that.

Alessio Artuffo — Chief Revenue Officer, Docebo Inc.

Thank you, Ian. That's very kind of you.

I will say, Suthan, no consideration is a bad consideration. However, when we look at the strategy to continue winning and to continue maximizing results, we think there's a lot more that we can do rather than changing pricing model to actually provide customers with what they need to succeed. And what I mean by that, Suthan, is we are not only investing every day to make products better, but also we are investing and growing our professional service organization with more capabilities like value-added

services to unlock the potential they have in the organization. Some of this potential sometimes is unexplored, untapped, and results in not the maximum adoption they could have in the system.

So, rather than sort of using the stick, which is a change in pricing, the way we would approach it is offering those services with (inaudible) potential that would allow customers to make the best out of our software, to use more of our software, and to have a better experience. That's our position at the moment.

Suthan Sukumar — Analyst, Eight Capital

Makes sense. Thanks, guys. Appreciate you taking my questions. I'll pass the line.

Operator

Thank you. Your next question is from Gavin Fairweather of Cormark Securities. Please go ahead.

Gavin Fairweather — Analyst, Cormark Securities

Hey. Good morning. I was hoping you guys could just comment on kind of the early stage of the funnel and how kind of inbound interest and conversion rates have trended kind of throughout summer and into fall.

Claudio Erba — Chief Executive Officer, Docebo Inc.

Alessio?

Alessio Artuffo — Chief Revenue Officer, Docebo Inc.

Gavin, thank you for that question. We continue to see strong momentum on the inbound front. There is no doubt that, at the very beginning and for the couple months subsequent to pandemic, the outbound business generally in the industry had a setback, which was caused (inaudible) simply by the fact that people were not at work anymore. And, as you know, the outbound business is based on, ah, relies heavily also on phone connections and those were harder to make when people were working from home.

With that in mind, we've been following certain best practices and adjusted and calibrated our efforts to focus on our business development within the base. So we've invested and quickly pivoted certain decisions to empower more of our people towards account development rather than net new logo outbound development. We have, however, seen a stronger recovery of outbound momentum where it should have been all along in the past quarter. We're very happy with the results we're seeing. And outbound success is a hard job. We have great teams. We're not only investing in those in North America but we're scaling them also in Europe to empower a language-based outbound across different regions, because that's necessary.

So, in short sum, a strong momentum of inbound, stronger recovery of outbound post COVID first wave. We'll see if a second wave will cause a slowdown. And very, very happy to report that our ADR business is doing fantastic.

Gavin Fairweather — Analyst, Cormark Securities

Okay. That's very helpful. And then maybe for Ian, you commented that you're beginning to get line of sight on gross margins kind of trending towards the mid-80s level. Do you have a level of scale in mind when you think about that where you start to get some greater leverage on your hosting costs in particular?

Ian Kidson — Chief Financial Officer, Docebo Inc.

When I try to talk about future levels like that, Gavin, I'm usually thinking three to five years out. So if I take the company where it is today and try to guess where we'll be in three years, I'll say somewhere \$150 million to \$200 million. That's sort of, generically, three to five years (inaudible) in my head.

Gavin Fairweather — Analyst, Cormark Securities

Okay. Very helpful. Thank you.

Operator

Thank you. Your next question comes from Richard Tse of National Bank Financial. Please go ahead.

Richard Tse — Analyst, National Bank Financial

Yes. In regards to acquisitions, is it fair to say that your focus is going to be picking up niche technologies? Or is there potentially a larger opportunity with some of your bigger competitors, because

if you sort of look across the board, some of them actually had pretty not so great quarters, and so it's kind of obvious that you guys are taking advantage of that, so curious to kind of get your feedback on that.

Claudio Erba — Chief Executive Officer, Docebo Inc.

Ciao, Richard. On a scale 1 to 100, my excitement is 1. I mean we never wanted to buy competitors, because we always said that there are risks, implicit risks that are way above the risk we want to take. And the fact that we'd need to buy a competitor, merge technologies, merge company cultures, and so on and so on, it's really something that makes us not excited.

And also, it's another kind of business. I mean there are—in this industry now we are seeing three big players playing three different games. There is one player which is buying other LMSs, so they are buying revenues and, you know, (inaudible) everything in their main technology, which is one strategy I respect, but this is not mine. The second one is trying to play the content and HR side and the LMS side all together. Ours is stick to training and cover all the lifecycle of training, from understanding the learning culture to understanding the content, to delivery, to assess true learning impact, and analyze the data. That's where we want to stay.

The only, but really only, only way I see Docebo buying an LMS, it's an LMS which is so small but in a such interesting country we want to step in that it is more easy to buy these 10 employees of a small LMS company than opening an office on our own. But it's something that is very not realistic.

So, coming back to your question, I don't see Docebo making a big acquisition of an LMS vendor. This is not the statement I will say if I have two things to some (inaudible) technology, but as of today, LMS, no big LMS (inaudible).

Richard Tse — Analyst, National Bank Financial

Okay. That's fair. Thank you. With respect to the AWS new agreement, I'm guessing that was a competitive displacement.

Claudio Erba — Chief Executive Officer, Docebo Inc.

Alessio? Was it competitor displacement?

Alessio Artuffo — Chief Revenue Officer, Docebo Inc.

I'm sorry. Could you repeat that question please?

Richard Tse — Analyst, National Bank Financial

Yeah. So the new agreement with Amazon Web Services, was that a competitive displacement?

Alessio Artuffo — Chief Revenue Officer, Docebo Inc.

So, the team at AWS has used comparable technologies in the past, but never to the extent and depth of the project and the scale that they plan to achieve with us. So the short answer is no, although they have used comparable technology. But the scope and the project was so much more ambitious that I would say where we beat competition was in the selection process, not in a displacement of it.

Richard Tse — Analyst, National Bank Financial

Okay. Fair enough. And last one for me: In terms of the 50 people being hired, can you give us maybe a sense of the breakdown on what functions those positions are going to be in?

Claudio Erba — Chief Executive Officer, Docebo Inc.

Ian?

Ian Kidson — Chief Financial Officer, Docebo Inc.

I think if you had to guess where we're going to end up by the end of December, I would put half of them on the sales and marketing side and the other half into the product. G&A as a function is relatively static at this point.

Richard Tse — Analyst, National Bank Financial

Okay. That's great. Thanks and congrats again on the great results.

Ian Kidson — Chief Financial Officer, Docebo Inc.

Thanks, Richard.

Operator

Thank you. There are no further questions at this time. Please proceed.

Claudio Erba — Chief Executive Officer, Docebo Inc.

Thank you, everyone, for staying with us. We always enjoy talking about our business. And thank you all; thank you, Alessio; thank you, Ian; thank you, everyone. Have a nice day and stay safe. And wear the mask.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and we ask that you please disconnect your lines.