Q2F23 Earnings Update & Target Upgrade

OneSoft Solutions, Inc.

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

Report Date: 08/21/23

12- 24 month Price Target: *US$.82

Allocation: 4

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

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

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

For Q2F23 One soft reported revenues of CAD$2.5 million and Net Income of <CAD$558,289>. Those numbers compare to our estimates of CAD$2.4 million and Net Income of <CAD$426,862>. Obviously, the numbers were in line so we won't bother dissecting them too much. We will say, the overhead discussion in the filings suggests that they have added some people and stepped up some marketing efforts to address what looks to us like growing acceptance (and ultimately demand) of their offerings. For instance, they referenced some expenses related to adding opportunities in international markets, as well as adding marketing and/or customer engagement dollars around some of their new modules. Each of those speaks to potential revenue streams that may drive future growth beyond our current models. Further, the Company has provided guidance regarding the balance of 2023, which we have modeled around. In that regard, we think the nature of the business is conducive to good internal visibility at least over the short term, so we are inclined to model close to the guidance. Frankly, our conclusions suggest they may outrun the guidance a bit, but for now we will stay in line. We would add, we think accelerating opportunities may add some expense items beyond our current projections, and while those may provide some (downside) surprises, we do not think those will meaningfully impact our valuation/target assessments.

Setting aside the numbers, we think the bigger picture at OneSoft is beginning to gather momentum and management's vision around how industry adoption around CIM might unfold (their reference to Moore's Technology Adoption Model) is beginning to take shape as well. That said, we have some observations regarding what we see as the Company's posture in the industry and why we think their success to this point may still be in the early innings.

To briefly revisit some of the items we noted in our original coverage, pipeline failure is a big issue in the industry. Pipeline safety/maintenance involves a number of regulations and laws. Despite those regulations/laws, there are a measurable number of pipeline failures recorded each year, and historically, some of those have been catastrophic creating considerable human, social and economic harm. All of that noted, the processes used by the industry to compile and interpret collected data aimed at mitigating these failures is inefficient, time consuming and largely inadequate and it likely impacts the frequency ofthese failures. In short, OneSoft's technology significantly enhances those processes, especially for particular portions of the O&G distribution infrastructure. More specifically, there are approximately 3 million miles of gas transmission pipelines in the U.S., and 20% to 25% (660,000 miles) of it is acutely applicable to OneSoft's technology. The table below from OneSoft's filings (and from our initiating coverage) provides some color:

Note: The table below is stated in Canadian dollars

Oil & Gas - Estimated TAM USA & Global						
Column 1	*Column 2*	*Column 3*	*Column 4*	*Column 5*	*Column 6*	*Column 7*
			Est US % of Global Infrastructure		*60%*	
	Current CIM	**USA Mileage**	**Rate**	**TAM USA**	**TAM ROW**	**TAM Global**
ILI/ML	Developed	660,000	$ 100	$ 66,000,000	$ 44,000,000	$ 110,000,000
Risk	Early	1,863,450	$ 25	$ 46,586,239	$ 31,057,492	$ 77,643,731
ICDA/Chem	Early/Potential	612,000	$ 75	$ 45,900,000	$ 30,600,000	$ 76,500,000
CP	Early	1,011,981	$ 25	$ 25,299,515	$ 16,866,343	$ 42,165,858
Asset Mgmt	Early	1,863,450	$ 10	$ 18,634,495	$ 12,422,997	$ 31,057,492
Mobile	Potential	1,863,450	$ 10	$ 18,634,495	$ 12,422,997	$ 31,057,492
Cust Exp	Potential	1,318,648	$ 5	$ 6,593,238	$ 4,395,492	$ 10,988,730
ECDA	Potential	2,476	$ 1,000	$ 2,476,362	$ 1,650,908	$ 4,127,270
Acoustics	Potential	224,724	$ 10	$ 2,247,239	$ 1,498,159	$ 3,745,399
Facilities*	Potential	500	$ 50,000	$ 25,000,000	$ 16,666,667	$ 41,666,667
				$ 257,371,583	**$ 171,581,056**	**$ 428,952,638**
*Facilities**	*includes, refineries, tankfarms, chemical and other downstream facilities*					

Again for perspective, the table below reflects the number of miles of that total U.S addressable market of 660,000 miles that OneSoft has under subscription (151,195), and that amounts to about 23%.

CIM Use & Revenue Generating Data-miles	Fiscal 2019 (Actual)	Fiscal 2020 (Actua)	Fiscal 2021 (Actual)	Fiscal 2022 (Actual)	Fiscal 2023 (Forecast)	% Change 2022 to 2021	% Change 2023 to 2022
Pipeline miles on SaaS subscription	38,631	38,793	91,266	98,839	151,195	8 %	53 %
Pipeline miles generating revenue	22,549	29,544	41,320	53,483	65,697	29 %	23 %
% of subscription miles generating revenue	*58%*	*76%*	*45%*	*54%*	*43%*	*n/a*	*n/a*
Revenue per mile for revenue generating miles (Note 1)	*$ 120.26*	*$ 137.29*	*$ 107.50*	*$ 105.34*	*$ 130.97*	*n/a*	*n/a*

Recognize, there are many companies that operate these pipelines, and they vary from midstream players to other integrated O&G companies that include some of the largest corporations in the world. At the same time, there are many much smaller pipeline operators as well. To that end, given the Company's noted 20%+ penetration of the ILI/ML portion of the market, their impressive customer base includes some of the industry's largest players, some of which they have not explicitly identified: ★ We would add, we believe **their customer retention to date is 100%.**

We believe their success is the marketplace among major customers is validating, and we also believe that the Company's recent earnings call narrative suggests that they are becoming more recognized across the industry. That noted, the question becomes, how much of the total addressable market ("TAM") can we reasonably expect them to capture? We do not know the answer to that question, but we do know this. The Company's current competition appear to be inferior labor intense legacy systems, most of which are internal to those potential customers. As a result, we think the Company continues to make the economic case for its technology to other potential customers, and in fact is stepping up its efforts to do so on multiple fronts. We believe those efforts continue to bear fruit, and ultimately, we do not think it is unreasonable to believe that they will ultimately capture a majority portion of that market. We recognize some may continue to hang on to old systems, but by and large, our view is that the advantages of the Company's CIM platform may become overwhelming and should allow them to capture increasing portions of the TAM. To that end, their recent filing notes: "*We are encouraged that our customer base and pipeline miles under CIM use continues to increase and that some large pipeline operators, such as our latest customer addition, have chosen to use CIM rather than continue to pursue in-house software development*". Further, while OneSoft has attracted several industry leaders, those same companies have in turn been making acquisitions of others in the space. We would expect those acquired miles to ultimately end up on the CIM platform.

Beyond the TAM, we think there is evidence that the Company's momentum is also beginning to translate into increased pricing power. The table below illustrates the point, and it is one we raised in the initiating coverage. We think the Company initially priced the platform quite aggressively ($100 per mile) to establish a beachhead in the industry and attract some reference customers. That clearly worked but obviously, there is a big difference between $100 per mile and $131 per mile (see the table below), and frankly, we think the relative IRR analysis they have been able to hone from more data points likely leaves room for higher prices yet. Again, we think this will improve as market acceptance/market share increase. To be clear, while their contracts typically include price escalations and inflation adjustments, so higher pricing is baked into the cake, we still believe they may be in an increasingly better position to command higher prices. We would add, while our model assumes higher pricing into the future, given the information below, we suspect we are currently understating prevailing pricing. We will be reassessing this assumption in our next update.

CIM Use & Revenue Generating Data-miles	Fiscal 2023 (Forecast)	Dec. 31 2022	June 30, 2023
Pipeline miles Operated by Customers	-	165,723	188,623
Pipeline miles on SaaS subscription	151,195	98,839	115,850
Pipeline miles generating revenue	65,697	53,483	60,733
% of subscription miles generating revenue	*43%*	*54%*	*52%*
Revenue per Mile for revenue generating miles (Note 1)	*$ 131*	*$ 105*	*$ 127*

Looking beyond the U.S market, the 2QF23 MD&A provided the following with respect to new markets for their base CIM platform:

> *Sales efforts are currently underway with prospective customers in North and South America and Australia and several customers have initiated efforts to expand use of our solutions to their international operating divisions and acquired operations.*

We found this reference from the MD&A particularly interesting. As we understand it the aforementioned TAM was related to the U.S. market only, so international markets would obviously increase their TAM. While we have felt this was a likely path at some point, it appears that this may be approaching sales. They addressed this directly in the recent MD&A as well:

> *"The Company increased its attendance at trade shows, including the Company's first attendance at a pipeline trade show in Berlin that was effective in raising awareness with* ***potential European customers****. Travel expense increased as the sales team visited more prospective and existing customers to market the Company's products…" "General and administrative expenses increased $66,733. An unanticipated and previously unrecorded fee overage associated with the Company's Fiscal 2022 annual audit was recorded* ***and a tax research project was commissioned that involved sales and withholding taxes on a prospective CIM sale in a foreign country****".*

Succinctly, we have not included any international sales in our modeling, but we think these are inevitable, and we also think that contribution could prove quite meaningful. As a result, we suspect international sales could provide some surprises vis-à-vis our projections going forward, at least until we can develop some visibility around the opportunity. Clearly, cracking the international markets could provide an entirely new valuation leg to the enterprise.

Digging a bit deeper into the playbook, both the conference call and the filing narrative include considerable discussion about the Company's recently released and upcoming modules. We discussed these in our initiating coverage as well, but since that time, they have provided some visibility into rollouts for specific modules as well as some initial success. To refresh, aside from the Company's core CIM platform, they have begun developing additional modules that address specific areas of concern within the industry. These include issues like corrosion, cracking, geohazards and general risk management and appraisal. They are currently marketing (and have customers for) some of these modules (internal corrosion) and they are on the cusp of rolling out others (Crack Management is slated to roll out before the end of calendar 2023). Additionally, some of these modules are largely applicable to the PIGable sections of customer pipelines, while other are aimed at other portions of the pipeline infrastructure as well.

Beyond trying the increase their market share of applicable pipeline customers, the strategy includes upselling existing customers and/or attracting new customers with these specific modules. As we noted, some of these modules are aimed at portions of the infrastructure that they currently do not address. Further, the Company notes that much of its technology enhancement and R&D efforts have been aimed at developing solutions around customers specific pain points. Ostensibly, those efforts have led to the development of specific modules. To be clear, the module portion of the business is positioning to become an increasingly larger portion of the product mix and we believe it will provide marked growth opportunities going forward. We would encourage readers to review the Company recent 2QF23 MD&A as it provides some additional color on some of these modules.

On another front, in our initiating coverage, we spent some time covering the history of the Company, which included their selection in 2015 into a Microsoft Accelerator program. Since that time, Microsoft has provided considerable support for the Company and its marketing efforts, including introductions into energy companies utilizing Microsoft's Azure cloud platform. It is interesting to us that they specifically addressed that in the conference call, and we think Microsoft may be playing an increasing role in helping close major customers. To edify, Microsoft has a team devoted to the energy industry and the use of its Azure platform therein. Again, we think this arrangement is highly constructive for OneSoft, and that may become more important moving forward, which brings us to our next point.

The Company spent some time on the call as well as in the filing discussion addressing Artificial Intelligence ("AI"). That is understandable because AI is Wallstreet's new buzz. Interestingly, the Company basically downplayed any current initiatives they may or may not have around AI and, unless we are just misreading it, essentially said they have more topical challenges to conquer before AI becomes a focus. Frankly, we found that narrative refreshing, but we also have a few observations regarding OneSoft and AI that we think are topical.

As they alluded to and we addressed above, they are a Microsoft partner and so certainly some (perhaps much) of the Company's AI "roadmap" is tied to Microsoft's coattails. That is, Microsoft has its own AI initiatives, and those include applications in Azure (dubbed "Azure AI"). With all due respect to the AI enthusiasts, we feel like it may be more optimal for a small company like OneSoft, given their robust relationship with Microsoft, to lean into the initiatives of the latter that to try to spend (limited) internal resources on AI, especially given their push to utilize resources building the breadth and depth of their customers base. A recent article from McKinsey and Co. notes that *"developing a proprietary generative-AI model is so resource intensive that it is out of reach for all but the biggest and best-resourced companies…"*. We think that view is likely spot on, and it certainly applies to OneSoft. That said, we have some additional observations around the Company's technology in the context of AI.

First, some "definition" from Barron's:

> *The notion of artificial intelligence, or computers that can "think," has been around since the Cold War. What makes generative AI so fresh is the ability to answer questions posed as simple natural-language requests—and respond with rich, creative content in the form of text, music, video, images, or even poetry.*
>
> ***Generative AI promises to democratize the power of large data sets, making it dramatically easier for people and businesses to find information, create content, and analyze data.*** *And*

yet, AI isn't magic, despite all appearances to the contrary. The technology is creating widespread worries about the misappropriation of personal information, the misuse of copyright-protected content, and the creation of false and misleading data. Some people even see AI as an existential risk to the future of life on Earth—a recent Time magazine cover asked whether AI will eventually lead to "The End of Humanity."

As a matter of full disclosure, we do not pretend to be experts on AI, and the minutia of it is well above our pay grade. On the other hand, we are not sure anyone has fully rationalized how/where/when AI will fit in and/or what that will look like. However, for the little portion of AI that we do think we understand, we are comfortable saying that OneSoft is already engaged in certain portions of the AI progression, and they have been for some time.

For instance, we have noted along the way that OneSoft decided some time ago to embrace "the cloud" and much of that was based on their vision around the benefits of "Big Data". That strategy was the basis for their relationship with Microsoft. More specifically, referring to the McKinsey quote above, *"democratizing the power of large data sets"* is essentially OneSoft's business. They take large data sets collected from pipeline monitoring/maintenance protocols and convert them to formats that can be read and interpreted by machines rather than people… and in this case, the machines can do that much faster, more efficiently and less expensively than humans. To be clear, the legacy systems they compete with largely rely on the humans. So, if the AI mantra is ultimately to create and adopt systems that can do things faster, more efficiently and more cost effectively than humans, OneSoft is ahead of the curve. Succinctly, for the pipeline industry to utilize AI, they first have to enable applicable data sets to be digested by machines. Again, that is OneSoft's business. We would argue, without OneSoft's technology, or something like it, there will be no AI in the pipeline monitoring/maintenance business.

Second, to further advance our argument, recognize that OneSoft has been talking about "machine learning" for some time now and in various applications. Machine learning is a cornerstone of AI. For instance, we referenced their work on geohazard threat management. As the Company's MD&A notes*:*

"Buried pipelines can suffer from lateral pressures because of geophysical events such as washouts or earthquakes and the resulting strain may cause bends and reduce the durability of the pipeline. Inertial measuring unit ("IMU") devices, using gyroscopes and accelerometers to measure pipeline assets in three-dimensional space, provide information coupled in ILI data sets that can determine bending of pipelines. Through the ingestion, alignment and correlation of IMU, ILI, internal corrosion and environmental data, we believe that CIM can automate bending strain assessments to identify areas of geohazard susceptibility, flag areas of pipeline movement or strain above a certain threshold and thereby provide operators with an effective and efficient way to manage this aspect of geohazard threats, as is required to comply with PHMSA Advisory Bulletins".

In short, OneSoft accumulates data sets from the miles of pipeline evaluations of its customers. By incorporating those data sets with other data sets (sensors that monitor and measure geospatial events like earthquakes for instance), OneSoft may be able to compare those datasets to help determine the impact those geospatial events may have had on specific portions of a customer's pipeline, and in turn, utilize machine learning algorithms to predict the impact of those events in the future and/or over time. *That is AI*, and OneSoft is already on that bus. There are numerous other examples we can site with respect to OneSoft initiatives that we think incorporate AI or are at least built to achieve the same end for example, evaluating large data sets. To reiterate, the Company's decision some time ago to be cloud-based was prescient, both in terms of its current opportunities as well as other opportunities that may involve into/out of AI. That brings us to our final point.

As we said, we think OneSoft's ability to gather and "mechanize" large data sets is the precursor to utilizing AI in the O&G transmission monitoring space. Setting aside the "AI" label, OneSoft's efforts have allowed them to accumulate information on over "70 million pipe features", and that number grows each day, and in our view, the data gets more valuable each day as well. We are not sure the street has focused on that just yet. Moreover, when it comes to microcap sized issuers, the reality is that OneSoft may be a better AI play than most.

Given what we see as further validation of and momentum in the business plan and improving visibility in terms of new revenue opportunities, we are reiterating our allocation of 4 but we are establishing a new 12-24 month price target of *US$.82. Much of our target increase is related to our application of lower discount rates to our DCF model in recognition of what we think is an improving risk profile for the reasons we laid out above. To be clear, looking ahead, and as we also laid out above, we see scenarios that may play out that could provide added valuation legs, and as a result speak to further expansions in future targets.

Projected Operating Model

(Reflected in Canadian Dollars)

OneSoft Solutions Inc.						
Projected Operating Model						
(Reflected in Canadian Dollars)						
By: Trickle Research						
	(actual)	(actual)	(estimate)	(estimate)	(estimate)	(estimate)
	3/31/2023	6/30/2023	9/30/2023	12/31/2023	Fiscal 2023	Fiscal 2024
Revenue	**$ 2,200,398**	**$ 2,499,579**	**$ 2,553,284**	**$ 2,872,136**	**$ 10,125,396**	**$ 17,000,088**
Direct Costs	$ 649,171	$ 603,102	$ 710,657	$ 774,427	**$ 2,737,357**	**$ 4,200,018**
Gross Profit	**$ 1,551,227**	**$ 1,896,477**	**$ 1,842,627**	**$ 2,097,708**	**$ 7,388,039**	**$ 12,800,070**
Salaries and Employee Benefits	$ 1,431,575	$ 1,449,913	$ 1,482,993	$ 1,530,820	**$ 5,895,301**	**$ 6,950,013**
Sales and Marketing	$ 281,150	$ 354,375	$ 297,328	$ 327,313	**$ 1,260,166**	**$ 1,706,683**
General and Adminsitrative	$ 266,661	$ 331,570	$ 315,963	$ 336,689	**$ 1,250,883**	**$ 1,705,006**
Operating Expenses	$ 1,979,386	$ 2,135,858	$ 2,096,284	$ 2,194,822	**$ 8,406,351**	**$ 10,361,702**
Software Development Costs Capitalized	$ (51,953)	$ (33,281)	$ (62,963)	$ (65,363)	**$ (213,560)**	**$ (302,926)**
Operating Expenses, net of Captialized Costs	**$ 1,927,433**	**$ 2,102,577**	**$ 2,033,321**	**$ 2,129,460**	**$ 8,192,790**	**$ 10,058,776**
Loss Before Other Expenses	**$ (376,206)**	**$ (206,100)**	**$ (190,694)**	**$ (31,751)**	**$ (804,751)**	**$ 2,741,294**
Stock Based Compensation	$ 178,876	$ 269,616	$ 100,000	$ 100,000	**$ 648,492**	**$ 800,000**
Amortization of Intangibles	$ 119,462	$ 109,220	$ 121,863	$ 123,082	**$ 473,627**	**$ 504,759**
Depreciation of Property and Equipment	$ 7,904	$ 7,628	$ 4,600	$ 4,600	**$ 24,732**	**$ 18,400**
Interest Income	$ (32,641)	$ (31,271)	$ (31,309)	$ (30,284)	**$ (125,505)**	**$ (137,491)**
Foreign Exchange Loss	$ 2,389	$ 34,496	$ -	$ -	**$ 36,885**	**$ -**
Other	$ -	$ (37,500)	$ -	$ -	**$ (37,500)**	**$ -**
Total Other Expenses	**$ 275,990**	**$ 352,189**	**$ 195,154**	**$ 197,398**	**$ 1,020,731**	**$ 1,185,668**
Gain (Loss) Before Income Tax	**$ (652,196)**	**$ (558,289)**	**$ (385,848)**	**$ (229,149)**	**$ (1,825,482)**	**$ 1,555,626**
Income Tax						
Net Gain (Loss)	**$ (652,196)**	**$ (558,289)**	**$ (385,848)**	**$ (229,149)**	**$ (1,825,482)**	**$ 1,555,626**
Other Comprehensive Gain (Loss)	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Net Gain/(Loss) per share -Basic	**$ (0.01)**	**$ (0.00)**	**$ (0.00)**	**$ (0.00)**	**$ (0.02)**	**$ 0.01**
Net Gain/(Loss) per share - Diluted	**$ (0.01)**	**$ (0.00)**	**$ (0.00)**	**$ (0.00)**	**$ (0.01)**	**$ 0.01**
Basic Shares Outstanding	**120,836,714**	**121,058,918**	**121,298,734**	**121,423,734**	**121,154,525**	**122,048,734**
Diluted Shares Outstanding	**122,133,729**	**121,058,918**	**123,321,471**	**123,861,646**	**122,593,941**	**126,034,064**

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Portions of this publication excerpted from company filings or other sources are noted in italics and referenced throughout the report.

Rating System Overview:

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

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

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

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