Trickle Research

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

Fiscal 2023 Earnings Update

OneSoft Solutions, Inc.

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

Report Date: 04/09/24

12- 24 month Price Target: US$.82

Allocation: 5

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

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

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

Closing Stock Price at This Update (Closing Px: 04/08/24):US$.585

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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 Fiscal 2023, OneSoft reported revenues of $10.4 million and a net loss of <$1.4 million>. Those compared to our estimates from our last update in November 2023, of $10.5 million and <$1.1 million>. (All of these numbers are reflected in Canadian Dollars). Virtually all of the difference in the net loss was in stock-based compensation, as all of the other cost line items were nearly spot on with our estimates. In retrospect, when we initiated the coverage in September 2022, we provided an F2023 revenue estimate of $10.4 million and a net loss of <$2.2 million>, which suggests that they are managing margins and/or expenses better than we anticipated in our initial coverage, which is obviously a good thing. We will revisit that in a moment.

In addition to the above year end results, the Company provided Fiscal 2024 guidance including revenues of between $15 million and $16 million, and a net loss of between <$435,000> and <$178,000>. Those compare to our current estimates of $15.4 million and *net income* of $1.37 million. We will address that momentarily as well, but first, we will highlight some key issues that we see regarding OneSoft that we think will continue to drive the business and perhaps by extension, the underlying valuation of the shares.

- From the 10,000 foot view, much of the Company's focus has been and will continue to be the "pigable" oil and gas pipelines in the U.S. although they are beginning to establish beachheads outside of the U.S. as well. To refresh, PIGS are instruments that are run through the inside of some pipelines to monitor for potential failures in an effort to mitigate those failures before they become acute. The Company estimates that there are nearly 650,000 pigable pipeline miles across the U.S. representing about 60% of the worldwide market. As a general guide, "*United States law requires that operators establish inspection intervals not to exceed five years for any pipeline that could affect a 'high-consequence area' ".* Using that interval as a guideline would suggest that OneSoft's annual addressable domestic market is 650,000 miles divided by 5 years, or 130,000 miles per year. Putting that into perspective, in F2023, OneSoft's filings indicate that the average price per mile of pigable data they processed for their clients was $130. Given that, and from a linear perspective, we assume their annual U.S. based TAM for their flagship CIM product is around $17 million.

  To be clear this TAM provides some pause with respect to forward projections. For instance, to reiterate the Company's guidance for the current fiscal year (2024) is for revenues between $15 million-$16 million. We know they do not have the entire U.S. pigable market under contract, so there are some things the guidance may suggest. For instance, the above analysis is likely more linear than reality. In other words, the current customer base is probably doing more than 1/5th of their analysis in the current year(s). Obviously, that may be a cause for some concern about future periods, where those same customers are procesings fewer than 1/5th of the contracted miles. On the other hand, we think their modules business is likely making increasing contributions to the sales mix, which brings us to our next point.

- We think the Company is beginning to experience momentum in the sale/upsale of their evolving module suite. Aside from adding new customers to the CIM platform, this is a major driver of the Company's potential growth. However, as they noted on their call as well as in the table below from the F23 filing, some of these modules, for instance External Corrosion and Risk, address assets that are not pigable, therefore expanding their TAM. In fact, the table below suggests the TAM for Risk and External Corrosion are *collectively larger than the TAM for the Company's Core CIM platform*. As we understand it, they are currently in some level of discussions with customers regarding the application of these modules to non-pigable miles which is something we have not attempted to model just yet... but we will with a few applicable data points. However, along the same lines, we would add that while our estimates for 2024 do include growth in Core CIM revenues versus 2023, they also include measurable contributions from module sales perhaps most notably Internal Corrosion.

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

- On the year end call, the Company alluded to the notion that they are beginning to develop international markets, and on 4/08/24, they provided an announcement that notes they have *"established sales operations to target potential customers in the European, Middle East and African regions ("EMEA"), who collectively operate more than 250,000 miles of oil and gas ("O&G") pipelines"*. We have not attempted to model international contributions at this time, but we believe those are coming and we will update our model as soon as we can glean some visibility around these new opportunities.

- Management often refers to the term "*change management*" to address some of their sales challenges and/or cycles. That is a more elegant way of describing what we sometimes refer to as "teaching old dogs new tricks". To date, OneSoft has been quite successful aggregating some very large pipeline operators including Energy Transfer LP (NYSE: ET), Phillips 66 (NYSE:PSX), Plains All American Pipeline, L.P. (Nasdaq: PAA), Enbridge Inc. (NYSE:ENB), Dow Inc. (NYSE:DOW), Valero Energy Corporation (NYSE:VLO), and other "supermajor" companies that for one reason or another will not let OneSoft note them as customers. That said, there are other large operators that the Company has yet to turn into customers, but they continue to pursue and convert. To that end, we thought management provided some insights on the call that helped us better understand some of the challenges of that conversion. For instance, they noted that they believe they can demonstrate clear monetary benefits of their platform relative to legacy approaches, but the decision to change is not just about relative cost. (We will provide some color to that notion in the next bullet point).

  Throughout our research on OneSoft, we have tried to demonstrate our view of the marked advantages the CIM platform provides over legacy spreadsheet-based approaches. We believe their high-profile customer base in the context of their small company stature is a very clear validation of that view. Further, as they covered on the call, they believe that many if not all of the remaining large pipeline customers they have yet to convert "know who Onesoft is and want what OneSoft has". The challenge is that choosing CIM requires a "long term" commitment that includes reshaping entire integrity programs around CIM as well as the adoption of new documentation, reporting, auditing and various other protocols. In our view, while the Company has not expressly articulated it in this way, we think they believe they will ultimately capture a large majority of the pigable pipeline operators and by extension pipeline miles, sooner *or later*. We submit, that "*or later*" part provides some challenges for their guidance and in turn our modeling. Put another way, the platform's advantages, including compelling relative ROI, have to be considered in the context of those "switching costs" and associated integration risks, and as such generally have to be championed from the top of the organization, which again, is never easy for a small company, especially with respect to critical portions of the business, like protecting revenue generating assets from catastrophic failures. To reiterate, we think they will get there, and we think *they think* they will get there, but converting the (remaining) base of large operators will continue to be a grind and will likely continue to lack visibility as well.

- The Company spent some time on the call answering a question aimed at trying to frame their pricing power. As we alluded to above, the ROI and IRR analysis they present to potential customers to demonstrate CIM's advantages is obviously impacted by OneSoft's pricing. On the other hand, the Company often notes that CIM is quite sticky as demonstrated by little or no customer churn. According to our assessments (and we think the assessments of others in the street) "sticky" and "low churn" likely lead to better pricing power. However, revisiting the prior paragraph, price remains an important piece of converting additional large operators. From that perspective, we believe OneSoft remains sensitive to price, but we suspect their pricing power *will increase* as more large operators convert to CIM, which should provide the basis for recurring revenue growth as well as expanded gross margins in the future.

- Perhaps more conceptual than some of the items we have addressed above, management closed the call by noting they are building their data sets and analytics to "change the industry and become *that* leader". Obviously, their goal is to use CIM and the resulting modules to add customers and drive revenues, but they are also focused on aggregating all of the data those customers and their miles of pipeline will generate to ultimately (in conjunction with AI capabilities) provide predictive platforms that help their customers better identify and dramatically reduce pipeline failures. We believe that data and predictive capability will ultimately drive new and perhaps larger revenue opportunities beyond CIM.

- Lastly, as we noted, the Company has provided F24 revenue guidance of between $15 million and $16 million and a net loss of between <$435,000> , and <$178,000>. Again, our current estimates for F24 are $15.44 million in revenues and *net income* of $1.37 million. We recognize that the Company is likely sensitive to overpromising and/or underperforming, but we feel compelled to break down these numbers a bit. First, if they do $15.5 million and maintain the gross margin they achieved in the second half of F23 (77%), their gross profit will be $11.94 million. (To be clear, we expect gross margins to expand with higher revenues, but we will set that notion aside for this analysis). If they were to lose $178,000, that would imply that their operating expenses plus other non-operating expenses would have to be about $12.1 million, or about $2.84 million higher than the comparable F23 expenses of $9.27 million. Outside of perhaps the possibility of the Company adding meaningful costs for new international operations beyond what we are modeling, our conclusion is that a $15 million revenue threshold should be nicely profitable. We will reassess that as well once we see some additional results.

Having provided microcap research for nearly three decades, we think we have seen enough to opine that OneSoft management and its respective team has managed to do something that many small companies struggle to do and often fail. They have developed a product/service that large industry players (some of which are among the 100 largest companies in the U.S.), are adopting. Moreover, we believe, by the time they are done, they will have likely attracted the lion's share of the large players in the industry. It is really quite extraordinary. Further, as we alluded to above, the adoption of their platform requires a significant buy-in and frankly a leap of faith from these large companies in that it requires them to "reshape their entire integrity programs" around this small Company's platform (CIM). Again, in our experience, it is really quite extraordinary.

On the other hand, they face a relatively limited/niche opportunity. There are only "so many" pigable miles of pipe in the U.S., and those miles only get reevaluated every few years so that provides a bit of a ceiling to the opportunity. However, as we covered, that reality is not lost on management, and they are well into the process of adding pieces to the story that should provide them new openings for growth. These openings include, new modules, some of which are applicable to larger non-pigable assets, entrees into international markets, improved pricing power as they aggregate additional market share, improving margins due to scale and ultimately, we believe, the ability to monetize valuable datasets they are currently amassing (i.e the AI angle we have discussed in the past).

While the shares have performed well since our coverage initiation, we remain constructive on OneSoft's prospectives even at higher valuations. To be clear, our intuition regarding the "new openings for growth" is pointing us to higher price targets, but we remain a bit guarded around the profit guidance we discussed. As a result, we will hold that card until we see the Q1 results to test our sense that the guidance may be "conservative". In the meantime, we reiterate our price target of USD$.82, as well as our allocation of 5.

Projected Operating Model

(Reflected in Canadian Dollars)

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(Reflected in Canadian Dollars)					
By: Trickle Research					
	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)
	3/31/2024	6/30/2024	9/30/2024	12/31/2024	Fiscal 2024
Revenue	**$ 3,139,738**	**$ 3,681,524**	**$ 4,004,221**	**$ 4,579,627**	**$ 15,405,111**
Direct Costs	$ 718,057	$ 807,452	$ 860,696	$ 955,639	**$ 3,341,843**
Gross Profit	**$ 2,421,681**	**$ 2,874,073**	**$ 3,143,525**	**$ 3,623,989**	**$ 12,063,268**
Salaries and Employee Benefits	$ 1,589,563	$ 1,665,413	$ 1,710,591	$ 1,791,148	**$ 6,756,716**
Sales and Marketing	$ 370,891	$ 390,253	$ 424,778	$ 469,587	**$ 1,655,510**
General and Adminsitrative	$ 305,590	$ 327,261	$ 340,169	$ 363,185	**$ 1,336,204**
Operating Expenses	$ 2,266,044	$ 2,382,928	$ 2,475,537	$ 2,623,920	**$ 9,748,430**
Capitalized Costs	$ (66,330)	$ (69,744)	$ (71,777)	$ (75,402)	**$ (283,252)**
Operating Expenses, net of Captialized Costs	**$ 2,199,714**	**$ 2,313,184**	**$ 2,403,761**	**$ 2,548,519**	**$ 9,465,178**
Loss Before Other Expenses	**$ 221,967**	**$ 560,889**	**$ 739,764**	**$ 1,075,470**	**$ 2,598,090**
Stock Based Compensation	$ 225,000	$ 225,000	$ 225,000	$ 225,000	**$ 900,000**
Amortization of Intangibles	$ 109,901	$ 111,000	$ 112,110	$ 113,231	**$ 446,243**
Depreciation of Property and Equipment	$ 4,600	$ 4,600	$ 4,600	$ 4,600	**$ 18,400**
Interest Income	$ (30,341)	$ (31,889)	$ (35,565)	$ (40,382)	**$ (138,176)**
Foreign Exchange Loss	$ -	$ -	$ -	$ -	**$ -**
Other	$ -	$ -	$ -	$ -	**$ -**
Total Other Expenses	**$ 309,161**	**$ 308,711**	**$ 306,145**	**$ 302,449**	**$ 1,226,467**
Gain (Loss) Before Income Tax	**$ (87,193)**	**$ 252,177**	**$ 433,619**	**$ 773,021**	**$ 1,371,623**
Income Tax					
Net Gain (Loss)	**$ (87,193)**	**$ 252,177**	**$ 433,619**	**$ 773,021**	**$ 1,371,623**
Other Comprehensive Gain (Loss)	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Net Gain/(Loss) per share -Basic	**$ (0.00)**	**$ 0.00**	**$ 0.00**	**$ 0.01**	**$ 0.01**
Net Gain/(Loss) per share - Diluted	**$ (0.00)**	**$ 0.00**	**$ 0.00**	**$ 0.01**	**$ 0.01**
Basic Shares Outstanding	**122,362,811**	**122,644,061**	**122,925,311**	**123,206,561**	**122,784,686**
Diluted Shares Outstanding	**124,842,241**	**125,758,093**	**126,702,279**	**127,586,199**	**126,222,203**

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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.