

Xtract One Technologies Inc. ([OTCQX:XTRAF](#)) Q3 2024 Earnings Conference Call June 7, 2024 10:00 AM ET

### **Company Participants**

Chris Witty - Investor Relations Adviser

Peter Evans - Chief Executive Officer and Director

Karen Hersh - Chief Financial Officer

### **Conference Call Participants**

Scott Buck - HC Wainwright

Mike Stevens - Echelon Wealth Partners

Adhir Kadve - Eight Capital

Kevin Shea - Retail Investor

### **Operator**

Good morning and welcome to the Xtract One Technologies Fiscal 2024 Third Quarter Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Chris Witty, the Investor Relations Advisor. Please go ahead.

### **Chris Witty**

Good morning, everyone, and welcome to the Xtract One Fiscal third quarter conference call. Joining me today is the company's CEO and Director, Peter Evans; and CFO, Karen Hersh.

Today's earnings call will include a discussion about the state of the business, quarterly financial results, and some of Xtract One's recent milestones, followed by a Q&A session. This call is being recorded and will be available on the company's website for replay purposes. Please see the presentation online that accompanies today's discussion.

Before we begin, I would like to note that all dollars are Canadian, unless otherwise specified, and provide a brief disclaimer statement as shown on slide two. Today's call contains supplementary financial measures. These measures do not have any standardized meanings prescribed under IFRS and therefore may not be comparable to similar measures presented by other reporting issuers. These supplementary financial measures are defined within the company's filed management and discussion analysis.

Today's call may also contain forward-looking statements that are subject to various risks and uncertainties, which could cause actual results, performance, or developments to differ materially from those contained in the statements and are not guarantees of future performance of the company. No assurance can be given that any of the events anticipated by the forward-looking statements will prove to have been correct. Also, some risks and uncertainties may be out of the control of the company.

Today's call should be reviewed along with the company's interim [Technical Difficulty] financial statements, management's discussion and analysis, and earnings press release, issued yesterday, June 6, 2024, available on the company's website and its SEDAR+ profile.

And now it is my pleasure to introduce Peter Evans, the Chief Executive Officer of Xtract One. Please go ahead, Peter.

**Peter Evans**

Well, thank you, Chris, and welcome to all our investors and analysts joining us today. And Chris, thank you for the promotion to the CFO of the company.

Let's start by turning to Slide #4 in the chart deck. A lot has happened certainly since the last time we had our last earnings call with this group of people. Some highlights that are very compelling to me and very pleasing are as follows. First, we had another great, well, what's called outstanding quarter for the company. Our Q3 bookings were very strong, coming in at CAD9.5 million for the quarter, which is just a whisper away from a record quarter for us. We also did report record revenues of CAD4.7 million, more than 5 times the same prior period last year.

As anticipated, the top line was much higher sequentially versus the prior quarter, which is typically a seasonally softer quarter for us, and we remain on track for our best year ever, setting us up for further growth in fiscal 2025 as we continue to make progress on our path to profitability.

Secondly, we announced several new customer wins during the quarter, as well as being awarded the U.S. Department of Homeland Security's Safety Act designation as a qualified anti-terrorism technology. This was significant and huge news for the company, opening a lot of doors for us at [Indiscernible] to sell into a multitude of new organizations, who require Safety Act Certification in order to do business with them. These include some of the professional sports leagues such as Major League Baseball amongst others.

I'll speak more to this in a moment, but suffice to say that we've been working very, very hard for the past two years on securing the new clients. We haven't always been able to put out press releases around those clients, or in some cases, closing business with those

clients, in the second case due to DHS. In the cases with winning new clients and not being able to put out press releases, this is primarily due to customer privacy policies and their approval practices. However, we hope to get some award news out soon as related to new contracts that we already have in hand.

Yesterday, we announced three new not previously announced contracts, new customers, not previously identified by the company as customers. We'll talk about more about that in a moment. Last but not least, we recently raised gross proceeds of almost CAD10 million through an equity offering and a private placement with MSG Sports. MSG's continued participation and continued endorsement of the company seeks volume as their support and belief in the company continues to grow. We have now bolstered our balance sheet and are focused on continuing our rapid growth trajectory with what that new capital allows us to do.

Let's turn to the next slide, please. I'd like to provide a little further color on what the DHS news means and how it will impact us and greatly expand our addressable market. Simply put, the DHS Designation Award recognized the effectiveness of our technology and positioned us as a trusted leader in touchless screening solutions. It's based on a longstanding law in the U.S. that was called the Support Anti-Terrorism by Fostering Effective Technologies, or Safety Act, which provides incentives and liability protection to companies that demonstrate that they have an appropriate proven technology.

The designation enables or establishes for us a liability cap or limit on the financial risk that we as a company would have to undertake or that our organization might face in the unlikely event of a terrorist attack. As part of our philosophy of continuing to deliver high-quality solutions and product transparency and a solution that we can deliver with high integrity and put our brand name behind it, we're committed to performing third-party testing and validation of our systems.

One of our core values is being very transparent with our customers. And we've done this in the past by testing multiple times with the NCS4 organization, the TSA, which is ongoing testing that we continue to do with them on a repeated basis and now this award from the Department of Homeland Security. Achieving a designation status once again proves the quality and reliability of the Xtract One security screening technology. And it further validates our commitment as a company to developing the most effective weapons detection systems for protecting people in high traffic venues. We prioritize security and safety first, in balance with and in the correct balance with guest experience.

In addition, this designation brings us and our customers several advantages, including the reduced risk and increased confidence of deploying our solutions. It also provides a peace of mind to numerous organizations that look to the Safety Act as a validation of technology.

On the slide are just some of the many companies, sports organizations, and associations, and other institutions that we can now sell to with this designation under our belt. It is truly a tremendous achievement, I want to thank all of the parts of the Xtract One organization, who had to participate in this very robust application that we put into the DHS. After almost two years of effort, this is something we can be very, very proud of.

As some of you may have also seen yesterday's announcement, since receiving the award, we've already cemented new contracts with new previously unannounced teams that are tied to or in the NHL, NBA and Major League Baseball and there's many more of those on the way.

We're very pleased with the work that we did with these teams since they, along with us, are also committed to quality security and as such are working with us to not only deploy our solutions, but to also educate their communities, schools, hospitals, and other businesses on the best practices that they should think about when executing quality security.

Let's turn to the next slide, please. Demand for our solutions continues to accelerate significantly, and I'm very pleased with the new customers we've added during the quarter, which together resulted in a CAD9.5 million of total contract value that we bought.

We announced a few of these wins and we executed multiple deployments over the course of the 90-day quarter, including some with the Oakview Group to secure all of the entrants of the new Co-Op Live Arena in Manchester, England, which opened in the past month. This amazing 23,500 capacity venue is the largest arena in the UK and in fact in all of Western Europe. And it's our first deployment with the Oakview Group overseas. It's a three-year contract and just the start of what we see is limitless opportunities and many more wins and the current growth of our pipeline across the pond.

We also announced that we've been chosen to protect all the entrances of the American Bank Center in Corpus Christi, Texas. This is a very large, OBG-run, multipurpose indoor activity center and convention space designed for concerts, sports, rodeos, and all sorts of other events, with a 10,000-seat arena and a 138,000 square-foot convention center.

Oakview Group continues to operate this venue, and it's another three-year partnership that we've established with them. It's truly again a great example of another large venue with multiple different venue spaces that have chosen our innovative technology to ensure they streamline the efficient security for thousands of people.

I'd like to assure our listeners of one thing. These two announcements this quarter do not reflect the level of business activity or contract awards. As should be evident from our rapidly growing backlog, we're winning new customers on a regular basis in every vertical market space. Whether it's healthcare, schools, arenas, stadiums, manufacturing, distribution, we welcome 14 new clients this past quarter.

However, many of our customers will not announce their security strategies or they will not publicize vendors of any kind, let alone security, for privacy reasons or as other business policies. Or they may take the time to assess and approve a news release until after, for example, with one customer, they've had the technology in place for a minimum of 12 months. We are busier than ever and as you may expect, this has only increased since the DHS designation was announced. We have a number of customers who had tested all solutions, selected Xtract One, and we're willing to wait for that DHS award.

As previously discussed on these calls, our focus is on continuously and aggressively growing the business fundamentals. This is our measure for success, not the number of press releases. And I would ask our investors to focus on those business financial fundamentals, our growth and our performance, not the number of press releases, to gauge our success.

The management team, myself, the whole company, we could not be more excited about the future of the engagements that we're currently in today and where we serve ourselves going tomorrow.

Before handing it over to Karen, I want to talk just a little bit more about the company's change in the past year. Let's move on to slide seven, please. Slide seven includes a snapshot of the total contract value of the new bookings in fiscal 2024 year-to-date, versus the same period in fiscal 2023. Not only has the balance grown significantly, but our industry presence has shifted and expanded quite significantly also. We are in many, many more markets today than we were just a few quarters ago and this trend will only continue and only grow much more rapidly in the foreseeable future as I look into the specific details of our pipeline and our qualified opportunities.

We're tapping into a huge demand for fast advanced security systems, systems that are highly predictable in their performance where people prioritize security first, so that they can ensure the safety of patrons, other employees and the individuals anywhere that high turnover is part of everyday life. Our systems have been proven to be superior in their technology and their security efficacy again and again and again.

Over 40% of the new bookings came from outside our initial core market space of sports and entertainment. That's where we started in the business and got hyper focused on that

in prior quarters. And in this past quarter, we continue to see traction, not only in these other vertical market spaces, but with our channel partners, who are starting to sign up more and more customers. We couldn't be proud of where we stand today. I personally and very enthusiastic about everything that this team has delivered. And I'm very confident in what the future holds for us. We appreciate all of our investors' passion and their patience as we continue to achieve this record growth and get even closer and closer to profitability.

Now I'm going to turn it over to Karen to provide a much more detailed discussion of our financial results for the quarter. Karen, over to you.

### **Karen Hersh**

Thanks, Peter. And I concur with everything that Peter said. This has been another period of improving performance as we continue to execute our growth strategy.

Let's start by turning to slide nine. Revenue for the platform segment was approximately CAD4.6 million for the third quarter, up 67% from Q2, as well as more than 5 times that of the same period in the prior year. In the third quarter, about 70% of our revenue came from upfront purchase contracts, as compared to approximately 55% in the second quarter. The mix of purchase versus subscription contracts is expected to continue to fluctuate near-term as we continue to provide optionality to our customers, recognizing that each market vertical has their own specific business requirements. We continue to focus on accelerating our top line, while also increasing the amount of recurring revenue as we remain on track for a record year of performance.

As Peter mentioned, we currently anticipate Q4 revenue to be higher than this past quarter. Our gross profit margin for the platform segment was approximately 60% in line with the prior year period. As previously stated on other earnings calls, we anticipate strong margins going forward by leveraging economies of scale, as well as streamlining our support and installation services.

Now turning to slide 10, we continue to grow the value of our platform contractual backlog and signed agreements pending installation. At the end of the quarter, this collectively totaled about CAD26.6 million, an increase of nearly 20% over Q2. The company's contractual backlog was CAD13.8 million, while an additional CAD12.8 million worth of signed agreements were pending installation, the majority of which we expect to be installed within the next 12 months. Both indicators showed an improvement sequentially from the second quarter, as well as up significantly year-over-year.

In fact, the contractual backlog was more than quadruple that of the prior year period, indicative of the increasing value of our recurring revenue coming from installed systems. Of the CAD13.8 million of contractual backlog, we expect that approximately CAD6 million

will be recognized as revenue in the next 12 months. Based on the growing backlog and continued bookings, we continue to anticipate a record year of performance for the company and are well positioned for accelerated growth next year and beyond.

Now let's turn to slide 11, please. This shows that third quarter operating costs year-over-year and sequentially versus Q2. Sales and marketing expenses were CAD1.3 million for the quarter versus approximately CAD1 million a year ago, reflecting our continued investment in this business development initiatives to accelerate top-line growth. As mentioned in prior earnings calls, such spending may vary quarter-to-quarter, depending on the timing and the scheduling of marketing opportunities.

Costs associated with R&D were CAD2.2 million for the quarter versus CAD1.5 million last year, reflecting our commitment to continually improve and advance our systems to stay ahead of the competition. We anticipate R&D will remain around current levels or increase slightly as we introduce new innovative products to the market. General and administrative costs were CAD1.9 million for the quarter, up slightly year-over-year, and versus Q2.

Finally, on slide 12, I'll discuss operating cashflow. During the quarter, the company had operating cashflow of CAD2.4 million, compared with CAD1.1 million in Q2 and excluding changes in working capital, we spent approximately CAD1.9 million, compared with CAD2.5 million in the prior quarter. We continue to reduce our quarterly burn as we ramp up revenue, while holding operating expenses largely in check.

During the quarter, we also completed a public offering in tandem with a private placement with MSG Sports. Including the overallotment, which closed in May, we raised nearly CAD10 million. We were very pleased that MSG maintained their pro rata ownership as part of this offering. MSG has been an invaluable partner over the past 12-months and continues to support us on our growth journey. With these funds, we're well positioned to execute on our business strategy as we work towards profitability.

In closing, Peter and I remain very optimistic about fiscal 2024 as we work our way through Q4. The company has executed well, continues to win new contracts, and is on track for its best year ever, setting the stage for even better returns in fiscal 2025 and beyond. We're proud of all that we've accomplished, but look forward to the future and all the possibilities it holds for Xtract One.

And with that, Peter and I welcome any questions that investors may have.

## **Question-and-Answer Session**

### **Operator**

We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Scott Buck with HC Wainwright. Please go ahead.

**Scott Buck**

Hi. Good morning, guys. Thanks for taking my questions. Peter, can you help us understand what the current timeline is from signing a new contract to installation? And how much of that timing is your responsibility versus the venue or customer?

**Peter Evans**

That's a great question, Scott, and there's probably two or three elements to the response. The first is that different customers have different timelines. We recently signed a customer, who had a very small, a very medium size, and a very large venue and they would like to deploy those over the course of about a six month period, starting with the small, then moving to medium, then moving to large.

And so while we are ready to go and to ship, some of their locations, some of the buildings, some of the other activities that are going on are kind of dictating a timeline for deployment. We have another customer who wants to probably sign in the next little while, and they want to deploy in about two, three weeks, and we can satisfy that.

Second key point is that we have intentionally doubled and then doubled again our manufacturing capacity, so that we can be very responsive to customers, who have a very short timeline for deployments, such as the last customer I met. In other cases, it's simply a matter of, like as an example, one large healthcare organization, they have about a dozen healthcare properties, and they simply cannot deploy all 12 locations at the same time, so they do it progressively over about a three or four or five-quarter period. It's really somewhat customer-dependent, Scott, but from our side, we're ready to ship as soon as they sign.

**Scott Buck**

Okay, that's helpful, Peter. Second, the uptick in R&D expense year-over-year, can you guys speak a little bit to the product pipeline in terms of maybe what enhancements are there and what timing looks like for potential new product or product enhancement launches?

**Peter Evans**

Yes, Scott, obviously, I'm not going to pre-announce a specific product announcement before we actually get out into the marketplace, but there's every market Scott in my mind sub-segments down to about three different strategies. You're either the low-cost leader, you kind of create a homogenous product for the bulk of the mass market, or you're the



innovation leader. We have a low-cost leader in this industry, we have a homogenous product that's buying market share any way they can, and we see ourselves as the innovation leader. This market is not a stagnant market. It's not just about weapons detection. There's so many other layers of security and value that can be delivered to a customer.

So we will continue to innovate to create higher and higher and higher efficacy for weapons detection or other threats, as well as provide more and more value to other organizations in specific vertical marketplaces, who have come to us with a unique problem that we can solve at a gateway at an entrance. Retail set [Technical Difficulty] example.

**Scott Buck**

Peter, how often are those kind of new products or product enhancements driven by the customers themselves versus you guys?

**Peter Evans**

I'd say we're probably half our roadmap is somewhat customer-driven, but we go through a very rigorous process of making sure we're not creating bespoke software. If a large distribution center comes to us and asks for something, we go take it to 10 other distribution centers and say, what do you think? So we are creating something that's uniquely aligned to that market segments' needs and that creates us as a differentiated value leader and a differentiated innovative leader.

So I'm a big believer in being a customer back organization, not a product forward organization. So you're creating products that will work the way that customers want them to, and that do not disrupt their operations, but streamline right into the operations and create a lot of value.

**Scott Buck**

Great, that makes a ton of sense. And then last one from me, how many channel partners are you working with currently and how long have those relationships been in place? It sounds like you're starting to see some momentum there. So just trying to get a sense of how that channel works and then timing around new contracts?

**Peter Evans**

Well, we brought our new VP of Channels approximately about a year ago after we gone through an intentional period of being wrecked, because of that customer back approach to the business and making sure we were building the right product that people wanted. Now that the product is out of the box, highly scalable, literally open the box, set it up on

the ground and you're running in five minutes and it's very scalable, very easy to support. So it's a perfect time to introduce it to the channel.

My numbers are approximately here, but probably in the range about 20% to 25% of the revenues in the last quarter were partner originated opportunities, not partner fed opportunities. And I'd say the pipeline, which is a predictor of future growth, we were north of 50% of the current pipeline was partner originated. So we're very pleased that we're seeing the partners not only embrace what we're doing, but they're growing the pipeline very aggressively and creating opportunities, which we can then serve.

**Scott Buck**

Great. Well, I appreciate the added color, guys, and congrats on the results.

**Peter Evans**

Thank you so much, Scott.

**Operator**

The next question comes from Adhir Kadve with -- excuse me, with Echelon Wealth Partners. Oh, excuse me. The next question is with Mike Stevens of Echelon Wealth Partners. Please go ahead.

**Mike Stevens**

Yes, thanks, and good morning. Congrats on an exceptional quarter here, guys. Maybe just broadly on the peripheral verticals, it seems like there's quite a bit of momentum going on, even if you can't really press release everything. And you may have tipped this in your recent -- in your answer to Scott, but is there a vertical that you see kind of more optimistic near-term and just a ton of momentum around and maybe any of the dynamics supporting that optimism?

**Peter Evans**

I think as you know, Mike, we started with a hyper focus on a [Indiscernible] stadiums, live entertainment where there was you know a couple of years ago there was a perfect product market fit and alignment and so we doubled down and made sure that we didn't get distracted to go grow a business, grow referenceability.

Having said that, the other verticals weren't willing to wait for us so health care pulled us very aggressively. We started to see a pull from schools and we started to see a massive pull from manufacturing and distribution. Of all the markets, it's hard to say which one is becoming the more dominant, because our pipeline is almost equally balanced between

all four. We do see a little bit of seasonality. Right now, the pro sports teams that are not currently in season, as well as the schools, are all aggressively working towards budgets being closed in the summer time frame and getting ready for the fall season.

Manufacturing tends to have flat demand. It doesn't go up and down seasonality throughout the year. Healthcare, similarly, demand is flat through the year and that it doesn't have highs and lows throughout the year. So it's hard to really say anyone is kind of becoming the dominant player.

If I'd say the fastest area of our pipeline that is growing right now though is in the schools. This was an area we did not pay much attention to 18 months ago, because we felt that the large number of alarms that occur on laptops was going to be a prohibitor. Having said that, we have a very large increasing demand out of schools, who are struggling with some of their questions around how to deploy weapons detection effectively.

### **Mike Stevens**

Okay, I appreciate that. Just touching on those professional sports teams, the announcement yesterday, you released kind of referenced quite a bit of rigorous process for the testing and third-party testing involved. Do you see that sort of sales cycle getting shorter as you stack and a more professional team wins or how do you see that playing out?

### **Peter Evans**

Yes, I do because if you think about it, Mike, you know, every Chief Security Officer of every team in the NBA or the NHL or MLB or even cross league, they all know each other. They all attend the same conferences, they work for different teams, you know, so they all talk to each other, they all get references and that has accelerated our opportunities. We've had teams call us who we've been, you know, struggling to get contact with, because they heard from one of their peers. So that is accelerating.

Having said that, many of these organizations have a keen focus on getting security right first. They have to, there's a huge amount of brand liability should they not do that. And those who care about security are taking the time to test, test, and test again. And then think through all the other elements of [Indiscernible], the training, what does it mean to the rest of the venue? What does it mean to ticketing? And so we love working with those kinds of teams because they're thinking about things holistically about the end-to-end guest experience, not just who's got the cheapest box on the market.

### **Mike Stevens**

I appreciate that insight. And then last question, just kind of general on the reseller channel, it's great to hear the updates and the momentum in that bucket. Just wondering if you had a sense of where you could see that sort of settling and maybe any of the economics or margin impacts on that channel? I don't think there's necessarily a lot of color there and I'm not sure what you can offer, but yes any insight would be helpful.

**Peter Evans**

Yes, it's a great question Mike. What we find is certain vertical markets want to be direct. They have within their own organization, if you think of a customer of ours like Kia, they've got fantastic security staff, operations, IT, you name it, and they've got that critical mass of knowledge that they want to deal directly with the vendor. And so you start to see certain verticals like manufacturing and distribution are direct.

On the other hand, you've got organizations like schools and hospitals, for example, who may not have that critical mass of knowledge and they rely heavily on their partners as their trusted advisors. And so with that kind of thinking, what we see is roughly, you know, directionally, a 50%-50% balance between direct sales versus channel sales, partner sales, somewhat aligned to the different markets that we serve, the different vertical markets that we serve. And so really what that shift changes from 50-50 is probably giving more a function of, you know, for we can say here in the summer, it's the school season, a lot of schools start buying. And so we could see our mix shift a little bit from one quarter to the other. But our target is roughly a 50-50.

**Mike Stevens**

Okay, awesome. Appreciate your insight and have a good one. Cheers.

**Peter Evans**

Thank you.

**Operator**

The next question comes from Adhir Kadve with Eight Capital. Please go ahead.

**Adhir Kadve**

Hey, guys. Thanks for taking my questions. Good to see the turnaround on the DHS certification and immediately kind of announcing three new client wins. Maybe just from a scale standpoint, how do these deals compare to your previous kind of demographic of deals? Like are these bigger, are they longer? Or like do, I guess what I'm asking is, are do the major sports leagues think about these leagues differently from your broader arena customers? Or is it largely the same?

**Peter Evans**

I think in general it's largely the same. I mean, the professional sports teams look to the DHS as a guideline on best practices for implementing security. You know, the DHS process is not just about does the technology do everything it's supposed to do, but they dig into the broader implementation, training, deployment, checking, testing, verifying to ensure that, again, you've got an end-to-end solution that you're thinking through.

And so I think when you've got a larger venue like a Major League Baseball team that's 60,000 people, there's a lot of opportunity, there's a lot of risk. So they use the DHS practices as a kind of guideline for implementation. Having said that, as you start to move down into some of the other arenas, the non-professional sports leagues. Many of them also, they may not have the same rigor, but the DHS award gives them a degree of confidence now that the product and the solution has been well vetted, as well as all the approaches to ensuring that the customers are set up for success. I'm not sure if that answers your question entirely, but it's my first reaction to your question.

**Adhir Kadve**

Fair enough.

**Karen Hersh**

Adhir, I would just add on to that -- I was just going to add on to that, just to say that in terms of the structure of the deal, they tend to be quite similar in terms of the smaller arenas. They're still looking for the same time horizon. They're still structuring the deals the same way. They're just essentially larger versions for larger venues that they are dealing with. But in terms of how it affects us, we are still looking at the same timelines in terms of the contract and the arch of the provision of services is very, very similar, just on a larger scale. So I just wanted to clarify that.

**Adhir Kadve**

Yes, yes, I think that last part is kind of where I was going with the question. So thank you both, both of you guys for that. And then just, you know, maybe from a vertical standpoint, obviously, you know, DHS is a great validator to your product and what you guys have built there. Outside of your core markets and stadiums, is that helping or do you potentially see that helping in different verticals, as well as you go to markets? And is there may be a vertical that you haven't thought of that now you can enter with the DHS certification?

**Peter Evans**

Well I think in the other vertical markets they don't have a similar sort of DHS requirement, but it does give a high degree of confidence. I'll use schools as an example. They may not have the richness and robustness of staff, security staff, to apply to thinking about things like weapons detection, SA and arena might. But knowing that the product has gone through a degree of rigor through the DHS process, gives them a degree of confidence and potentially removes the need to do as aggressive testing as they might have done on the solution. They will still do that testing, but it's not a prohibitor to them by not having or having DHS. It's not a prohibitor to them to purchase in the other verticals.

**Adhir Kadve**

Got it. And then my last question will just be on capital allocation. It's great to see that you bolstered your balance sheet. What would be the use of proceeds? Where are you thinking of really kind of investing in as we move forward here?

**Peter Evans**

So two, three areas from my side. One, the demand is increasing on an exponential basis. The number of inbound leads we get, the number of inbound interest, the number of people who shifted from thinking about our solution to buying a solution, and this has gone from a nice to have to a must have, has significantly changed in the last 16 months or so. So we need to invest further in the sales capacity, whether it's direct sales or through further enhancing the channel partners and managing that to be able to soak up that demand and continue the rapid top line growth that we've had for the company.

The second area, as I alluded to earlier, is in the area of innovation. We see ourselves as the innovation leader. That's not stopping. As we continue to deliver more and more vertical market specific solutions that make us the default choice, because of the perfect alignment to those vertical market needs. You know, we will continue to do that and lead with innovation and invest in innovation.

And then of course behind all that we always need to have the back office that is scaling manufacturing, is scaling customer support. We deliver white glove service to all our customers to make sure they're set up for success. The good news is that as we invest, because we've built a highly scalable business model, as you've seen kind of in the last couple of years, we don't need to invest in a linear manner, aligned with the top line growth. We can do it at a significantly slower pace, drive a lot more profitability to the company, and drive to cash flow quite quickly.

**Adhir Kadve**

Excellent. Guys, congratulations on the quarter and I'll pass on.

**Peter Evans**

Thank you, Adhir. It's always good to catch up with you.

**Operator**

The next question comes from Kevin Shea, a Retail Investor. Please go ahead.

**Kevin Shea**

Hi Peter, this is Kevin Shea calling. How are you, okay?

**Peter Evans**

I'm very well, Kevin. How are you?

**Kevin Shea**

I'm great, thanks. Hey, I have a few questions relative to the capacity factor in manufacturing. I know that you mentioned it in your remarks earlier, but you have 2 times buildout in the spring and another 2 times buildout apparently coming sometime in September, I mean in the summer. Are your plans still the same? I mean is there doubling and another doubling?

**Peter Evans**

Yes, we're already there Kevin. We're essentially there. The demand as you can see the growth in our numbers our top line and how we're converting that to revenue. We've already got our manufacturing lines through our subcontract manufacturer set up for that capacity. And it has some flexibility to it. So, you know, if all of a sudden we have a very large contract come in, we can quickly ramp up and quickly ramp down. But right now we've got a nice steady state of numbers of units that we're delivering per week to stay ahead of the demand.

**Kevin Shea**

Great, so you're proactive in manufacturing to stay ahead.

**Peter Evans**

Absolutely. Yes, having said that, we're also very, very cautious, because the last thing we want to do is have an excessive inventory.

**Kevin Shea**

Absolutely, it's a balance. I do appreciate the comments from others. I also had questions about allocation of funds, but that was answered. And I also had questions about resellers, but I think that's been answered as well. I appreciate your information, Peter. Thank you.

**Peter Evans**

Thank you, Kevin. Always good to catch up with you too.

**Kevin Shea**

Yes, bye.

**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Peter Evans, CEO, for any closing remarks.

**Peter Evans**

Well, thank you so much, Drew. And again, to everyone who's listened in today, we very much appreciate the support and the belief in what we're doing here at Xtract One. We're on a mission to deliver you know high quality, high innovation outcomes for our customers that also deliver a fantastic guest experience whether that's in an arena, at a school, a hospital, a shift worker at a manufacturing plant or otherwise.

I could not be more proud of the team we've built here. We have an excellent executive staff team. We have an outstanding team of dedicated individuals in the company. And I feel very fortunate, very humble to be part of this investor group and part of this company. And I thank everyone for continuing to support us as we drive along this journey as fast as we can.

**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.