Xtract One Technologies Inc. (OTCQX:XTRAF) Q2 2024 Earnings Conference Call March 8, 2024 10:00 AM ET

Company Participants

Chris Witty - Investor Relations Adviser
Peter Evans - CEO and Director
Karen Hersh - CFO

Conference Call Participants

Mike Stevens - Echelon Wealth Partners
Adhir Kadve - Eight Capital
Scott Buck - HC Wainwright
Kris Tuttle - Caterpillar Investments

Operator

Good day and welcome to the Xtract One Technologies Fiscal 2024 Second Quarter Earnings Conference Call. All participants will be in a 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, Investor Relations Adviser. Please go ahead.

Chris Witty

Good morning, everyone, and welcome to the Xtract One Fiscal second 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 2. 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. The supplementary financial measures are defined within the company's filed management and discussion and analysis.

Today's call may also include forward-looking statements that are subject to risks and uncertainties that may 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 these 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 commenced financial statements, management discussion and analysis and earnings press release issued on March 7, 2024, available on the company's website and its SEDAR plus profile.

And now it is my pleasure to introduce Peter Evans, Chief Executive Officer of Xtract One. Peter?

Peter Evans

Thank you, Chris, and welcome to all of our investors, analysts and customers who are joining us for today's call. Let's start with our first slide in the presentation.

It's an exciting time to be in the business and I continue to be incredibly bullish about the future of the company and look forward to what will certainly be a record year for Xtract One. The key highlight of our second fiscal quarter are as follows; first, this was another solid quarter for the company. Our Q2 bookings are typically seasonally light with the holiday season through November and December and new budgets being applied in January.

However, despite this, we still achieved significant year-over-year growth and we continue to demonstrate momentum in the marketplace and in all market verticals. Looking ahead to the second half of this year, we're expecting a continued ramp in both bookings and revenue throughout the second half.

Secondly, as we continue our expansion into several market verticals where we are in the early stages of growth for that specific vertical, we're thereby opening up new TAM opportunities and further growth acceleration for the company. Our qualified pipeline of sales opportunity stands at around CAD 86 million of highly qualified opportunities and is well diversified across all key verticals where we participate, which is laying the foundation for further success with the company in the future.

Finally, the company continues its focus on cost effectively scaling the business. This means selectively making investments in the right places to fuel aggressive long-term growth. It also means that looking for ways to increase our customer engagement and win new contracts in a more highly efficient ways. As a result, we've made the decision to invest in a new and revitalized channel sales program, which I will touch upon a little bit later.

Moving to the next slide. I want to provide further color on our business momentum and go-forward strategy. We're focused on continuously scaling the business and continuously scaling the company. And this quarter was another period of sound operating execution on our business strategy.

Since we first began commercializing our SmartGateway product, we booked over CAD 33 million in business, including CAD 14.7 million in the first half of this fiscal year. Despite Q2 being a seasonally softer quarter, as we mentioned earlier, we still posted record results on a year-over-year basis adding $5.1 million of new bookings, 4x higher than the second quarter of fiscal 2024 -- sorry, fiscal 2023, my apologies.

I'm pleased with the results so far in 2024. And as we look ahead into the balance of the year, there are several indicators that our performance during the next two quarters will be momentous. Historically, the second half of the year has been stronger than the first half for Xtract One, as it aligns better with the buying cycles of some of our key customer segments such as sports and live entertainment and schools.

The first group typically looks for security solutions heading into the busy summer event season, and certainly for sports venues that make investments during the off-season for their professional sports teams, with a view of having that technology in place before teams return to play. Schools and colleges similarly make decisions during the spring and summer season prior to the return to school for its students in the autumn.

In addition, we're expecting to receive an award from the Department of Homeland Security in the very near future with SmartGateway becoming an approved technology under the Safety Act. I know this is top of mind for many of our investors and has been a long process throughout. And I'm very glad to say after ongoing conversations with the DHS as recent as this week, we believe the award is pending. While we are already far down the sales cycle with numerous professional sports teams, this award will be a final check box needed for many of them to satisfy the requirements of those customers and get those orders in the door.

I'm also very pleased to report that the security requirements for NHL teams to deploy our solution has been completed. Needless to say, everything we know indicates that we're set up for a strong finish to the year.

Let's move forward to the next slide, please. Demand for our solutions continues to accelerate and I'm very pleased with the new customers we've added and those that we've been able to announce during the quarter. As previously mentioned, we're not able to announce every customer, but those who are pleased with our solutions and have a policy that allows us to announce, we will.

We welcomed several additional sports and entertainment customers, including CPKC Stadium in Kansas City, home for the Kansas City Current Soccer Club and the first purpose-built stadium for women's professional soccer. We also added the H-E-B Centre, home to the Texas Star and the Austin Spurs, the Minor League affiliates of the NHL's Dallas Stars and NBA's San Antonio Spurs. We're also excited to be working with the Baird Center of Milwaukee, the largest convention center in Wisconsin.

Convention centers pose an interesting new challenge in terms of security as these facilities hold much larger scale events with a different demographic of attendees, and will often host multiple events at the same time, each with their own unique security requirements. The SmartGateway provides unique flexibility and a solution that can meet these diverse needs for these different types of audiences and demographics specific to a convention center.

We look forward to working with the Baird Center and see this relationship as validation of our capabilities and this will also serve as a springboard for the company's entrants into these types of markets such as the convention center vertical market, where we are uniquely qualified to address such high volume challenges.

At the same time, our expansion to other markets continues to be successful and growing. Such that in Q2, over 50% of new bookings came from outside of our core sports and entertainment markets. In fact, we added customers within education, health care, the public sector and manufacturing including a Fortune 500 company that is leader in biotechnology.

The demand for frictionless screening systems shows no sign of slowing down. And to the contrary, such applications are widely becoming and rapidly becoming a top priority in the markets where previously we did not see them as important. Our ability to successfully serve customers across multiple market verticals positions us well for accelerated growth in each of those verticals and opens up the market for much larger sales, as organizations look to invest in the safety of their employees and their guests.

We will continue to take a pragmatic approach to expanding our operations, being very selective about the markets and customers that we do engage with and we locked on opportunities that align with our business plan and goals to reach profitability.

Moving forward to the next slide, I'd like to talk a little bit about our sales strategy and how we plan to grow the top line even faster as well as manage our costs in a very pragmatic manner. Over the last several months, we've been making strides to improve the

SmartGateway to create a much more out-of-the-box experience to allow for fast and easy deployment and serviceability without the annoyance of calibration, as an example, on a daily basis for our systems.

Our systems are simple to use, simple to deploy and simple to maintain. These changes have enabled us to move into the next phase of our growth strategy, which is leveraging channel partners. We are actively onboarding selected partners who will promote and sell the company solutions on its behalf, allowing us to increase our penetration across North America and in fact, globally in a cost-effective and scalable manner.

I'm pleased to say that we're already starting to see early success from our new -- first few partners that we've selectively chosen who collectively responsible for about 20% of all new bookings in Q2. Our channel sales strategy involves engaging a network of specifically selected regional partners who possess a unique understanding of their respective local markets and focus on specific targeted vertical markets, and are motivated to carry, promote and support our solutions.

We are working with partners who serve a diverse array of industries, including education, healthcare and various public sector organizations and we're able to provide their customers with first-line support and bring cost-effective and cost-efficient scale in terms of developing the pipeline, closing business opportunities, installing and supporting the solutions to their customers.

While we will continue to sell direct to end customers for specific market segments and in doing so, collecting invaluable feedback, which helps us continue to shape our product road map and drive further market specific innovations. We are excited to be taking this next step in our evolution and see the partner channel sales accelerating the top line growth going forward for the company.

At this point, I'm going to turn it over to Karen to provide a more detailed discussion of our financial results for the quarter.

Karen Hersh

Thanks, Peter. This has been another busy quarter underscored by sound operating execution and solid overall financial performance.

Let's start by turning to Slide 9. Revenue for the platform segment was approximately $2.8 million for the quarter, down slightly sequentially from Q1 but more than triple the same period last year. Notably, in the second quarter, about 55% of revenue came from upfront purchase contracts versus approximately 70% in the first quarter. This means that a greater portion of sales is reoccurring in nature and will continue to generate revenue during future periods. We are focused on both sequential and year-over-year growth and continue to anticipate a record year of revenue for the company as Peter previously indicated.

Our gross profit margin during Q2 was 61.1%, which was an improvement year-over-year, but down slightly from Q1 when we had completed a highly profitable, large-scale deployment. Going forward, we anticipate healthy margins north of 60%, and our undergoing efforts to continually improve margins by taking advantage of economies of scale in the manufacturing process, while at the same time creating efficiencies in our support and installation services.

Now turning to Slide 10, we continue to grow the value of our contractual backlog and signed agreements pending installation. At the end of the quarter, this collectively totaled about $22.3 million, an increase of roughly 10% from the first quarter. Of the $22 million, the company's contractual backlog grew to $12.3 million, an increase of about 29% as compared to Q1. This increase was directly attributable to the number of systems deployed during the quarter and the associated recurring revenue coming from the remaining contract value, which will be recognized as revenue in future periods over the customer’s associated terms.

Along with our contractual backlog, we had an additional $10 million worth of signed agreements pending installation, the majority of which we expect to be installed within the next 12 months. While the balance was down about 7% from Q1, it's important to note that part of the reason is that we deployed a significant number of systems during the quarter and moved a large portion of that $10.8 million balance from the first quarter into revenue and/or contractual backlog in this quarter.

As a reminder, we are impacted by seasonal factors in fiscal Q2 due to major holidays, along with corporate budgetary planning cycles within our target markets. That being said, the second quarter was still a significant improvement in new bookings versus the same period last year and as Peter mentioned, we anticipate greater contract awards in the second half of fiscal 2024.

Turning to operating expenses on Slide 11. So far in fiscal 2024, we have continued to increase revenue while operating expenses have remained relatively flat year-over-year. As mentioned in the past, we expect certain operating expenses may increase slightly in future periods as we invest in initiatives to fuel growth and maintain high levels of customer satisfaction.

Sales and marketing expenses were $1.3 million for the quarter, an increase of 35% year-over-year but a 14% decline from Q1. As we expand into new market verticals, we carefully invest in discrete opportunities to target decision-makers in key market events such that spending may vary slightly quarter-to-quarter.

Costs associated with R&D were $2.1 million for the quarter, approximately 20% higher than last year, reflecting investments in our products and continual innovation to meet growing customer demand. We are committed to continuing to innovate and provide advanced solutions for our customers, and we anticipate R&D will remain around current levels or increase slightly as we continue to introduce new products to the market. General and administrative costs were $1.7 million for the quarter, relatively unchanged both year-over-year and compared to last year.

Moving to Slide 12 for cash flow. During the quarter, the company had net cash outflow of $1.1 million compared with $3 million in Q1, primarily due to changes in working capital. This largely reflects the company's recent initiatives to improve the timing of cash flows from our contracts. Where possible, we will continue leveraging these strategies to improve our working capital and help fund investments into inventory and other operating expenses in order to serve our customers at an accelerated rate.

The company has continued a positive trend with regard to operating cash generation and usage. Excluding changes in working capital, we spent approximately $2.5 million, up slightly from Q1 but still lower than all other prior quarters, which continues a general downward trend in cash burn. While certain investments will need to be made, we expect that the trends we've been experiencing will continue to reduce cash burn quarter-over-quarter, as revenue continues to significantly outpace expenses.

In summary, Peter and I are very excited about what we've achieved in the first half of fiscal 2024, and our focus on maintaining current trends strengthening margins and accelerating top line growth. We remain in excellent shape to post results this year and the second half of fiscal 2024 looks full of opportunity for even higher performance for our shareholders.

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

Question-and-Answer Session

Operator

[Operator Instructions] The first question today comes from Mike Stevens with Echelon Wealth Partners.

Mike Stevens

Congrats on another strong quarter. I wanted to first dig into you mentioned the new bookings. A lot of that's coming from some of your new verticals or peripheral verticals and even you mentioned the sales pipeline. In these new verticals, the competitive environment, how does that look? Are you seeing new competitors or different players? And then just more generally, given the momentum and success that you guys have been seeing, are you seeing any response from competitors in the way of pricing or product enhancements, et cetera?

Peter Evans

So Mike, it's Peter here. Thank you for your question. Good to year your voice. There's sort of two or three concepts in your question, so let me unpack all the details.

First off, in terms of market space, I think when you've got a market that is growing as aggressively as the one we play in and it's not going away, unfortunately, the weapons issue is here to stay. There's a great growth for ourselves as well as all of our competitors. And so you will naturally see a traction of other new entrants into the marketplace.

We believe that we have a competitive advantage in terms of the innovation that we deliver to the marketplace. And that we are uniquely positioned as the only company right now that has the ability to catch all the weapons at the right level, depending on how the customers have set up their operations and their systems, while also delivering a fast and frictionless experience. Most organizations have to trade off either detecting, for example, knives, but not being able to get people through fast and having a high alert rate. We're pleased that we're able to meet all metrics.

There are going to be others who will jump into the marketplace, but what we do is not easy. We're bending the laws of physics to a certain degree in terms of the innovation around the sensor technology and the AI technology. So there are high barriers to entry for others, but I do expect to see new competitors.

In terms of competitive response to growth, I think what we're seeing is not as aggressive response as you might imagine. This is a market that's got a lot of runway in front of it. And usually, when you see a natural behaviors around pricing and things like that is when the market is starting to slow down and people are fighting for market share.

As a group of competitors, ourselves and others, we barely scratched the surface and I think we're less than 1% or 2% penetrated of the total addressable market. So there's a lot of runway for all of us. And there's a lot of place where every product is going to have a perfect fit versus the competition.

Mike Stevens

If I can squeeze in a couple more. Just turning to your R&D investments. Karen mentioned that we should continue to see R&D at around this level. I think in the release, there was a mention of product enhancement or new gateway enhancement in December that was launched, maybe any additional insight into what went into that? And any areas that you're focused on going forward to enhance the product offering?

Peter Evans

There's, again, two or three key thoughts in response. The first is we're in an early stage market. And as we get into more and more specific vertical markets, each will have unique requirements or unique capabilities to serve that market better. We believe that we have delivered a very flexible and a very scalable platform that allows us to say yes to many customers when they come to us and say, "Can you also do X or Y or Z?"

And as we continue to respond to the marketplace with more innovation, which we can quickly turn around as we did with the many requests from Madison Square Garden, for example, that causes them to select us, we're able to become more market specific and drive value for those customers, so you don't have to compete on things like price or other activities.

So our R&D investment is very customer-driven and we have the flexibility of the platform to be able to say yes to many customers to deliver market vertical-specific capabilities that create a lot more stickiness and a lot more value for those market segments.

Mike Stevens

And the last one, if I could just touch on the macro environment, are you seeing anything with the current uncertainties in this landscape that are impacting sales processes or sales cycles? And maybe how you're looking at this mix of channel reseller versus your direct sales and whether we could expect to see any investment on the sales side?

Peter Evans

A couple of things there, Mike. First off, I think the macro environment, as we mentioned earlier is only getting worse, unfortunately. The world is more uncertain. There's more social unrest and there isn't a day that goes by when we don't see tragic events like what happened at the Kansas City Chiefs' Super Bowl party.

And what that does is in terms of our sales processes and sales cycles, we see a notable trend where customers move from something like weapons detection being a nice to have to becoming a must-have. I would look back 12 months ago and look at the number of RFPs that we receive on a weekly basis and has gone up by a magnitude of 10 easily.

And so we've seen that shift in terms of the macro environmental trends causing a lot more demand and a lot more pull on our company and, in fact, pulling us into verticals that we didn't expect to be in much faster than originally planned.

What does that mean for our sales processes is, as both Karen and I referenced, we will be continuing to invest judiciously in expanding our sales organization, our support organizations and other parts of the business to support those customers and respond to that demand as well as leveraging our channel partners to give us cost-effective scale. So we'll be doing both in response to the market demand.

Operator

The next question comes from Adhir Kadve with Eight Capital.

Adhir Kadve

I wanted to talk about the brand -- your brand recognition in the market. Peter, I think you just kind of mentioned that Madison Square Gardens was one of the big wins that you guys had on the back of a big win like that in a big known brand, iconic arenas across the United States. Are you finding that it's easier when you're now going into customers and talking to them and saying, hey, look, we've been validated by someone like MSG? And so has this helped you kind of close more deals and get deals past the finish line much easier?

Peter Evans

Absolutely, it has Adhir. It absolutely has. When we've got reference ability from Fortune 50, Fortune 100-type organizations major brand names, some of them may not wish to announce themselves publicly. But many of them, because of their satisfaction with our solution are willing to take reference calls from peers in their industry.

So as an example, we've done very well in the automotive industry. All the Chief Security Officers within that industry, they all know each other, they've all probably worked for each other's companies and each other's roles. And so they pick up the phone, they call each other and they take the reference calls. And we're very, very pleased that many of those customers that we have, have become very, very strong advocates for our business and for our product because of the positive experience they've had end-to-end with not only the solution but the sport and all other aspects of delivering a solution to the market. So it's definitely helped. And it's caused the proverbial snowball to roll faster and faster and faster than each of the vertical market hills that we play in.

Adhir Kadve

And then maybe just on the sales cycles of these deals. Maybe you potentially -- can you speak to both the scope of the deals that you're winning? Like, are you seeing larger and larger deals come through your pipeline? And are you finding that your customers are making decisions on a faster level, just given that you have mentioned that, unfortunately, the macro is getting worse out there. So are you finding that there's a little bit more urgency in the deals that you're seeing?

Peter Evans

It depends on the segment. I think there's segment-specific activities that can either accelerate or slow down the deals. Definitely to your first question, the deal sizes have increased and a lot of that comes down to that reference ability and more trust. Three, four years ago, as we came out of COVID, Xtract One was not a well-known brand. We were still getting our sea legs underneath us. We were establishing our business and we're establishing the SmartGateway in the marketplace.

Now that there's more places where people can walk down the road and see it where they can pick up the phone and talk to the CSO of Madison Square Garden that has definitely created a lot of confidence in all of the prospects and a lot more interest in doing much larger deals as opposed to dipping their toe in the water with a couple of systems.

In terms of the different segments themselves, we find different sales cycles. For example, those that are publicly-funded organizations, schools, state government, state and local, they go through a necessary RFP process and decision approach. And so that takes a little bit longer. Other organizations is definitely accelerating the sales cycle and we're seeing those sales cycles shorten for different vertical markets.

Adhir Kadve

And then one last one, then I'll sneak in and I'll pass the line. I just want to talk about the legacy hardware renewal cycles. Can you comment on some of the new wins that you have seen? And are these customers ripping and replacing older hardware with your next-gen solutions like yours or would you find that it's more like net new stadiums that are putting out a security system in the first place?

Peter Evans

I'd say about Adhir probably about 50% of the new business we're winning is for folks who are ripping out legacy technologies and in some cases competitive technologies. And the other 50% is for customers who've never thought about having to do screening before. But because of macro environment, this is now, as I said earlier, become a must-have instead of a nice to have.

Operator

[Operator Instructions] The next question comes from Scott Buck with HC Wainwright.

Scott Christian

Peter, can you give us some indication of how long it takes to get one of these channel partners up to speed and educated on the product?

Peter Evans

Again, it depends on the channel partner, the ones that we've specifically targeted are those folks who may not carry a very large line card of thousands of products, and so they're very interested and they've got demand from their customers. So the pull from their customers is pulling them to find us and deliver solutions.

I'd say on average from the first conversation to the point where we're seeing the first sale with the customer, it could be as short as 60 days. In general, it's closer to about 90 days. Usually that's because they have a healthy set of relationships with their partners -- sorry, their customers, they've got existing and ongoing business. It's a trusted relationship and introduction of our technology is something that's a natural add-on to what they do. So they're interested in learning more, accelerates that learning curve.

Scott Christian

And then on the installation backlog, $10 million over 12 months. I'm curious, are you waiting on customers or is that a capacity issue on your end?

Peter Evans

No, it's actually not so much a capacity issue on our end. We've -- I think as I've referenced in prior calls, we set ourselves a target to meet the demand that we are seeing and the growth for the company to double our manufacturing capacity by the end of January, which we successfully did. And we're on track to double that capacity again by the end of July in order to address the backlog and address the pull.

In many cases, the customer -- the backlog that we have is either a function of the schedule and timing for the customers. They're building a new building, for example, and they don't take occupancy and open that for a certain period of time or we're seeing customers who are doing phase rollouts over time. You imagine a very large school or organization, they're not going to flash cut dozens of schools, they're going to do it in a progressive manner.

Scott Christian

And then, Karen, I'm curious, it looks like the gross margins were flipped this quarter for platform versus legacy extract. What are the mechanics going on there?

Karen Hersh

The gross margin is going to obviously be a product of our sales mix and whether that's coming from upfront versus subscription and channels as we start to build the channel up versus direct and also by market segment. And so it's really just a product of changes in the mix.

In Q1, we had a very lucrative large upfront contract and that gave us very high margins in Q1. And now we've settled into more of a lower 60 number. We do expect that we're going to see some bouncing around from quarter-to-quarter as we grow because an upfront deal or one particular large deal can have quite an influence over our gross margin. But in the long run, we see our margins staying within the 60 range, and we see a lot of opportunity to continue to improve our gross margins going forward.

Scott Christian

And then last one, Peter. I hope you can just give a little bit of color on your thinking about balancing the top line growth with kind of a pathway to profitability. It seems like you have a number of great opportunities in front of you on the revenue side. So just kind of curious how you kind of juggle that?

Peter Evans

Well, Scott, this is what keeps me awake every single night. There are so many opportunities in front of us that we want to invest to accelerate but in the same time, we want to run an organization that's continuing to deliver shareholder value and find that path to cash flow breakeven. So we will judiciously invest where it makes sense and we see that investment is going to drive significantly strong incremental growth to both our top line and our profitability. And we make those decisions very thoughtfully and very wise.

Right now, I do see a path to get to cash flow breakeven. We're going to continue down that path. But as opportunities present themselves, we will evaluate whether further investment can actually drive the top line growth and the profitability faster.

Operator

The next question comes from Kris Tuttle with Caterpillar Investments.

Kris Tuttle

I did want to ask as you expand out your channel partner program, what do you think the ultimate contribution margin of that channel will be for you? Is it kind of higher or lower or the same as your direct -- the direct sales that you do?

Peter Evans

It's a great question, Kris, and I'll give you my answer and Karen I invite you to always augment those thoughts. But the benefit of the channel model is due to their deep relationships, established book of business, existing contracts, it can be a very, very cost-effective process to bring on new channel partners and to have them drive a lot of the business and serve and support a lot of the installed base of customers.

It offsets a lot of my marketing costs, my sales cost, my support costs but I would otherwise incur for a direct model. And so those partners who can bring in a large book of business and do so very cost effectively where I don't have to invest in other operational areas to attract that pipeline can be incredibly profitable and drive profit at the same level or potentially even higher into the business.

Karen, anything that you'd like to add?

Karen Hersh

Not so much, other than, obviously, these channel partners we’re looking for partners that are able to adeptly handle Tier 1 and Tier 2 support and that also reduce the burden from our organization. So we'll weigh each channel partner for those merits before signing them on. We're still in the earlier stage, but we're already seeing great improvement. And as I mentioned on the call around 20% of this quarter's revenue came from the channel. So we're very pleased with the progress we've made to date.

Kris Tuttle

And just for clarification, is this -- do the customers sign essentially contracts with the channel partner or do they -- are they signing your paper?

Peter Evans

It depends on the relationship we have with the channel partner. But in general, the standard model is those customers -- sorry, those channel partners have relationships and contracts that are existing in place for their business with the customers. Those channel partners may already have provided camera system or access control systems or any one of a number of other IT technologies.

And so this is something new to their line card that they can simply tuck in as a purchase order to an existing relationship that's contractually set in place with their customers. Then it simply becomes a purchase order to us. We obviously have a contract that we have with a channel partner to put in place all the right terms and conditions that they simply pass through a purchase order to us.

Kris Tuttle

And then I had one question on technology or features. I read about your perhaps emerging capabilities to do things in conjunction for some customers like facial recognition and ticketholder processing for venues that have tickets. These sound like really interesting and differentiated kind of capabilities. And I'm just trying to think about, are these -- should I be thinking about these as medium-term opportunities, trying to get understand the timing and what kind of revenue impact they would have or are they more R&D kind of initiatives?

Peter Evans

Well, we've not formally announced our road map and our innovation schedule for obvious competitive reasons. But we continue to work with customers to understand each market segment and what provides incremental value to every customer. And as we listen to those customers and we invest in further innovation, we see that what we will be doing is bringing new technology and new innovation to the marketplace, and essentially stacking on more SaaS recurring revenue for value-added features on top of our incumbency with each customer, driving new revenue streams and new profitable revenue streams for that recurring software value that we deliver to each market segment.

Kris Tuttle

I'm sorry for asking. I think I read it actually in your research report. But then my last question, you've answered some of this but I want to make it slightly more specific. You're reducing cash burn, you've still got a fair amount of cash on the balance sheet. And so my question is, specifically, do you think you'll be able to get to cash flow profitability with what -- not just that you have on hand, I know that there are some warrants outstanding from your investment partners that could be tapped. So I'm just asking the question of, do you think that in all likelihood, you'll get to that cash flow positivity without having to do some sort of unusual action in terms of raising capital outside of your existing investors?

Peter Evans

Well, I've got my thoughts on that and what I'd invite Karen to do is jump in also. My quick answer is can I see a path to cash flow breakeven? Absolutely. However, the market demand is so strong and so significant that we will continuously look at the best way to raise shareholder value by looking at what is required to continuously grow the company at an accelerated pace. And if that means a new injection of capital in order to provide significant returns, we will consider that as we would consider R&D investments, other investments and other ways to operate the business in the best manner possible.

Karen Hersh

Yes. I guess I would just add to that just to say there's many levers at play here and we have to continually evaluate and that's the question that, I guess, would keep me up at night, every night, which is -- is it worthwhile to go back to the market to be able to have additional capital to take advantage of what's out there.

We're reducing our cash burn quarter-over-quarter we love where we're going. We love that we've been able to demonstrate the scalability of our model and we're going to keep doing that. But obviously, there is incredible circumstances in terms of market demand. And we want to be a key player in incumbent and to continue to grow. So it's a balancing act for us every day.

Operator

At this point, there are no further questions in the queue. I would like to turn the conference back over to Mr. Evans for any closing remarks.

Peter Evans

Well, thank you. To all the investors, again, thank you very much and all the analysts and all our customers who have enjoyed this call today and joined us. Thank you very much for your time. I really do appreciate everyone's continued support of our mission that we're on here to change the world through AI-driven weapons detection solutions. I'm very, very positive about where we are as a company. I personally I’m very, very passionate about what I do and what we do as a company. And I know that we've got a great team of people who are continuing to deliver outstanding value to our customers within Xtract One.

With that, I'm going to sign off and thank everyone for their time and wish everyone a great weekend.

Operator

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