

Rating HOLD <i>unchanged</i>	Price Target US\$10.00 <i>unchanged</i>
ONTF-NYSE	Price US\$8.60

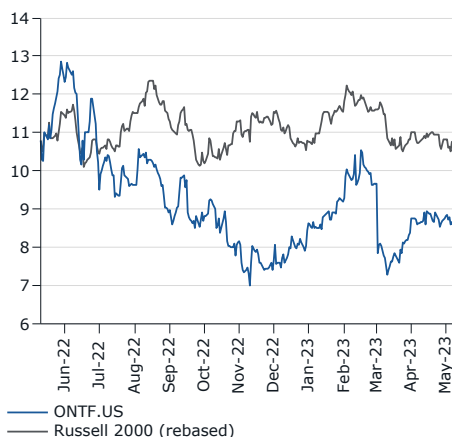
Market Data

52-Week Range (US\$) :	6.95 - 13.14
Avg Daily Vol (000s) :	304
Market Cap (US\$M) :	457.6
Shares Out. (M) :	53.2
Enterprise Value (US\$M) :	247
Net Cash (US\$M) :	356.0

FYE Dec	2022A	2023E	2024E
Sales (US\$M)	190.9	164.0↓	157.0↓
Previous	-	165.0	163.5
EV/Sales (x)	0.7	0.9	0.9
Free Cash Flow (US\$M)	(24.2)	(12.2)	(0.8)
EV/FCF (x)	NA	NA	NA
EPS Non-GAAP (US\$)	(0.37)	(0.02)↑	0.14
Previous	-	(0.03)	-

Quarterly Sales	Q1	Q2	Q3	Q4
2022A	48.5	48.2	47.6	46.6
2023E	43.1A	41.5	40.3	39.1
2024E	38.8	38.7	39.4	40.2

Quarterly EPS Non-GAAP	Q1	Q2	Q3	Q4
2022A	(0.13)	(0.14)	(0.07)	(0.04)
2023E	(0.04)A	0.01	(0.04)	0.05
2024E	0.03	0.03	0.04	0.04



Source: FactSet

Priced as of close of business 9 May 2023

ON24's digital experience platform converts engagement into revenue via interactive webinars and virtual events that are backed by analytics and an ecosystem of third-party integrations.

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Down-sell pressures persist; another negative growth revision takes away from cost-cutting execution

Investment recommendation

The March quarter unfortunately brought more of the same for On24 as marketing headcount reductions and budget scrutiny continued to put down-sell pressure on the base, particularly among the firm's largest customers. There's no question that it remains a challenging environment for much of MarTech, and On24 faces the unique challenge of less-capable, lower-priced (and at times free/bundled) alternatives that are at least temporarily eating away at its share. It's frankly hard to know when these pressures might abate, and given we're again faced with another round of negative growth revisions, we'd suggest that management is scratching its head as well. We probably need to see how On24 can execute in a more normalized environment to better know whether the current headwinds are transient or something more structural.

On the positive side, management is controlling what it can in a tough environment as the firm has executed what it believes to be roughly \$40M in annualized cost reductions and the pulled-forward goal remains EBITDA breakeven by Q4/23. In addition, by will or by force, the firm is being equally aggressive with the return of its \$300M+ cash war chest, which is coming in the form of a \$50M special dividend and \$75M of planned share repurchases. These are shareholder-friendly moves reserved for tough times, but the tough truth is that you can't cut your way to a sustainably higher stock price, so we're going to need to see some fundamental improvements before getting more constructive on this stock. Yes, ONTF shares look cheap at ~1.0x EV/R on C2023, but with a lack of near-term catalysts and a still challenged margin profile, we continue to believe the correct rating here is HOLD.

Highlights from the print

Key commentary. We'd highlight the following points of commentary: (1) the demand environment remains challenged, with On24 experiencing incremental hesitancy from customers in Q1; (2) new business in the technology and manufacturing verticals, which accounts for over half of core ARR, is particularly challenging; (3) On24 remains on track to achieve its goal of reaching breakeven EPS by Q2'23, EBITDA breakeven by Q4'23, and ongoing profitability in 2024 and beyond; and (4) after having returned \$41M under its prior share repurchase program through February 2023, On24 is initiating an additional \$125M capital return program which it announced in March, which it's committed to completing by Q1'24.

Key metrics from the quarter. Year-over-year, core platform revenue of \$41M declined 7%, total revenue, inclusive of its now de-emphasized Virtual Conference product, declined 11% to \$43M, and core ARR of \$149M declined 4%, representing a sequential decline of \$3.3M, in line with expectations. On the bottom line, operating margin of -10% showed 200bps of improvement from last year's -12%, largely due to cost savings measures implemented in Q1.

- \$100K+ ARR customer count now totals 333, down 12 from 345 last quarter, primarily due to customers reducing their spend below the \$100K threshold, rather than churning.
- Total customer count now totals 1,916, down 74 from 1,990 last quarter with churn from SMB customers totaling more than half of net logo reductions.
- ARR per customer marked a new high at \$78K.
- Following cost reductions, headcount is now 13% lower than December 2022.

The updated CY23 outlook. On24 now expects core revenue to decline by 10-12%, down from the 7-10% previously expected decline. On the bottom line, the company expects losses consistent with prior expectations, implying margins of ~6%. In terms of ARR, the company expects a sequential decline of 4.5-5.0% in Q2, with its Virtual Conference product contributing \$1.5M of that decline. For core platform ARR, which excludes its Virtual Conference product, it expects a slightly more modest decline of 3.5-4.0%. It also expects to see better ARR performance starting in Q3 with improved renewal cohort dynamics. Finally, On24 continues to believe it can achieve profitable growth in 2024 and beyond.

Valuation and price target

We are maintaining our price target at \$10. This price target is based on a ~2x EV/revenue multiple applied to our C2023 revenue estimate of \$164M and assumes ~\$220M of net cash and ~47M fully diluted shares outstanding.

Quarterly results

The table below details ON24's March quarter (Q1/23) results compared to our published estimates and the year ago quarter's results.

Figure 1: ONTF March 2023 (Q1/23)

\$ Millions	Mar-22	Mar-23	Mar-23E	Actual - Estimate	Percent Difference
Annual Recurring Revenue (ARR)	\$167.7	\$155.6	\$154.0	\$1.6	1%
Growth	3%	-7%	-8%	--	--
Sequential Dollar Change in ARR	(\$3.7)	(\$4.0)	(\$5.6)	\$1.6	-29%
Core Platform ARR	\$155.4	\$149.2			
Growth	--	-4%			
Sequential Dollar Change in ARR	(\$2.2)	(\$3.4)			
Core Subscription Revenue	43.5	37.8	36.7	1.1	3%
Core Service Revenue	5.0	3.4	3.8	(0.4)	-11%
Core Revenue	48.5	41.2	40.5	0.7	2%
Non-Core Revenue (Virtual)	0.0	1.9	1.7	0.2	n/a
Total Revenue	48.5	43.1	42.2	0.9	2%
Cost of Platform	(8.7)	(8.3)	(8.1)	(0.2)	-3%
Cost of Service	(3.2)	(3.1)	(2.7)	(0.5)	-17%
Cost of Legacy	0.0	0.0	(1.7)	1.7	n/a
non-GAAP Gross Profit	36.6	31.6	29.8	1.9	6%
Sales & Marketing	(25.5)	(20.1)	(19.5)	(0.6)	-3%
Research & Development	(8.7)	(8.2)	(8.2)	0.1	1%
General & Administrative	(8.1)	(7.5)	(7.0)	(0.5)	-7%
Cost of Operations	(42.2)	(35.8)	(34.7)	(1.1)	-3%
non-GAAP Operating Income	(5.7)	(4.2)	(5.0)	0.8	-16%
Stock Based Compensation	(9.5)	(10.1)	(8.4)	(1.7)	-20%
Amortization & Other	0.0	(5.6)	(4.0)	(1.6)	41%
GAAP Operating Income	(15.2)	(19.9)	(17.4)	(2.5)	14%
Interest Income	0.0	0.0	0.0	0.0	n/a
Interest Expense	(0.1)	(0.0)	2.3	(2.3)	n/a
Other Income (Expense)	(0.2)	2.6	0.0	2.6	n/a
GAAP Pre-Tax Income	(15.4)	(17.4)	(15.1)	(2.3)	15%
Tax Rate	-1%	-1%	0%	-1%	n/a
Income Tax Benefit (Expense)	(0.1)	(0.2)	0.0	(0.2)	n/a
GAAP Net Income	(15.5)	(17.6)	(15.1)	(2.5)	16%
Reversal of SBC, Amort, & Other	9.5	15.8	12.4	3.3	27%
Tax Effect of Add-Backs	0.0	0.0	0.0	0.0	n/a
non-GAAP Net Income	(6.0)	(1.8)	(2.7)	0.8	-32%
Basic Shares Outstanding	47.6	47.3	47.5	(0.2)	0%
Pro Forma/Diluted Shares Outstanding	56.2	53.2	57.5	(4.3)	-7%
GAAP EPS	(\$0.32)	(\$0.37)	(\$0.32)	(\$0.05)	17%
non-GAAP EPS	(\$0.13)	(\$0.04)	(\$0.06)	\$0.02	-31%
Free Cash Flow	(7.8)	(4.3)	(8.5)	4.2	-49%
Customer Count	2,145	1,916	1,940	(24)	-1%
Growth	4%	-11%	-10%	--	--
Net New Customer Additions	23	(74)	(50)	(24)	48%
Customers with ARR >\$100K	367	333	345	(12)	-3%
Growth	13%	-9%	-6%	--	--
% of Total	17%	17%	18%	--	--
Net New >\$100K ARR Additions	1	(12)	0	(12)	n/a
ARR per Customer	78,603	79,672	78,372	1,301	2%
Growth	-2%	1%	0%	--	--
Calculated Billings (Revenue + Δ Deferred)	44.4	43.1	38.0	5.1	13%
Growth	-17%	-3%	-14%	--	--
Net Cash & ST Investments per Share	\$6.33	\$5.91	\$5.21	\$0.70	13%

Source: Company Reports, Canaccord Genuity estimates

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Source: Company Reports, Canaccord Genuity estimates. A more detailed financial model, including balance sheet, income statement, and cash flow projections, if available, may be obtained by contacting your Canaccord Genuity Sales Person or the Authoring Analyst, whose contact information appears on the front page of this report.

Figure 3: Balance sheet and SOCF

On24 (ONTF/NYSE) 5/9/2023 <i>Statement of Cash Flows</i> \$ Millions					
	Fiscal Year				
	Dec-20A	Dec-21A	Dec-22A	Dec-23E	Dec-24E
Operating Activities					
Net Income	20.8	(24.3)	(58.2)	(44.5)	(25.4)
Depreciation & other	8.4	19.3	23.9	20.0	20.0
Stock-Based Compensation	2.9	29.7	38.5	34.3	31.4
Changes in Assets & Liabilities:					
Accounts Receivable	(27.7)	(0.4)	0.5	2.0	(1.5)
Prepaid Expenses & Other	(21.7)	(19.0)	(11.5)	(10.4)	(17.8)
Accounts Payable	2.0	(1.2)	1.5	1.3	(2.1)
Accrued & Other Liabilities	5.1	(2.7)	(2.4)	(7.5)	(3.7)
Deferred Revenue	47.8	4.0	(12.8)	(5.0)	1.5
Net Cash Flow from Operating Activities	37.6	5.2	(20.5)	(9.7)	2.4
Investing Activities					
Capital Expenditures	(1.0)	(3.6)	(3.7)	(2.6)	(3.2)
Cash Paid for Acquisitions, net of acquired	0.0	0.0	(2.5)	0.0	0.0
Other Investing Activities	2.0	(215.6)	(82.8)	88.9	0.0
Net Cash Flow from Investing Activities	1.0	(219.2)	(89.0)	86.4	(3.2)
Financing Activities					
Proceeds from Borrowing and Issuance	13.6	349.0	(27.1)	1.0	1.0
Changes in Debt and Other Liabilities	(12.6)	(28.5)	(1.6)	(98.7)	(1.6)
Cash Flow from Financing	1.0	320.5	(28.6)	(97.7)	(0.6)
Effect of Exchange Rate	(0.1)	0.2	0.2	0.1	0.0
Change In Cash	39.4	106.7	(137.9)	(20.9)	(1.4)
Cash Balance Beginning	23.9	63.3	170.0	32.2	11.3
Cash Ending	63.3	170.0	32.2	11.3	9.9
Free Cash Flow	36.5	1.6	(24.2)	(12.2)	(0.8)
FCF/Share	\$2.46	\$0.03	(\$0.43)	(\$0.25)	(\$0.02)
FCF Margin	23.3%	0.8%	-12.7%	-7.5%	-0.5%

On24						
(ONTF/NYSE)						
5/9/2023						
<u>Balance Sheet</u>						
\$ Millions						
	Fiscal Year					Most Recent Q
	Dec-20A	Dec-21A	Dec-22A	Dec-23E	Dec-24E	Mar-23A
<u>Assets</u>						
Cash and Cash Equivalents	61.2	164.9	27.0	6.3	4.9	100.8
Marketable Securities	0.0	217.6	301.1	214.9	214.9	214.9
Accounts Receivable, net	48.6	46.1	43.8	40.8	42.4	33.5
Deferred Contract Acquisition Costs, current	10.5	11.9	13.1	15.6	26.7	12.6
<u>Prepaid Expenses & Other Current Assets</u>	<u>7.1</u>	<u>8.5</u>	<u>6.3</u>	<u>10.6</u>	<u>10.8</u>	<u>8.4</u>
Total Current Assets	127.5	449.1	391.3	288.2	299.7	370.1
Property and Equipment, net	9.1	8.8	7.2	5.4	4.5	6.0
Operating Right-of-use Assets	0.0	0.0	5.6	5.1	5.1	5.1
Deferred Contract Acquisition Costs, non current	18.8	20.9	17.8	17.6	24.1	18.0
<u>Other Assets</u>	<u>1.4</u>	<u>1.8</u>	<u>3.6</u>	<u>3.2</u>	<u>3.2</u>	<u>3.2</u>
Total Assets	156.7	480.5	425.5	319.5	336.7	402.4
<u>Liabilities and Shareholders' Equity</u>						
Accounts Payable	4.7	3.1	4.6	5.9	3.8	3.2
Accrued Liabilities	17.4	19.0	18.5	11.7	8.0	17.3
Deferred Revenue	92.2	96.2	83.5	78.5	80.0	81.2
Debt, current portion	2.4	1.8	1.6	1.2	1.2	1.2
Operating Lease Liabilities, current	0.0	0.0	2.6	2.6	2.6	2.6
<u>Other current liabilities</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Current Liabilities	116.8	120.1	110.7	100.0	95.7	105.6
Deferred Rent	0.0	0.0	0.0	0.0	0.0	0.0
Capital Lease	0.0	0.0	0.0	0.0	0.0	0.0
Long-Term Debt	25.7	1.6	0.1	0.0	0.0	0.0
Operating Lease Liabilities, non-current	0.0	0.0	5.0	4.4	4.4	4.4
<u>Other Long-Term Liabilities</u>	<u>4.0</u>	<u>3.6</u>	<u>1.7</u>	<u>1.5</u>	<u>1.5</u>	<u>1.5</u>
Total Liabilities	146.5	125.4	117.5	105.9	101.6	111.5
<u>Total Shareholders' Equity</u>	<u>10.2</u>	<u>355.1</u>	<u>308.0</u>	<u>213.6</u>	<u>235.0</u>	<u>290.9</u>
Total Liabilities and Shareholders' Equity	156.7	480.5	425.5	319.5	336.7	402.4
Sales/Assets	1.0x	0.4x	0.4x	0.5x	0.5x	
Assets/Equity	15.4x	1.4x	1.4x	1.5x	1.4x	
NGOI/Sales	15.8%	1.0%	-9.9%	-5.5%	0.0%	
ROE	242.8%	0.6%	-6.2%	-4.2%	0.0%	

Source: Company Reports, Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: May 10, 2023, 05:56 ET

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Target Price / Valuation Methodology:

ON24 - ONTF

Our \$10 price target is based on a ~2x EV/revenue multiple applied to our C2023 revenue estimate of \$164M and assumes \$220M of net cash and ~47M fully diluted shares outstanding.

Risks to achieving Target Price / Valuation:

ON24 - ONTF

ON24 faces macro, micro, and economic risks as well as competitive and regulatory threats which could cause our estimates to be incorrect and the value of ON24 shares to decline.

Distribution of Ratings:

Global Stock Ratings (as of 05/10/23)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	602	64.59%	22.43%
Hold	141	15.13%	11.35%
Sell	16	1.72%	0.00%
Speculative Buy	158	16.95%	46.20%
	932*	100.0%	

*Total includes stocks that are Under Review

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HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

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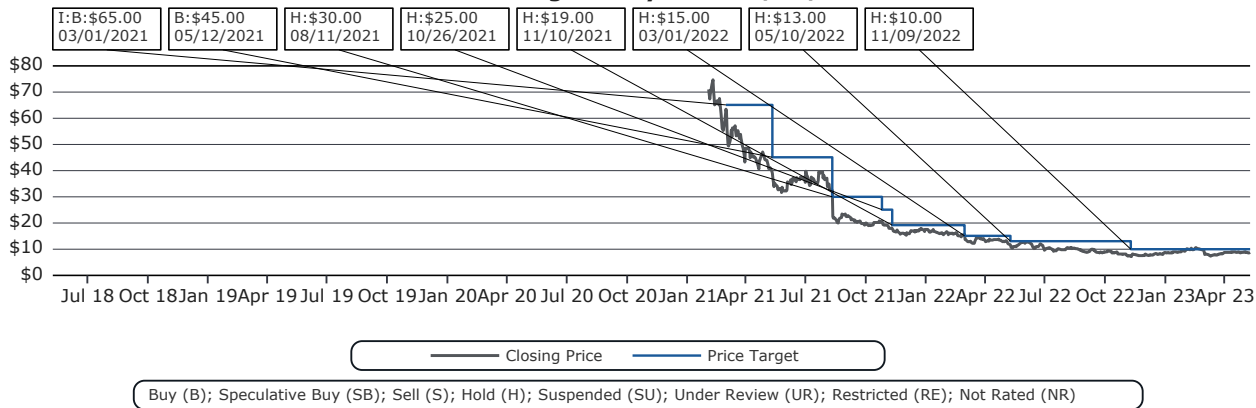
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An analyst has visited the material operations of ON24. No payment was received for the related travel costs.

ON24 Rating History as of 05/09/2023



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