

## On24

### Better Than Expected Results, With P&L Landing Ahead and Retention Improving Sequentially

ONTF reported a better than expected quarter, with revenue, ARR, and profitability landing above consensus. Additionally, the company raised its FY23 guidance across the board, including revenue by 2 points and implied PF operating margin by ~1 point. While the choppy macro environment continues to negatively impact expansions as well as downsell, the company highlighted that in-quarter gross retention rates improved sequentially for all company size cohorts. Additionally, customer activity around renewals has been more positive recently, which is an encouraging sign. ONTF plans to finalize its pricing and packaging strategy soon, with the GA of ACE, which is a new AI powered analytics and content engine tool. Net/net: ONTF reported a much better than expected quarter and is showing signs of some stabilization despite intense budget scrutiny. While we continue to really appreciate the expected improvement in profitability and view the capital return program positively, we remain on the sidelines until the company can demonstrate a better and consistent growth plus profitability profile.

- **Positives: P/L Above Consensus, Retention Improves Sequentially, Raises FY23 Guidance Across the Board.** P/L landed above consensus with total revenue of \$39.2M or ~3% above consensus driven by a 5% beat for Subscription and Other Platform revenue. Total ARR landed 2% above consensus, with Core Platform ARR showing signs of stabilization. PF operating margin landed at (3%) or a 3 point beat. PF EPS landed at \$0.03 or 3c above consensus primarily due to lower S&M expenses, which partially benefited from the recent RIF and the company is driving meaningful improvement in its cost structure from the new pricing and packaging initiatives. Separately, management highlighted that in-period gross retention trends improved sequentially and it has had more encouraging renewal discussions with customers, especially in the enterprise cohort. Management reset FY23 guidance higher, including revenue by 2 points as well as implied PF operating margin by ~1 point.
- **Issues: Expansions and Downsell Pressure Due to Macro Env't.** The company noted that expansions and downsell by customers is still under pressure due to the macro environment, evident by the lower \$100K+ ARR customers as well as 36% of multi-product customers, which has remained unchanged since Q422.
- **ACE Expected to Launch Next Quarter.** Management noted that ACE, a new AI-powered Analytics and Content Engine tool that is currently in Beta, and will be released in early 2024.
- **Dec-24 PT of \$9.** Our December 2024 price target of \$9 is based on our 10-year DCF analysis that utilizes a 10x EV/FCFF terminal multiple and 13% discount rate.

## Neutral

ONTF, ONTF US

Price (07 Nov 23):\$6.45

Price Target (Dec-24):\$9.00

### Software - Mid & Small Cap

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### Quarterly Forecasts (FYE Dec)

Revenue (\$ mn)	2022A	2023E	2024E
Q1	48	43A	36
Q2	48	42A	36
Q3	48	39A	37
Q4	47	37	37
FY	191	162	146

### Style Exposure

Quant Factors	Current	Hist %Rank (1=Top)			
	%Rank	6M	1Y	3Y	5Y
Value	29	30	36		
Growth	89	93	89		
Momentum	28	25	72		
Quality	83	64	69	86	97
Low Vol	52	45	64		
ESGQ	42	37	22	-	-

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

### See page 6 for analyst certification and important disclosures.

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## Price Performance



	YTD	1m	3m	12m
Abs	-25.3%	-1.4%	-20.4%	-13.4%
Rel	-23.7%	-0.7%	-8.8%	-9.2%

## Company Data

Shares O/S (mn)	48
52-week range (\$)	9.67-5.73
Market cap (\$ mn)	311.63
Exchange rate	1.00
Free float(%)	87.3%
3M - Avg daily vol (mn)	0.32
3M - Avg daily val (\$ mn)	2.1
Volatility (90 Day)	38
Index	RUSSELL 2000
BBG BUY HOLD SELL	0 6 0

## Key Metrics (FYE Dec)

\$ in millions	FY22A	FY23E	FY24E	FY25E
<b>Financial Estimates</b>				
Revenue	191	162	146	143
Adj. EBIT	(19)	(7)	(3)	0
Adj. EBITDA	(19)	(5)	1	4
Adj. net income	(18)	3	5	8
Adj. EPS	(0.37)	0.06	0.12	0.19
BBG EPS	(0.41)	0.01	0.05	0.04
Cashflow from operations	(20)	(12)	(1)	7
FCFF	(24)	91	(3)	4
<b>Margins and Growth</b>				
Revenue growth	(6.3%)	(15.3%)	(9.8%)	(1.7%)
EBIT margin	(9.9%)	(4.5%)	(1.9%)	0.2%
EBIT growth	(1019.8%)	(61.5%)	(62.4%)	(110.3%)
EBITDA margin	(9.9%)	(3.2%)	0.6%	2.7%
EBITDA growth	(1019.8%)	(73.0%)	(116.3%)	361.5%
Net margin	(9.2%)	1.6%	3.6%	5.7%
Adj. EPS growth	(1370.8%)	(115.0%)	108.3%	62.3%
<b>Ratios</b>				
Adj. tax rate	(5.8%)	16.1%	4.2%	4.1%
Interest cover	NM	NM	NM	NM
Net debt/Equity	NM	NM	NM	NM
Net debt/EBITDA	17.2	37.9	NM	NM
ROE	(5.3%)	1.1%	2.9%	4.3%
<b>Valuation</b>				
FCFF yield	(7.8%)	29.4%	(1.1%)	1.5%
Dividend yield	-	-	-	-
EV/Revenue	NM	0.7	0.8	0.8
EV/EBITDA	0.7	NM	144.4	30.5
Adj. P/E	NM	116.6	56.0	34.5

## Summary Investment Thesis and Valuation

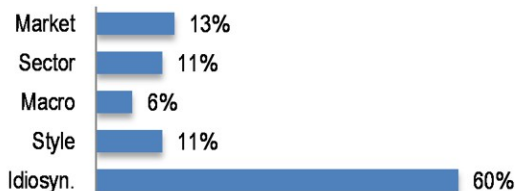
### Investment Thesis

On24 is a purpose-built cloud-based digital experience platform that allows businesses to generate interactive webinar experiences, virtual event experiences, and multimedia content experiences, either in a live or on-demand format. The solutions have been around for a number of years, but the current environment has shed light on their true efficiency and efficacy, and most companies that we speak to expect to leverage a hybrid approach post-pandemic that continues to utilize the solutions as the norm. We estimate that 500,000 businesses could utilize these types of digital marketing solutions globally, and based on a current ARPU of ~\$80K, that sizes the market at ~\$40B. However, post-pandemic churn and down-sell from enterprise customers is greater than management anticipated in their previous guidance. We do believe that ARR will be the leading metric to seeing overall improvement in revenue growth, but the one more quarter of headwinds has us cutting our estimates again and that leads to the reduction in price target and continued Neutral rating.

### Valuation

Our December 2024 price target of \$9 is based on our 10 Year Discounted Cash Flow Model that uses a 10x EV/FCFF terminal multiple and 13% weighted average cost of capital.

## Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI US	0.19	0.37
Sect: Technology	0.52	0.35
Ind: Software & Serv	0.29	0.27
<b>Macro:</b>		
Non-Energy Commodity	0.32	0.17
US 10yr Breakeven	-0.05	-0.16
US Dollar	-0.26	-0.13
<b>Quant Styles:</b>		
Quality	-0.17	-0.25
LowVol	-0.44	-0.23
Size	-0.03	-0.22

## Investment Thesis, Valuation and Risks

### On24 (Neutral; Price Target: \$9.00)

#### Investment Thesis

COVID-19 is changing the sales and marketing process forever

Traditionally, companies in the business-to-business (B2B) space attempt to generate new sales leads through a combination of brand/product marketing, conferences, and even cold-calling. That is typically followed up as quickly as possible with in-person sales meetings and efforts to progress qualified sales leads to an eventual sale. The pandemic put a halt to in-person marketing events and sales meetings, forcing the uptake of digital webinar/webcast and videoconferencing for sales meetings. The solutions have been around for a number of years, but the current environment has shed light on their true efficiency and efficacy, and most companies that we speak to expect to leverage a hybrid approach post-pandemic that continues to utilize the solutions as the norm.

\$40 billion total addressable market

There are roughly 32 million businesses in the United States alone, and likely five times that number or more on a global basis. Looking at size of organization we think it is realistic that at least 500,000 businesses on a global basis would utilize the type of digital marketing solutions offered by ONTF. Taking the current ARPU of ~\$80K, that leads to a potential addressable market of \$40 billion.

Market-leading solution

There are a large number of video technology solutions on the market, including Zoom, but the primary focus in most of them is just the communication. Very few are focused on the exact needs of the marketing departments in terms of the ability to control the branding, look and feel, and logistics. In 2013, On24 shifted its primary focus away from large online digital conferences that were a one-off event toward the needs of sales and marketing departments in providing consistent top-of-funnel lead generation through the use of webinar/webcasts. Among marketing professionals this has helped On24 establish itself as a leader in this space.

#### Valuation

December 2024 Price Target of \$9.00

Our December 2024 price target of \$9 is based on our 10 Year Discounted Cash Flow Model that uses a 10x EV/FCFF terminal multiple and 13% weighted average cost of capital.

#### Risks to Rating and Price Target

Post COVID-19 return to normal is greater than anticipated

The biggest risk in this story, in our opinion, is if customers change their mind from what they have been telling us in our research over the last six months and truly do return to business as usual from the pre-pandemic timeframe. In other words, if customers and companies prefer to return to in-person conferences and sales motions, giving back all of the digital efficiencies, we would expect revenue to take a direct hit.

Competition – Zoom adds comparable features

Right now the big advantages that On24 has over the competition including Zoom are two-fold. First is the ability to completely customize the webinar/webcast/video experience. The interface that the user enters can be branded to the look and feel of the company providing

the event. There are more elements that can be added to the screen for users to interact with beyond just video, chat, and polls. That extra layer of customization is combined with the ability to capture a larger number of data points from the user experience and have them directly integrated into other marketing applications seamlessly (like Salesforce.com). If Zoom were to bring out a similar level of functionality, it would likely curtail growth for On24 given the size of the Zoom customer base.

#### Sales execution – international expansion

A big part of the potential sustainability of top-line growth will be ramping the additional sales capacity being added, and successfully increasing traction in international markets like Europe and Asia (Japan). Sales headcount will likely double from the start of the pandemic to the first half of 2022, and if the new sales capacity does not ramp appropriately it would cause slower growth than anticipated.

#### COVID-19 resurgence

COVID-19 resurgence shifts companies back to relying on online digital sales channels: a resurgence in COVID-19 could result in a return of lockdown procedures and widespread work-from-home. This could prompt companies to increasingly rely on digital channels for their sales and marketing motions, serving to reaccelerate top-line growth and likely stock price performance for On24.

## On24: Summary of Financials

Income Statement - Annual						Income Statement - Quarterly					
	FY21A	FY22A	FY23E	FY24E	FY25E		1Q23A	2Q23A	3Q23A	4Q23E	
Revenue	204	191	162	146	143	Revenue	43A	42A	39A	37	
COGS	(45)	(48)	(41)	(37)	(36)	COGS	(11)A	(10)A	(9)A	(10)	
Gross profit	159	143	121	109	108	Gross profit	32A	32A	30A	28	
SG&A	(126)	(126)	(99)	(85)	(82)	SG&A	(28)A	(25)A	(24)A	(22)	
Adj. EBITDA	2	(19)	(5)	1	4	Adj. EBITDA	(4)A	(1)A	0A	(0)	
D&A	0	0	(2)	(4)	(4)	D&A	0A	0A	(1)A	(1)	
Adj. EBIT	2	(19)	(7)	(3)	0	Adj. EBIT	(4)A	(1)A	(1)A	(1)	
Net Interest	(0)	(0)	(0)	0	0	Net Interest	(0)A	(0)A	(0)A	0	
Adj. PBT	1	(17)	3	5	8	Adj. PBT	(2)A	2A	2A	1	
Tax	0	(1)	(1)	(0)	(0)	Tax	(0)A	(0)A	(0)A	0	
Minority Interest	-	-	-	-	-	Minority Interest	-	-	-	-	
Adj. Net Income	1	(18)	3	5	8	Adj. Net Income	(2)A	2A	1A	1	
Reported EPS	(0.51)	(1.22)	(1.01)	(0.53)	(0.31)	Reported EPS	(0.37)A	(0.25)A	(0.24)A	(0.14)	
Adj. EPS	0.03	(0.37)	0.06	0.12	0.19	Adj. EPS	(0.04)A	0.04A	0.03A	0.02	
DPS	-	-	-	-	-	DPS	-	-	-	-	
Payout ratio	-	-	-	-	-	Payout ratio	-	-	-	-	
Shares outstanding	48	48	48	45	43	Shares outstanding	47A	51A	48A	46	
Balance Sheet & Cash Flow Statement						Ratio Analysis					
	FY21A	FY22A	FY23E	FY24E	FY25E		FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalents	383	328	197	194	197	Gross margin	77.9%	74.7%	74.8%	74.7%	75.2%
Accounts receivable	46	44	33	34	32	EBITDA margin	1.0%	(9.9%)	(3.2%)	0.6%	2.7%
Inventories	-	-	-	-	-	EBIT margin	1.0%	(9.9%)	(4.5%)	(1.9%)	0.2%
Other current assets	67	63	49	52	50	Net profit margin	0.7%	(9.2%)	1.6%	3.6%	5.7%
Current assets	449	391	246	246	246	ROE	0.8%	(5.3%)	1.1%	2.9%	4.3%
PP&E	9	7	5	3	0	ROA	0.4%	(3.9%)	0.8%	1.9%	2.9%
LT investments	-	-	-	-	-	ROCE	0.8%	(6.0%)	(2.5%)	(1.4%)	0.1%
Other non current assets	23	27	26	27	28	SG&A/Sales	61.9%	65.9%	61.2%	58.5%	57.0%
Total assets	480	425	277	276	275	Net debt/equity	NM	NM	NM	NM	NM
Short term borrowings	2	3	3	3	3	P/E (x)	222.1	NM	116.6	56.0	34.5
Payables	3	5	3	2	2	P/BV (x)	0.9	1.0	1.7	1.6	1.5
Other short term liabilities	115	103	89	84	74	EV/EBITDA (x)	NM	0.7	NM	144.4	30.5
Current liabilities	120	111	95	89	79	Dividend Yield	-	-	-	-	-
Long-term debt	2	0	0	0	0	Sales/Assets (x)	0.6	0.4	0.5	0.5	0.5
Other long term liabilities	5	7	5	4	5	Interest cover (x)	4.4	NM	NM	NM	NM
Total liabilities	125	118	99	93	84	Operating leverage	(308.3%)	16296.7%	401.7%	638.5%	6608.2%
Shareholders' equity	355	308	178	183	191	Revenue y/y Growth	29.7%	(6.3%)	(15.3%)	(9.8%)	(1.7%)
Minority interests	-	-	-	-	-	EBITDA y/y Growth	(92.3%)	(1019.8%)	(73.0%)	(116.3%)	361.5%
Total liabilities & equity	480	425	277	276	275	Tax rate	25.7%	(5.8%)	16.1%	4.2%	4.1%
BVPS	7.40	6.47	3.70	4.03	4.39	Adj. Net Income y/y Growth	(94.1%)	(1360.5%)	(115.1%)	96.9%	55.3%
y/y Growth	907.1%	(12.6%)	(42.8%)	8.9%	9.1%	EPS y/y Growth	(98.3%)	(1370.8%)	(115.0%)	108.3%	62.3%
Net debt/(cash)	(379)	(325)	(194)	(191)	(194)	DPS y/y Growth	-	-	-	-	-
Cash flow from operating activities	5	(20)	(12)	(1)	7						
o/w Depreciation & amortization	5	5	5	5	5						
o/w Changes in working capital	(19)	(25)	(24)	(25)	(22)						
Cash flow from investing activities	(219)	(89)	103	(2)	(2)						
o/w Capital expenditure	(4)	(4)	(2)	(2)	(2)						
as % of sales	1.8%	1.9%	1.1%	1.6%	1.6%						
Cash flow from financing activities	321	(29)	(124)	0	(1)						
o/w Dividends paid	-	-	-	-	-						
o/w Net debt issued/(repaid)	(25)	(1)	(1)	0	(1)						
Net change in cash	107	(138)	(33)	(3)	3						
Adj. Free cash flow to firm	2	(24)	91	(3)	4						
y/y Growth	(95.0%)	(1316.7%)	(480.5%)	(103.5%)	(227.9%)						

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Dec. o/w - out of which

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On24 (ONTF, ONTF US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.  
Initiated coverage Mar 01, 2021. All share prices are as of market close on the previous business day.

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