

<b>Rating</b> <b>HOLD</b> <i>unchanged</i>	<b>Price Target</b> <b>US\$10.00</b> <i>unchanged</i>
<b>ONTF-NYSE</b>	<b>Price</b> <b>US\$6.45</b>

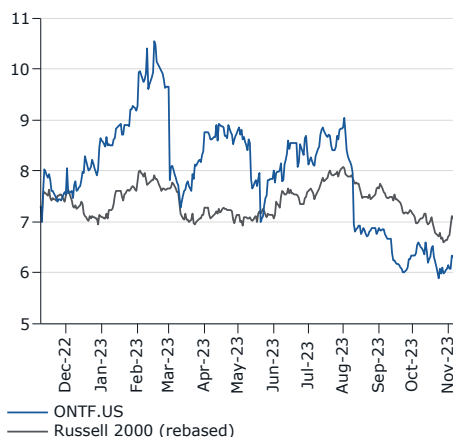
### Market Data

52-Week Range (US\$) :	5.73 - 11.20
Avg Daily Vol (000s) :	319
Market Cap (US\$M) :	311.6
Shares Out. (M) :	48.3
Enterprise Value (US\$M) :	247.1
Net Cash (US\$M) :	356.0

FYE Dec	2022A	2023E	2024E
Sales (US\$M)	190.9	161.7↑	149.1↑
<i>Previous</i>	-	158.5	147.0
EV/Sales (x)	0.5	0.6	0.7
Free Cash Flow (US\$M)	(24.2)	(10.1)	(7.5)
EV/FCF (x)	NA	NA	NA
EPS Non-GAAP (US\$)	(0.37)	0.05↑	0.02↑
<i>Previous</i>	-	0.02	0.01

Quarterly Sales	Q1	Q2	Q3	Q4
2022A	48.5	48.2	47.6	46.6
2023E	43.1A	42.1A	39.2A	37.3
2024E	36.0	36.6	37.5	39.1

Quarterly EPS Non-GAAP	Q1	Q2	Q3	Q4
2022A	(0.13)	(0.14)	(0.07)	(0.04)
2023E	(0.04)A	0.05A	0.03A	0.01
2024E	(0.01)	(0.00)	0.01	0.02



Source: FactSet

Priced as of close of business 7 November 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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## Downsell pressures persist, but churn stabilizing and continued progress on path back to profitability

The headline metrics for On24 still aren't great – revenue and ARR metrics continued a 7-quarter stretch of sequential declines – but if you dig a layer deeper, there were signs of progress in Q3. Specifically, (1) overall gross retention improved quarter-over-quarter, (2) management pointed to signs of stabilization in the renewal base, and (3) On24 delivered on profit targets, reaching EBITDA breakeven for the second consecutive quarter. The biggest challenge here continues to be downsell pressure with large, enterprise customers, but management believes that we're within a few quarters of that cycle ending, giving them the confidence to suggest that positive ARR growth is in the cards at some point in the second half of 2024.

Looking ahead, On24 laid out three strategic priorities that management believes should put the firm back on a path to profitable growth: (1) AI-led product innovation – the firm launched ACE this quarter, which is On24's AI-powered analytics and content engine; (2) GTM alignment around better-performing areas of the business – this means an enterprise focus on regulated industries, where today On24 is seeing the best traction in pharma and life sciences, commercial health insurance, financial services, and professional services organizations; and (3) a focus on profitability – the firm has already taken \$56M of run-rate costs out of the model through a series of restructurings and management is committed to a multi-year path back to 10%+ EBITDA margins, irrespective of growth rates (obviously a return to growth is the gating factor on how quickly they can get there).

In terms of the stock, ONTF shares are unquestionably cheap at 0.6x EV/R, but it's been justifiably challenging for value investors to see past the continued degradation in ARR metrics. Management has done a nice job controlling costs and returning balance sheet cash to shareholders, but that can only do so much to buoy the stock. We get the sense that confidence is increasing internally with respect to a return to growth, but we're still at least several quarters away from seeing that play out in the numbers. To that end, we're going to take a wait-and-see. This stock will start to work if management can execute the plan they've laid out, but for now, it feels like there's still too much uncertainty to reassess our rating. Maintain HOLD.

### Highlights from the print

**Numbers and key metrics.** Total revenue for the quarter came in at \$39.2M (-18% year-over-year), with Core platform revenue of \$35.5M falling 18% over the prior year period. In terms of profitability, non-GAAP operating loss came in at -\$1.1M, nearly \$1M ahead of prior guidance, attributable to savings from cost-cutting measures, which have lowered the firm's run-rate cost structure by nearly \$56M since 5 quarters ago. Q3 also marked the firm's second consecutive quarter of adjusted EBITDA breakeven profitability, coming in at \$0.1M.

- Total ARR and Core Platform ARR were \$140.2M and \$136.5M, respectively, slightly beating the firm's prior guidance calling for low single-digit sequential declines as compared to Q2. On24 continues to see demand headwinds as customers reduce marketing budgets, but is seeing some signs of stabilization as customer activity is less frenetic than prior quarters.
- Total customer count came in at 1,804, down 22 sequentially, with customers with ARR > \$100K numbering 317, down 6 vs. Q2. Though management noted that churn improved over the quarter, smaller customers still made up most of the attrition. Within the larger cohort, On24 is not losing customers on a logo basis but rather some are renewing at levels below the \$100K threshold.

**Incremental capital return program progress.** On24 continued to execute on its capital return program, buying back roughly \$25M worth of common stock in Q3, bringing the year's total to approximately \$59.2M of the \$75M approved program. On24 has currently repurchased approximately \$8M in Q4, bringing the year-to-date total to roughly \$67M and putting it on pace to complete the program by Q1'24. Inclusive of the \$50M special dividend paid in Q2, On24 has returned \$117M to shareholders in 2023.

**Updated 2023 guidance.** Management raised full-year total revenue guidance to \$161.7M at the midpoint, of which core platform revenue comprises \$156.1 at its respective midpoint, representing year-over-year growth of -15% and -12%. Management also raised its non-GAAP operating income guidance to a loss of \$7.2M for the year, or a margin of -4.5%. On the bottom line, thanks in part to the ongoing success of cost-cutting measures, the firm raised non-GAAP EPS guidance to \$0.05, nearly 5 cents higher than prior guidance. In terms of Q4, management called for sequential total and core platform ARR declines of -2.8% and -2.5%, with the magnitude of sequential declines decreasing with a hopeful return to growth in H2'24 as macro headwinds abate, churn continues to stabilize, and upsell activity within the firm's Enterprise cohort begins to accelerate again.

## Valuation and price target

We are maintaining our price target at \$10. This price target is based on a ~1.6x EV/revenue multiple applied to our C2024 revenue estimate of \$149M and assumes ~\$220M of net cash and ~46M fully diluted shares outstanding.

## Quarterly results

The table below details ON24's September quarter (Q3/23) results compared to our published estimates and the year ago quarter's results.

**Figure 1: ONTF September 2023 (Q3/23)**

\$ Millions	Sep-22	Sep-23	Sept-23E	Actual - Estimate	Percent Difference
<b>Annual Recurring Revenue (ARR)</b>	<b>\$165.6</b>	<b>\$140.2</b>	<b>\$138.0</b>	<b>\$2.2</b>	<b>2%</b>
Growth	-1%	-15%	-17%	--	--
Sequential Dollar Change in ARR	(\$2.2)	(\$4.6)	(\$6.8)	\$2.2	-32%
<b>Core Platform ARR</b>	<b>--</b>	<b>\$136.5</b>	<b>\$135.0</b>		
Growth	--	--	--		
Sequential Dollar Change in ARR	--	(\$4.1)	(\$5.6)		
Core Subscription Revenue	43.3	35.5	34.1	1.4	4%
Core Service Revenue	4.3	2.6	2.7	(0.1)	-2%
Core Revenue	47.6	38.1	36.8	1.3	4%
Non-Core Revenue (Virtual)	0.0	1.1	1.2	(0.1)	n/a
Total Revenue	47.6	39.2	38.0	1.2	3%
Cost of Platform	(8.9)	(7.1)	(7.8)	0.7	9%
Cost of Service	(3.0)	(2.3)	(2.3)	0.0	1%
Cost of Legacy	0.0	0.0	0.0	0.0	n/a
non-GAAP Gross Profit	35.7	29.8	27.9	2.0	7%
Sales & Marketing	(22.4)	(17.6)	(16.3)	(1.4)	-8%
Research & Development	(9.1)	(7.0)	(7.0)	0.0	1%
General & Administrative	(7.9)	(6.3)	(6.7)	0.3	5%
Cost of Operations	(39.3)	(30.9)	(29.9)	(1.0)	-3%
non-GAAP Operating Income	(3.6)	(1.1)	(2.1)	1.0	-48%
Depreciation & Amortization, Other	(1.3)	(1.1)			
Adjusted EBITDA	(2.4)	0.1			
Stock Based Compensation	(9.9)	(11.6)	(7.6)	(4.0)	-52%
Amortization & Other	(1.2)	(1.4)	(0.7)	(0.7)	101%
GAAP Operating Income	(14.8)	(14.1)	(10.4)	(3.7)	35%
Interest Income	0.0	0.0	0.0	0.0	n/a
Interest Expense	(0.0)	(0.0)	2.1	(2.1)	n/a
Other Income (Expense)	0.5	2.7	0.0	2.7	n/a
GAAP Pre-Tax Income	(14.3)	(11.4)	(8.3)	(3.1)	37%
Tax Rate	0%	-1%	0%	-1%	n/a
Income Tax Benefit (Expense)	(0.0)	(0.1)	0.0	(0.1)	n/a
GAAP Net Income	(14.4)	(11.5)	(8.3)	(3.2)	38%
Reversal of SBC, Amort, & Other	11.1	13.0	8.3	4.7	56%
Tax Effect of Add-Backs	0.0	0.0	0.0	0.0	n/a
non-GAAP Net Income	(3.3)	1.5	0.0	1.5	10600%
Basic Shares Outstanding	47.6	43.8	44.0	(0.2)	0%
Pro Forma/Diluted Shares Outstanding	56.3	48.3	49.2	(0.9)	-2%
GAAP EPS	(\$0.30)	(\$0.26)	(\$0.19)	(\$0.07)	39%
non-GAAP EPS	(\$0.07)	\$0.03	\$0.00	\$0.03	10641%
Free Cash Flow	(4.2)	(3.2)	(3.5)	0.3	-7%
Customer Count	2,053	1,804	1,751	53	3%
Growth	0%	-12%	-15%	--	--
Net New Customer Additions	(48)	(22)	(75)	53	-71%
Customers with ARR >\$100K	351	317	318	(1)	0%
Growth	-2%	-10%	-9%	--	--
% of Total	17%	18%	18%	--	--
Net New >\$100K ARR Additions	2	(6)	(5)	(1)	n/a
ARR per Customer	79,730	77,245	77,160	86	0%
Growth	-1%	-3%	-3%	--	--
Calculated Billings (Revenue + Δ Deferred)	37.8	31.4	31.0	0.4	1%
Growth	-19%	-17%	-18%	--	--
Net Cash & ST Investments per Share	\$6.04	\$4.42	\$4.59	(\$0.17)	-4%

Source: Company Reports, Canaccord Genuity estimates

Source: Company Reports, Canaccord Genuity estimates. Note: 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) 11/7/2023 <u>Statement of Cash Flows</u> \$ Millions						On24 (ONTF/NYSE) 11/7/2023 <u>Balance Sheet</u> \$ Millions						Most Recent Q
Fiscal Year						Fiscal Year					Sept-23A	
	Dec-21A	Dec-22A	Dec-23E	Dec-24E	Dec-25E		Dec-21A	Dec-22A	Dec-23E	Dec-24E	Dec-25E	
<b>Operating Activities</b>						<b>Assets</b>						
Net Income	(24.3)	(58.2)	(49.7)	(28.8)	(26.8)	Cash and Cash Equivalents	164.9	27.0	2.0	14.6	11.0	10.8
Depreciation & other	19.3	23.9	19.4	17.0	17.0	Marketable Securities	217.6	301.1	202.9	202.9	202.9	202.9
Stock-Based Compensation	29.7	38.5	40.8	29.8	30.3	Accounts Receivable, net	46.1	43.8	39.4	41.4	43.4	25.9
<b>Changes in Assets &amp; Liabilities:</b>						Deferred Contract Acquisition Costs, current	11.9	13.1	14.2	19.9	25.1	12.3
Accounts Receivable	(0.4)	0.5	2.0	(2.0)	(2.0)	<u>Prepaid Expenses &amp; Other Current Assets</u>	<u>8.5</u>	<u>6.3</u>	<u>6.7</u>	<u>9.4</u>	<u>9.8</u>	<u>6.5</u>
Prepaid Expenses & Other	(19.0)	(11.5)	(10.0)	(11.1)	(10.7)	Total Current Assets	449.1	391.3	265.1	288.2	292.2	258.5
Accounts Payable	(1.2)	1.5	0.8	(0.7)	(1.3)							
Accrued & Other Liabilities	(2.7)	(2.4)	(5.9)	(6.6)	(4.5)	Property and Equipment, net	8.8	7.2	5.7	5.2	4.9	5.9
<u>Deferred Revenue</u>	<u>4.0</u>	<u>(12.8)</u>	<u>(5.7)</u>	<u>(2.1)</u>	<u>(1.9)</u>	Operating Right-of-use Assets	0.0	5.6	3.3	3.3	3.3	3.3
<b>Net Cash Flow from Operating Activities</b>	<b>5.2</b>	<b>(20.5)</b>	<b>(8.3)</b>	<b>(4.6)</b>	<b>0.1</b>	Deferred Contract Acquisition Costs, non current	20.9	17.8	14.9	17.6	22.7	15.6
						<u>Other Assets</u>	<u>1.8</u>	<u>3.6</u>	<u>2.7</u>	<u>2.7</u>	<u>2.7</u>	<u>2.7</u>
<b>Investing Activities</b>						<b>Total Assets</b>	<b>480.5</b>	<b>425.5</b>	<b>291.7</b>	<b>317.0</b>	<b>325.8</b>	<b>286.0</b>
Capital Expenditures	(3.6)	(3.7)	(1.8)	(2.9)	(3.1)	<b>Liabilities and Shareholders' Equity</b>						
Cash Paid for Acquisitions, net of acquired	0.0	(2.5)	0.0	0.0	0.0	Accounts Payable	3.1	4.6	5.6	4.9	3.6	2.7
<u>Other Investing Activities</u>	<u>(215.6)</u>	<u>(82.8)</u>	<u>104.7</u>	<u>25.0</u>	<u>0.0</u>	Accrued Liabilities	19.0	18.5	16.4	9.8	5.3	16.6
<b>Net Cash Flow from Investing Activities</b>	<b>(219.2)</b>	<b>(89.0)</b>	<b>102.9</b>	<b>22.1</b>	<b>(3.1)</b>	Deferred Revenue	96.2	83.5	77.8	75.7	73.8	66.6
						Debt, current portion	1.8	1.6	0.0	0.0	0.0	0.0
<b>Financing Activities</b>						Operating Lease Liabilities, current	0.0	2.6	2.7	2.7	2.7	2.7
Proceeds from Borrowing and Issuance	349.0	(19.7)	0.4	1.0	1.0	<u>Other current liabilities</u>	<u>0.0</u>	<u>0.0</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>
Payment for repurchase of common stock	0.0	0.0	(70.7)	(4.3)	0.0	Total Current Liabilities	120.1	110.7	102.8	93.4	85.7	89.0
Payment of cash dividend	0.0	0.0	(49.9)	0.0	0.0							
<u>Changes in Debt and Other Liabilities</u>	<u>(28.5)</u>	<u>(1.6)</u>	<u>0.3</u>	<u>(1.6)</u>	<u>(1.6)</u>	Deferred Rent	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash Flow from Financing</b>	<b>320.5</b>	<b>(21.3)</b>	<b>(120.0)</b>	<b>(4.9)</b>	<b>(0.6)</b>	Capital Lease	0.0	0.0	0.0	0.0	0.0	0.0
						Long-Term Debt	1.6	0.1	0.0	0.0	0.0	0.0
<u>Effect of Exchange Rate</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.0</u>	<u>0.0</u>	Operating Lease Liabilities, non-current	0.0	5.0	3.2	3.2	3.2	3.2
<b>Change in Cash</b>	<b>106.7</b>	<b>(130.6)</b>	<b>(25.2)</b>	<b>12.6</b>	<b>(3.6)</b>	<u>Other Long-Term Liabilities</u>	<u>3.6</u>	<u>1.7</u>	<u>1.3</u>	<u>1.3</u>	<u>1.3</u>	<u>1.3</u>
						<b>Total Liabilities</b>	<b>125.4</b>	<b>117.5</b>	<b>107.3</b>	<b>97.8</b>	<b>90.2</b>	<b>93.4</b>
<b>Cash Balance Beginning</b>	<b>63.3</b>	<b>170.0</b>	<b>39.5</b>	<b>14.3</b>	<b>26.9</b>	<b>Total Shareholders' Equity</b>	<b>355.1</b>	<b>308.0</b>	<b>184.4</b>	<b>219.1</b>	<b>235.6</b>	<b>192.5</b>
<b>Cash Ending</b>	<b>170.0</b>	<b>39.5</b>	<b>14.3</b>	<b>26.9</b>	<b>23.3</b>	<b>Total Liabilities and Shareholders' Equity</b>	<b>480.5</b>	<b>425.5</b>	<b>291.7</b>	<b>317.0</b>	<b>325.8</b>	<b>286.0</b>
<b>Free Cash Flow</b>	<b>1.6</b>	<b>(24.2)</b>	<b>(10.1)</b>	<b>(7.5)</b>	<b>(3.0)</b>	Sales/Assets	0.4x	0.4x	0.6x	0.5x	0.5x	
<b>FCF/Share</b>	<b>\$0.03</b>	<b>(\$0.43)</b>	<b>(\$0.20)</b>	<b>(\$0.16)</b>	<b>(\$0.06)</b>	Assets/Equity	1.4x	1.4x	1.6x	1.4x	1.4x	
<b>FCF Margin</b>	<b>0.8%</b>	<b>-12.7%</b>	<b>-6.3%</b>	<b>-5.0%</b>	<b>-2.0%</b>	<u>NGOI/Sales</u>	<u>1.0%</u>	<u>-9.9%</u>	<u>-4.5%</u>	<u>-2.0%</u>	<u>-0.3%</u>	
						ROE	0.6%	-6.2%	-4.0%	-1.4%	-0.2%	

Source: Company Reports, Canaccord Genuity estimates

# Appendix: Important Disclosures

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## Investment Recommendation

Date and time of first dissemination: November 07, 2023, 23:19 ET

Date and time of production: November 07, 2023, 23:19 ET

## Target Price / Valuation Methodology:

ON24 - ONTF

Our \$10 price target is based on a ~1.6x EV/revenue multiple applied to our C2024 revenue estimate of \$149M and assumes \$220M of net cash and ~46M 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 11/07/23)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	606	66.89%	23.43%
Hold	119	13.13%	10.92%
Sell	14	1.55%	7.14%
Speculative Buy	159	17.55%	50.94%
	906*	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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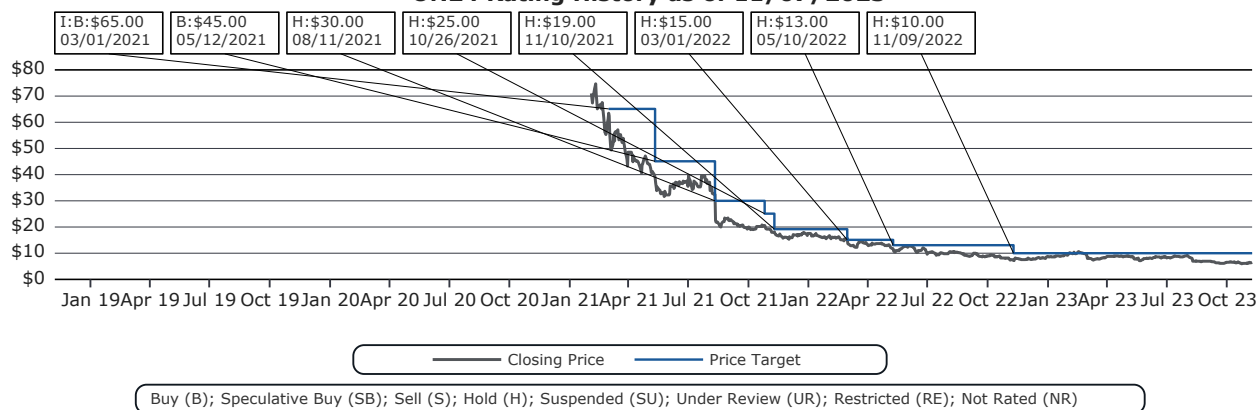
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An analyst has visited the material operations of ON24. No payment was received for the related travel costs.

**ON24 Rating History as of 11/07/2023**



## Past performance

In line with Article 44(4)(b), MiFID II Delegated Regulation, we disclose price performance for the preceding five years or the whole period for which the financial instrument has been offered or investment service provided where less than five years. Please note price history refers to actual past performance, and that past performance is not a reliable indicator of future price and/or performance.

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