

On24

Profitability Resets Higher Despite Macro Backdrop

ONTF reported solid results, with P/L landing above consensus across the board, as the cost structure improvements begin to materialize. Management noted that revenue growth should turn positive in the 2H of next year and expects to be non-GAAP EPS BE in 4Q23. While reported net new ARR is expected to be negative next quarter, given the FX, macro, and virtual conference (mid-single digit % of total ARR) headwinds, ARR for the core platform should be relatively stable. On24's market cap is trading relatively in-line with cash, and as such, signaled it will be active in the market by initiating stock buybacks (\$21M available under existing program) or investing in its engagement platform organically or inorganically.

- **Top and bottom-line beat.** ONTF reported 3Q22 revenue/non-GAAP EPS of \$47.6M/\$(0.07) compared to our estimate of \$47.4M/\$(0.16) and Street's \$47.5M/\$(0.16).
- **Positives: P/L Above Consensus, Expects Positive Revenue Growth in 2H23 and non-GAAP EPS Breakeven 4Q23, Signals Stock Buybacks.** (1) P/L landed above consensus across the board driven by platform revenue growth stabilizing on a sequential basis. The company is driving meaningful improvement in its cost structure since Q2, with approximately \$16M in run-rate savings. As such, PF operating income in Q3 came in \$4M above the guidance mid-point and margins improved by ~500bps sequentially. (2) While management didn't provide formal FY23 guidance, revenue growth is expected to turn positive in the 2H of next year, as headwinds associated with On24's virtual conference product (3 pts), service overages (4 pts), and FX (1pt) subside. Additionally, the cost cutting measures will improve operating leverage, as On24 expects to achieve non-GAAP EPS breakeven by 4Q23. (3) The company has ~\$342M of cash on the balance sheet, which is relatively in-line with its market cap and has no debt. Management signaled that it will potentially buy back stock or invest in its engagement platform both organically or inorganically.
- **Issues: Macro Has Gotten Tighter, Lowers FY Revenue Guidance.** (1) Elongated sales cycles persists, as customers reassess their digital budgets and in turn show higher than anticipated rationalization. Management noted that for customers with \$100K+ ARR, sales cycles are within the historical three to six month range, but towards the high end of this. The macro backdrop continues to put pressure on EMEA and Commercial, which should likely persist. (2) 4Q ARR was guided to be "slightly down from Q3 levels", as weak demand for its virtual conference product, FX, and macro remain headwinds. The company lowered its FY revenue guide by \$2.5M or ~1%.
- **Dec-23 PT of \$12.** Our December 2023 price target of \$12 is based on our 10-year DCF analysis that utilizes a 14x EV/FCFF terminal multiple and 13% discount rate.

Neutral

ONTF, ONTF US

Price (09 Nov 22):\$6.99

▼ **Price Target (Dec-23):\$12.00**

Prior (Dec-23):\$14.00

Software - Large Cap / Mid & Small Cap

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Key Changes (FYE Dec)

	Prev	Cur
Revenue - 23E (\$ mn)	206	194

Quarterly Forecasts (FYE Dec)

Revenue (\$ mn)	2021A	2022E	2023E
Q1	50	48A	47
Q2	52	48A	47
Q3	49	48A	50
Q4	52	46	51
FY	204	191	194

Style Exposure

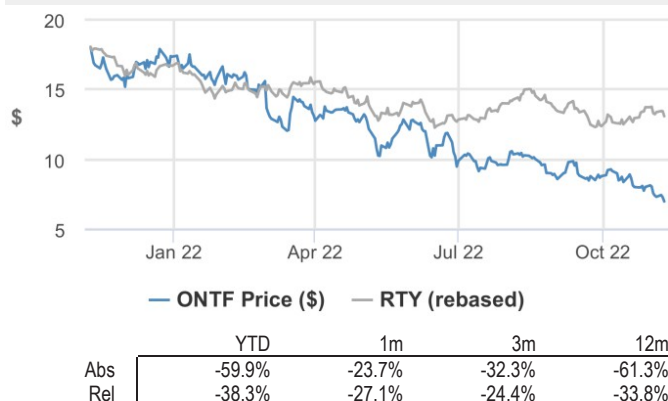
Quant Factors	Current %Rank	Hist %Rank (1=Top)			
		6M	1Y	3Y	5Y
Value	30	43	33		
Growth	89	5	1		
Momentum	68	100	100		
Quality	68	74	57	97	97
Low Vol	61	72	88		
ESGQ	16	-	-	-	-

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



Company Data

Shares O/S (mn)	49
52-week range (\$)	18.54-6.95
Market cap (\$ mn)	344.13
Exchange rate	1.00
Free float(%)	83.6%
3M - Avg daily vol (mn)	0.34
3M - Avg daily val (\$ mn)	3.0
Volatility (90 Day)	44
Index	RUSSELL 2000
BBG BUY HOLD SELL	0 7 0

Key Metrics (FYE Dec)

\$ in millions	FY21A	FY22E	FY23E
Financial Estimates			
Revenue	204	191	194
Adj. EBIT	2	(20)	(7)
Adj. EBITDA	2	(19)	(3)
Adj. net income	1	(20)	(7)
Adj. EPS	0.03	(0.41)	(0.14)
BBG EPS	(0.03)	(0.55)	(0.33)
Cashflow from operations	5	(20)	(0)
FCFF	2	(23)	(4)
Margins and Growth			
Revenue growth	29.7%	(6.4%)	1.9%
EBIT margin	1.0%	(10.3%)	(3.5%)
EBIT growth	(91.7%)	(1048.4%)	(64.8%)
EBITDA margin	1.0%	(9.7%)	(1.7%)
EBITDA growth	(92.3%)	(999.0%)	(82.1%)
Net margin	0.7%	(10.3%)	(3.5%)
Adj. EPS growth	(98.3%)	(1516.4%)	(65.8%)
Ratios			
Adj. tax rate	25.7%	(0.8%)	(3.0%)
Interest cover	4.4	NM	16.5
Net debt/Equity	NM	NM	NM
Net debt/EBITDA	NM	1.4	6.4
ROE	0.8%	(5.9%)	(2.2%)
Valuation			
FCFF yield	0.6%	(6.8%)	(1.1%)
Dividend yield	-	-	-
EV/Revenue	0.9	1.7	1.7
EV/EBITDA	88.9	NM	NM
Adj. P/E	240.7	NM	NM

Summary Investment Thesis and Valuation

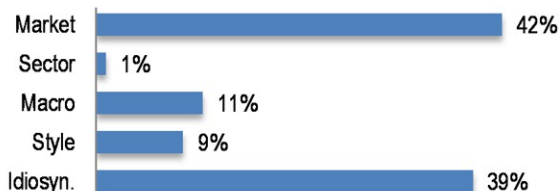
Investment Thesis

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 2023 price target of \$12 is based on our 10 Year Discounted Cash Flow Model that uses a 14x EV/FCFF terminal multiple and 13% weighted average cost of capital.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI US	0.64	0.63
Sect: Technology	0.17	0.16
Ind: Software & Serv	0.27	0.33
Macro:		
US 10yr yield	0.55	0.40
Crude Oil	-0.03	-0.25
US 10yr Breakeven	0.08	-0.13
Quant Styles:		
Momentum	-0.35	-0.41
Size	-0.35	-0.36
LowVol	-0.29	-0.29

Investment Thesis, Valuation and Risks

On24 (Neutral; Price Target: \$12.00)

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 2023 Price Target of \$12.00

We lower our December 2023 price target to \$12, which is based on our 10 Year Discounted Cash Flow Model that uses a 14x 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 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				
	FY20A	FY21A	FY22E	FY23E	FY24E		1Q22A	2Q22A	3Q22A	4Q22E
Revenue	157	204	191	194	-	Revenue	48A	48A	48A	46
COGS	(33)	(45)	(48)	(47)	-	COGS	(12)A	(12)A	(12)A	(12)
Gross profit	124	159	143	147	-	Gross profit	37A	36A	36A	35
SG&A	(80)	(126)	(127)	(119)	-	SG&A	(34)A	(33)A	(30)A	(30)
Adj. EBITDA	27	2	(19)	(3)	-	Adj. EBITDA	(6)A	(6)A	(4)A	(3)
D&A	(2)	0	(1)	(4)	-	D&A	0A	0A	0A	(1)
Adj. EBIT	25	2	(20)	(7)	-	Adj. EBIT	(6)A	(6)A	(4)A	(4)
Net Interest	(1)	(0)	(0)	0	-	Net Interest	(0)A	(0)A	(0)A	0
Adj. PBT	24	1	(19)	(7)	-	Adj. PBT	(6)A	(6)A	(3)A	(4)
Tax	(0)	0	(0)	(0)	-	Tax	(0)A	(0)A	(0)A	0
Minority Interest	-	-	-	-	-	Minority Interest	-	-	-	-
Adj. Net Income	24	1	(20)	(7)	-	Adj. Net Income	(6)A	(6)A	(3)A	(4)
Reported EPS	1.49	(0.51)	(1.22)	(0.74)	-	Reported EPS	(0.32)A	(0.34)A	(0.30)A	(0.25)
Adj. EPS	1.71	0.03	(0.41)	(0.14)	-	Adj. EPS	(0.13)A	(0.14)A	(0.07)A	(0.08)
DPS	-	-	-	-	-	DPS	-	-	-	-
Payout ratio	-	-	-	-	-	Payout ratio	-	-	-	-
Shares outstanding	14	48	48	49	-	Shares outstanding	48A	47A	48A	48
Balance Sheet & Cash Flow Statement						Ratio Analysis				
	FY20A	FY21A	FY22E	FY23E	FY24E		FY20A	FY21A	FY22E	FY23E
Cash and cash equivalents	58	165	29	24	-	Gross margin	78.9%	77.9%	74.9%	75.8%
Accounts receivable	49	46	41	45	-	EBITDA margin	17.0%	1.0%	(9.7%)	(1.7%)
Inventories	-	-	-	-	-	EBIT margin	15.8%	1.0%	(10.3%)	(3.5%)
Other current assets	69	284	366	375	-	Net profit margin	15.1%	0.7%	(10.3%)	(3.5%)
Current assets	127	449	395	399	-	ROE	(551.1%)	0.8%	(5.9%)	(2.2%)
PP&E	9	9	8	7	-	ROA	21.1%	0.4%	(4.3%)	(1.6%)
LT investments	-	-	-	-	-	ROCE	116.3%	0.8%	(5.8%)	(2.3%)
Other non current assets	20	23	31	39	-	SG&A/Sales	51.0%	61.9%	66.5%	61.2%
Total assets	157	480	434	444	-	Net debt/equity	NM	NM	NM	NM
Short term borrowings	2	2	3	3	-	P/E (x)	4.1	240.7	NM	NM
Payables	5	3	3	2	-	P/BV (x)	9.5	0.9	1.1	1.1
Other short term liabilities	110	115	108	126	-	EV/EBITDA (x)	11.8	88.9	NM	NM
Current liabilities	117	120	114	130	-	Dividend Yield	-	-	-	-
Long-term debt	26	2	0	0	-	Sales/Assets (x)	1.4	0.6	0.4	0.4
Other long term liabilities	30	5	8	8	-	Interest cover (x)	30.7	4.4	NM	16.5
Total liabilities	147	125	121	138	-	Operating leverage	(362.3%)	(308.3%)	16305.6%	(3335.6%)
Shareholders' equity	10	355	312	306	-	Revenue y/y Growth	76.1%	29.7%	(6.4%)	1.9%
Minority interests	-	-	-	-	-	EBITDA y/y Growth	(326.8%)	(92.3%)	(999.0%)	(82.1%)
Total liabilities & equity	157	480	434	444	-	Tax rate	1.2%	25.7%	(0.8%)	(3.0%)
BVPS	0.73	7.40	6.55	6.27	-	Adj. Net Income y/y Growth	(252.5%)	(94.1%)	(1506.8%)	(64.9%)
y/y Growth	(134.3%)	907.1%	(11.4%)	(4.4%)	-	EPS y/y Growth	(196.5%)	(98.3%)	(1516.4%)	(65.8%)
Net debt/(cash)	(30)	(161)	(26)	(21)	-	DPS y/y Growth	-	-	-	-
Cash flow from operating activities	38	5	(20)	(0)	-					
o/w Depreciation & amortization	3	5	5	4	-					
o/w Changes in working capital	11	(19)	(22)	(15)	-					
Cash flow from investing activities	1	(219)	(95)	(4)	-					
o/w Capital expenditure	(1)	(4)	(3)	(4)	-					
as % of sales	0.7%	1.8%	1.6%	1.8%	-					
Cash flow from financing activities	1	321	(22)	(1)	-					
o/w Dividends paid	-	-	-	-	-					
o/w Net debt issued/(repaid)	(13)	(25)	(2)	(1)	-					
Net change in cash	40	107	(136)	(5)	-					
Adj. Free cash flow to firm	39	2	(23)	(4)	-					
y/y Growth	(443.6%)	(95.0%)	(1254.8%)	(82.8%)	-					

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



Date	Rating	Price (\$)	Price Target (\$)
01-Mar-21	OW	56.56	85
11-Aug-21	N	32.31	32
10-Nov-21	N	18.05	22
28-Feb-22	N	15.12	16.5
22-Jun-22	N	11.01	14

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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