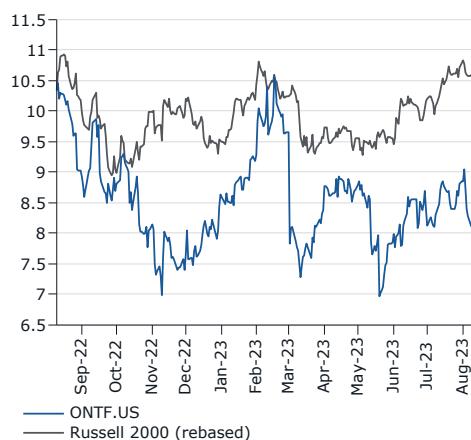


# ON24 Software - Applications

<b>Rating</b> <b>HOLD</b>	<b>Price Target</b> <b>US\$10.00</b>
<b>ONTF-NYSE</b>	<b>Price</b> <b>US\$7.95</b>

## Market Data

52-Week Range (US\$) :	6.87 - 11.52
Avg Daily Vol (000s) :	389.25
Shares Out. (M) :	45.9
Market Cap (US\$M) :	364.6



Source: FactSet

Priced as of close of business 8 August 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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## Margins improve while macro challenges linger large; HOLD

### Investment Recommendation

This quarter was a bit of a mixed bag in our eyes for a couple of reasons, namely: (1) ARR came in below guidance as macro-driven headwinds continued to exert downsell pressure among the Enterprise cohort and churn in favor for lower-cost substitutes at the lower end, (2) the Technology and Manufacturing verticals, combining for over half of core ARR, remained pressured, and (3) from a macro perspective, customers' marketing budgets remain subdued, and deals continue to be pushed or scaled down as uncertainty reigns; however, On24, through successful ongoing cost-cutting measures, has brought forward breakeven non-GAAP EBITDA and EPS profitability by two quarters, with an eye toward sustained profitability in 2024. The demand environment remains difficult, but On24 is executing where it can through cost savings (now at an annualized \$50M) and a capital return program in-progress, while revamping its go-to-market strategy to focus on less sensitive industry verticals with digital transformation tailwinds, as well as leveraging an extensive first-party dataset to create generative AI tools with the hopes of driving growth going forward.

Taking this to the stock, the core ARR weakness in the quarter wasn't ideal, but management is doing all the right things to keep themselves in the game, with particular emphasis on cost efficiencies, AI-driven innovation, and a targeted Enterprise GTM strategy, all with the goal of an eventual return to both double-digit growth and EBITDA margin profitability. Continued progress on the capital return program is positive in our view, but it doesn't change the fundamental difficulties that On24 is currently facing in the demand environment. ONTF shares look cheap at ~1.2x EV/R on C2024, we're going to have to see some of these macro headwinds abate and continued progress on cost optimization before we can get more constructive on the stock, leaving us comfortable with our HOLD.

### Highlights from the print

**Numbers and key metrics.** Core platform revenue came in at \$40.5M, at the high end of guidance, with total revenue (inclusive of virtual platform contribution) of \$42.1M, representing a 14% year-over-year decline. On the profitability front, non-GAAP operating loss came in at -\$1.1M (-2.5% margin), beating the high end of guidance thanks to continued progress in restructuring measures, now representing \$50M in annualized cost savings. These cost-saving measures also contributed to a beat on the bottom line, with non-GAAP EPS coming in at \$0.05, ahead of management's original breakeven guidance.

- Total ARR for the quarter was \$144.8M, coming in below management's initial guidance by about \$3M as downsell pressures persisted and churn remained elevated at the low end, as smaller customers turned to lower-cost alternatives.
- Gross margins for the quarter were 75.3%, nearly +200 bps and +100 bps higher sequentially and year-over-year, respectively, due to cost-saving measures.
- Total customer count and customers contributing > \$100K ARR declined sequentially by 90 and 10, respectively, as smaller customers churned in favor of lower-cost alternatives and larger Enterprises decreased spend to below the \$100K threshold.

**Capital return program progress.** On24 continued to execute on its capital return program, which includes a \$50M special dividend (paid over the quarter) and up to \$75M in approved share buybacks. Over the quarter, On24 repurchased approximately \$23M in common stock, bringing the total capital returned to shareholders over the quarter to ~\$73M. Management expects to complete this program by Q1'24.

**Updated 2023 guidance.** Management reduced full-year guidance for Core revenue to \$153.5M at the midpoint, representing a year-over-year growth decline of 19%. On the profitability front, management slightly raised non-GAAP operating loss guidance to -\$9M at the midpoint, while planning to exit 2023 with breakeven non-GAAP EBITDA levels, consistent with the levels achieved over the quarter, with the eventual return to profitability in 2024. Assuming the same macro headwinds persist in 2H, management expects core platform ARR to decline by 4-4.5% sequentially in Q3, with slightly softer sequential declines in Q4.

*We plan to update our price target and estimates in a future report*

# Appendix: Important Disclosures

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## Investment Recommendation

Date and time of first dissemination: August 09, 2023, 00:12 ET

Date and time of production: August 09, 2023, 00:12 ET

## 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 08/09/23)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	607	66.19%	22.73%
Hold	123	13.41%	7.32%
Sell	15	1.64%	6.67%
Speculative Buy	159	17.34%	48.43%
	917*	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.

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

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## 12-Month Recommendation History (as of date same as the Global Stock Ratings table)

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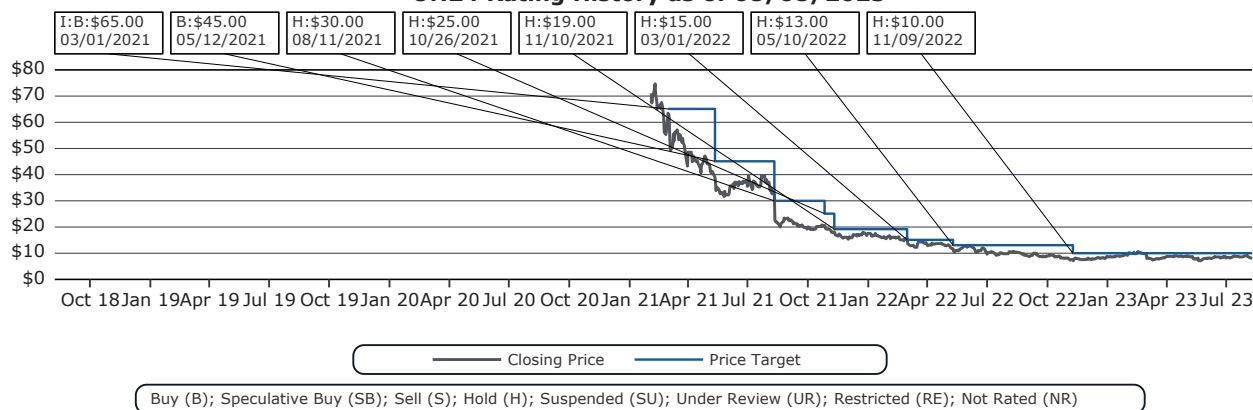
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Canaccord Genuity or one or more of its affiliated companies intend to seek or expect to receive compensation for Investment Banking services from ON24 in the next three months.

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

### ON24 Rating History as of 08/08/2023



## Past performance

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