

On24

Mixed Quarter as Macro Weighs on Top-Line Growth, Profitability Incrementally Improving

ONTF reported mixed results, with P/L landing above consensus, as the cost structure improvements begin to materialize but reported ARR missed consensus. The company expects to achieve non-GAAP EPS breakeven next quarter, largely due to an incremental 13% RIF. The macro impact on the business incrementally worsened and this was more pronounced amongst Technology and Manufacturing customers, which account for ~45% of total Core Platform ARR. Based on the FY23 guidance, revenue growth is taking a step back while management prioritizes profitability and returning capital to shareholders, including a new \$100M capital return program comprising of a special dividend and an accelerated share buyback program.

- Positives: P/L Above Consensus, Expects non-GAAP EPS Breakeven Next Quarter, Gross Churn Stable.** (1) P/L landed above consensus, with total revenue of \$46.6M or ~1% above consensus driven by a similar beat for Subscription and Platform revenue. PF EPS laded at (\$0.04) or 4c 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. (2) Management anticipates to achieve non-GAAP EPS breakeven next quarter, which is six months ahead of schedule primarily due to the incremental headcount reduction and cost discipline. Additionally, the company is de-emphasizing its virtual conference product, which has historically been a drag on growth. (3) Management noted that Q4 gross retention was among the highest in 2022. More specifically for Enterprise (1K+ employee customers) which is 80% of the business, the company saw gross dollar churn rate improve sequentially for the past three quarters, and this improved to 10% in Q4, in-line with pre COVID levels.
- Issues: Revenue and ARR Growth Takes a Step Back, Macro Impact Incrementally Worsens.** (1) On a sequential basis, 1Q23 ARR and Core Platform is expected to decrease 3% and 2%, respectively, due to a more challenging macro environment and weak demand for its virtual conference product. The FY23 guide implies revenue to decrease 12% y/y compared to -6% in FY22 while PF operating margins improve by ~5 points. (2) 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. (3) The company saw a material slowdown amongst Technology (~33% of Core Platform ARR) and Manufacturing (~12% of Core Platform ARR) customers, given the cohorts reduced headcount and budget scrutiny. The FY23 guidance assumed continued softness in these verticals.
- Dec-23 PT of \$11.** Our December 2023 price target of \$11 (previously \$12) 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 (28 Feb 23):\$9.64

▼ Price Target (Dec-23):\$11.00

Prior (Dec-23):\$12.00

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Key Changes (FYE Dec)

	Prev	Cur
Revenue - 23E (\$ mn)	194	165

Quarterly Forecasts (FYE Dec)

Revenue (\$ mn)	2022A	2023E	2024E
Q1	48	43	40
Q2	48	41	38
Q3	48	40	36
Q4	47	41	37
FY	191	165	151

Style Exposure

Quant Factors	Current	Hist %Rank (1=Top)			
	%Rank	6M	1Y	3Y	5Y
Value	29	39	35		
Growth	94	87	1		
Momentum	38	84	100		
Quality	62	64	59	75	97
Low Vol	40	70	82		
ESGQ	18	-	-	-	-

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	11.7%	3.9%	27.3%	-38.2%
Rel	4.0%	4.6%	23.7%	-30.8%

Company Data

Shares O/S (mn)	44
52-week range (\$)	15.65-6.95
Market cap (\$ mn)	421.08
Exchange rate	1.00
Free float(%)	90.0%
3M - Avg daily vol (mn)	0.40
3M - Avg daily val (\$ mn)	3.4
Volatility (90 Day)	46
Index	RUSSELL 2000
BBG BUY HOLD SELL	0 7 0

Key Metrics (FYE Dec)

\$ in millions	FY22A	FY23E	FY24E
Financial Estimates			
Revenue	191	165	151
Adj. EBIT	(19)	(9)	6
Adj. EBITDA	(19)	(6)	10
Adj. net income	(18)	(2)	6
Adj. EPS	(0.37)	(0.05)	0.14
BBG EPS	(0.41)	(0.15)	0.08
Cashflow from operations	(20)	(1)	19
FCFF	(24)	(4)	17
Margins and Growth			
Revenue growth	(6.3%)	(13.6%)	(8.4%)
EBIT margin	(9.9%)	(5.7%)	4.1%
EBIT growth	(1019.8%)	(50.0%)	(165.3%)
EBITDA margin	(9.9%)	(3.6%)	6.5%
EBITDA growth	(1019.8%)	(68.8%)	(265.3%)
Net margin	(9.2%)	(1.4%)	4.1%
Adj. EPS growth	(1370.8%)	(86.1%)	(373.5%)
Ratios			
Adj. tax rate	(5.8%)	(3.0%)	4.0%
Interest cover	NM	29.5	NM
Net debt/Equity	NM	NM	NM
Net debt/EBITDA	17.2	37.3	NM
ROE	(5.3%)	(0.9%)	2.9%
Valuation			
FCFF yield	(5.2%)	(1.0%)	4.0%
Dividend yield	-	-	-
EV/Revenue	0.5	1.2	1.2
EV/EBITDA	NM	NM	18.9
Adj. P/E	NM	NM	68.7

Summary Investment Thesis and Valuation

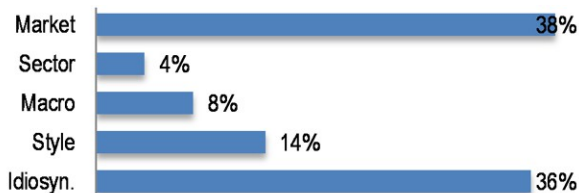
Investment Thesis

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 \$11 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	0.49	0.61
Sect: Technology	0.36	0.25
Ind: Software & Serv	0.55	0.40
Macro:		
US 10yr yield	0.12	0.29
Crude Oil	-0.04	-0.15
US 10yr Breakeven	-0.45	-0.15
Quant Styles:		
Size	-0.42	-0.46
Momentum	-0.42	-0.40
LowVol	-0.29	-0.37

Investment Thesis, Valuation and Risks

On24 (Neutral; Price Target: \$11.00)

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 \$11.00

We lower our December 2023 price target to \$11, which 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 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		1Q23E	2Q23E	3Q23E	4Q23E
Revenue	204	191	165	151	-	Revenue	43	41	40	41
COGS	(45)	(48)	(42)	(38)	-	COGS	(12)	(10)	(10)	(10)
Gross profit	159	143	123	113	-	Gross profit	31	31	30	31
SG&A	(126)	(126)	(99)	(79)	-	SG&A	(27)	(24)	(24)	(23)
Adj. EBITDA	2	(19)	(6)	10	-	Adj. EBITDA	(4)	(1)	(1)	(0)
D&A	0	0	(4)	(4)	-	D&A	(1)	(1)	(1)	(1)
Adj. EBIT	2	(19)	(9)	6	-	Adj. EBIT	(5)	(2)	(2)	(1)
Net Interest	(0)	(0)	0	0	-	Net Interest	0	0	0	0
Adj. PBT	1	(17)	(2)	6	-	Adj. PBT	(4)	0	0	1
Tax	0	(1)	(0)	(0)	-	Tax	(0)	0	0	0
Minority Interest	-	-	-	-	-	Minority Interest	-	-	-	-
Adj. Net Income	1	(18)	(2)	6	-	Adj. Net Income	(4)	0	0	1
Reported EPS	(0.51)	(1.22)	(0.77)	(0.55)	-	Reported EPS	(0.26)	(0.17)	(0.17)	(0.17)
Adj. EPS	0.03	(0.37)	(0.05)	0.14	-	Adj. EPS	(0.08)	0.01	0.01	0.02
DPS	-	-	-	-	-	DPS	-	-	-	-
Payout ratio	-	-	-	-	-	Payout ratio	-	-	-	-
Shares outstanding	48	48	46	44	-	Shares outstanding	48	46	45	44
Balance Sheet & Cash Flow Statement						Ratio Analysis				
	FY21A	FY22A	FY23E	FY24E	FY25E		FY21A	FY22A	FY23E	FY24E
Cash and cash equivalents	383	328	223	239	-	Gross margin	77.9%	74.7%	74.6%	75.1%
Accounts receivable	46	44	36	33	-	EBITDA margin	1.0%	(9.9%)	(3.6%)	6.5%
Inventories	-	-	-	-	-	EBIT margin	1.0%	(9.9%)	(5.7%)	4.1%
Other current assets	67	63	55	53	-	Net profit margin	0.7%	(9.2%)	(1.4%)	4.1%
Current assets	449	391	278	292	-	ROE	0.8%	(5.3%)	(0.9%)	2.9%
PP&E	9	7	6	4	-	ROA	0.4%	(3.9%)	(0.6%)	1.9%
LT investments	-	-	-	-	-	ROCE	0.8%	(6.0%)	(3.8%)	2.8%
Other non current assets	23	27	36	37	-	SG&A/Sales	61.9%	65.9%	59.8%	52.0%
Total assets	480	425	320	332	-	Net debt/equity	NM	NM	NM	NM
Short term borrowings	2	3	3	3	-	P/E (x)	332.0	NM	NM	68.7
Payables	3	5	3	2	-	P/BV (x)	1.3	1.5	2.1	2.0
Other short term liabilities	115	103	101	107	-	EV/EBITDA (x)	20.6	NM	NM	18.9
Current liabilities	120	111	107	112	-	Dividend Yield	-	-	-	-
Long-term debt	2	0	0	0	-	Sales/Assets (x)	0.6	0.4	0.4	0.5
Other long term liabilities	5	7	7	7	-	Interest cover (x)	4.4	NM	29.5	NM
Total liabilities	125	118	114	119	-	Operating leverage	(308.3%)	16296.7%	368.0%	1972.9%
Shareholders' equity	355	308	206	213	-	Revenue y/y Growth	29.7%	(6.3%)	(13.6%)	(8.4%)
Minority interests	-	-	-	-	-	EBITDA y/y Growth	(92.3%)	(1019.8%)	(68.8%)	(265.3%)
Total liabilities & equity	480	425	320	332	-	Tax rate	25.7%	(5.8%)	(3.0%)	4.0%
BVPS	7.40	6.47	4.51	4.87	-	Adj. Net Income y/y Growth	(94.1%)	(1360.5%)	(86.7%)	(361.6%)
y/y Growth	907.1%	(12.6%)	(30.2%)	8.0%	-	EPS y/y Growth	(98.3%)	(1370.8%)	(86.1%)	(373.5%)
Net debt/(cash)	(379)	(325)	(220)	(236)	-	DPS y/y Growth	-	-	-	-
Cash flow from operating activities	5	(20)	(1)	19	-					
o/w Depreciation & amortization	5	5	4	5	-					
o/w Changes in working capital	(19)	(25)	(18)	(8)	-					
Cash flow from investing activities	(219)	(89)	(3)	(2)	-					
o/w Capital expenditure	(4)	(4)	(3)	(2)	-					
as % of sales	1.8%	1.9%	1.8%	1.6%	-					
Cash flow from financing activities	321	(29)	(101)	(1)	-					
o/w Dividends paid	-	-	-	-	-					
o/w Net debt issued/(repaid)	(25)	(1)	(1)	(1)	-					
Net change in cash	107	(138)	(105)	16	-					
Adj. Free cash flow to firm	2	(24)	(4)	17	-					
y/y Growth	(95.0%)	(1316.7%)	(82.1%)	(487.8%)	-					

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



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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