

On24

Macro Weighs on Revenue and ARR Growth, But Profitability Inches Higher

ONTF reported mixed results, with P/L landing above consensus but total ARR coming below. Additionally, the company lowered its FY23 revenue guidance by ~3%, given the macro environment headwinds. On a positive note, the company's bottom-line is improving and is being more prudent with respect to pricing and packaging as well as the go-to-market. Additionally, management noted that it's "closer to the end [with respect to the macro environment headwinds] than the beginning." 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 growth plus profitability profile.

- Positives: P/L Above Consensus, % of ARR in Multi-Year Agreements Increases, Simplifying Pricing and Packaging ARR Growth Expected to Improve in 2H23.** (1) P/L landed above consensus with total revenue of \$42.1M or ~1% above consensus driven by a 4% beat for Subscription and Platform revenue. PF operating margin landed at (2%) or a 4 point beat. PF EPS landed at \$0.04 or 5c 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) The % of ARR in multi-year agreements increased to the mid-40% range, up from 41% since that metric was disclosed for FY22, providing a higher degree of ARR visibility. (3) The company is simplifying its pricing and packaging geared towards specific use-case, which should help reduce go-to-market cost and "streamline internal efficiencies." (4) Management expects to see better ARR performance starting in Q3 with improved renewal cohort dynamics, including a greater percentage of ARR in multi-year contracts. While total ARR is declining on a dollar basis sequentially in Q3, the rate of that decline will be less than Q2 and the rate of decline in Q4 will be less than Q3.
- Issues: Q2 ARR Lands Below Consensus, Lowers FY23 Revenue Guidance Amidst Challenging Macro.** 1) Total ARR of \$144.8M landed \$4M or 2.5% below consensus, declining 14% y/y vs. -7% last quarter. (2) The company lowered its FY23 revenue guidance by \$5M or ~3%, given the challenging macro environment, as the company called out greater marketing budget constraints, elongated sales cycles, as well as down-selling, which had a greater impact than expansions.
- Launches New Generative AI Optimization Suite.** During Q2, On24 announced that it launched a new Generative AI optimization suite built on its first party data. The company already has over 200 customers in free trial, enabling them to scale personalized messaging and recommend content to audience segments.
- Dec-23 PT of \$9.** Our December 2023 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 (08 Aug 23):\$7.95

Price Target (Dec-23):\$9.00

Software - Mid & Small Cap

Noah R Herman ^{AC}

(1-212) 622-5415

noah.r.herman@jpmchase.com

J.P. Morgan Securities LLC

Key Changes (FYE Dec)

	Prev	Cur
Revenue - 23E (\$ mn)	163	157
Revenue - 24E (\$ mn)	155	146

Quarterly Forecasts (FYE Dec)

Revenue (\$ mn)	2022A	2023E	2024E
Q1	48	43A	38
Q2	48	42A	37
Q3	48	38	36
Q4	47	34	34
FY	191	157	146

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top)			
		6M	1Y	3Y	5Y
Value	22	27	43		
Growth	59	94	14	25	
Momentum	24	48	99		
Quality	62	63	77	77	98
Low Vol	46	56	69		
ESGQ	24	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



	YTD	1m	3m	12m
Abs	-7.9%	-4.1%	-5.5%	-23.8%
Rel	-18.5%	-8.5%	-16.5%	-24.1%

Company Data

Shares O/S (mn)	51
52-week range (\$)	9.94-6.00
Market cap (\$ mn)	403.20
Exchange rate	1.00
Free float(%)	88.4%
3M - Avg daily vol (mn)	0.39
3M - Avg daily val (\$ mn)	3.2
Volatility (90 Day)	44
Index	RUSSELL 2000
BBG BUY HOLD SELL	0 7 0

Key Metrics (FYE Dec)

\$ in millions	FY22A	FY23E	FY24E
Financial Estimates			
Revenue	191	157	146
Adj. EBIT	(19)	(9)	(3)
Adj. EBITDA	(19)	(7)	1
Adj. net income	(18)	1	5
Adj. EPS	(0.37)	0.01	0.10
BBG EPS	(0.41)	(0.03)	0.07
Cashflow from operations	(20)	(0)	10
FCFF	(24)	88	8
Margins and Growth			
Revenue growth	(6.3%)	(17.7%)	(7.1%)
EBIT margin	(9.9%)	(5.5%)	(1.7%)
EBIT growth	(1019.8%)	(54.3%)	(71.0%)
EBITDA margin	(9.9%)	(4.3%)	0.7%
EBITDA growth	(1019.8%)	(64.5%)	(115.8%)
Net margin	(9.2%)	0.5%	3.7%
Adj. EPS growth	(1370.8%)	(104.0%)	549.3%
Ratios			
Adj. tax rate	(5.8%)	35.8%	4.0%
Interest cover	NM	176.8	NM
Net debt/Equity	NM	NM	NM
Net debt/EBITDA	17.2	29.0	NM
ROE	(5.3%)	0.3%	3.2%
Valuation			
FCFF yield	(6.3%)	22.2%	1.7%
Dividend yield	-	-	-
EV/Revenue	0.4	1.3	1.4
EV/EBITDA	NM	NM	188.7
Adj. P/E	NM	534.2	82.3

Summary Investment Thesis and Valuation

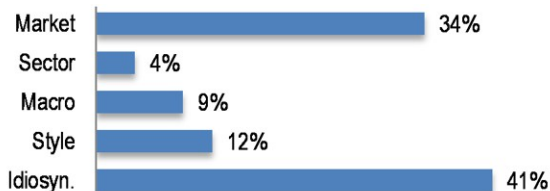
Investment Thesis

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 \$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	0.46	0.58
Sect: Technology	0.18	0.25
Ind: Software & Serv	0.27	0.39
Macro:		
US 10yr Breakeven	-0.21	-0.19
US 10yr yield	0.07	0.16
Non-Energy Commodity	-0.01	0.10
Quant Styles:		
Size	-0.35	-0.45
Momentum	-0.31	-0.43
Quality	-0.34	-0.42

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 2023 Price Target of \$9.00

Our December 2023 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	3Q23E	4Q23E
Revenue	204	191	157	146	-	Revenue	43A	42A	38	34
COGS	(45)	(48)	(41)	(38)	-	COGS	(11)A	(10)A	(10)	(9)
Gross profit	159	143	116	108	-	Gross profit	32A	32A	28	25
SG&A	(126)	(126)	(96)	(84)	-	SG&A	(28)A	(25)A	(23)	(21)
Adj. EBITDA	2	(19)	(7)	1	-	Adj. EBITDA	(4)A	(1)A	(1)	(0)
D&A	0	0	(2)	(4)	-	D&A	0A	0A	(1)	(1)
Adj. EBIT	2	(19)	(9)	(3)	-	Adj. EBIT	(4)A	(1)A	(2)	(1)
Net Interest	(0)	(0)	0	0	-	Net Interest	(0)A	(0)A	0	0
Adj. PBT	1	(17)	1	6	-	Adj. PBT	(2)A	2A	(0)	1
Tax	0	(1)	(0)	(0)	-	Tax	(0)A	(0)A	(0)	0
Minority Interest	-	-	-	-	-	Minority Interest	-	-	-	-
Adj. Net Income	1	(18)	1	5	-	Adj. Net Income	(2)A	2A	(0)	1
Reported EPS	(0.51)	(1.22)	(0.89)	(0.42)	-	Reported EPS	(0.37)A	(0.25)A	(0.15)	(0.12)
Adj. EPS	0.03	(0.37)	0.01	0.10	-	Adj. EPS	(0.04)A	0.04A	(0.00)	0.01
DPS	-	-	-	-	-	DPS	-	-	-	-
Payout ratio	-	-	-	-	-	Payout ratio	-	-	-	-
Shares outstanding	48	48	50	57	-	Shares outstanding	47A	51A	49	51
Balance Sheet & Cash Flow Statement						Ratio Analysis				
	FY21A	FY22A	FY23E	FY24E	FY25E		FY21A	FY22A	FY23E	FY24E
Cash and cash equivalents	383	328	197	205	-	Gross margin	77.9%	74.7%	74.1%	73.9%
Accounts receivable	46	44	30	32	-	EBITDA margin	1.0%	(9.9%)	(4.3%)	0.7%
Inventories	-	-	-	-	-	EBIT margin	1.0%	(9.9%)	(5.5%)	(1.7%)
Other current assets	67	63	46	48	-	Net profit margin	0.7%	(9.2%)	0.5%	3.7%
Current assets	449	391	243	253	-	ROE	0.8%	(5.3%)	0.3%	3.2%
PP&E	9	7	5	3	-	ROA	0.4%	(3.9%)	0.2%	2.0%
LT investments	-	-	-	-	-	ROCE	0.8%	(6.0%)	(2.3%)	(1.4%)
Other non current assets	23	27	27	28	-	SG&A/Sales	61.9%	65.9%	61.3%	57.5%
Total assets	480	425	275	284	-	Net debt/equity	NM	NM	NM	NM
Short term borrowings	2	3	3	3	-	P/E (x)	273.8	NM	534.2	82.3
Payables	3	5	2	2	-	P/BV (x)	1.1	1.2	2.4	2.6
Other short term liabilities	115	103	98	101	-	EV/EBITDA (x)	12.0	NM	NM	188.7
Current liabilities	120	111	103	106	-	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	5	5	-	Interest cover (x)	4.4	NM	176.8	NM
Total liabilities	125	118	108	111	-	Operating leverage	(308.3%)	16296.7%	307.3%	1001.4%
Shareholders' equity	355	308	167	173	-	Revenue y/y Growth	29.7%	(6.3%)	(17.7%)	(7.1%)
Minority interests	-	-	-	-	-	EBITDA y/y Growth	(92.3%)	(1019.8%)	(64.5%)	(115.8%)
Total liabilities & equity	480	425	275	284	-	Tax rate	25.7%	(5.8%)	35.8%	4.0%
BVPS	7.40	6.47	3.37	3.06	-	Adj. Net Income y/y Growth	(94.1%)	(1360.5%)	(104.2%)	639.6%
y/y Growth	907.1%	(12.6%)	(47.8%)	(9.4%)	-	EPS y/y Growth	(98.3%)	(1370.8%)	(104.0%)	549.3%
Net debt/(cash)	(379)	(325)	(195)	(202)	-	DPS y/y Growth	-	-	-	-
Cash flow from operating activities	5	(20)	(0)	10	-					
o/w Depreciation & amortization	5	5	5	5	-					
o/w Changes in working capital	(19)	(25)	(12)	(15)	-					
Cash flow from investing activities	(219)	(89)	88	(2)	-					
o/w Capital expenditure	(4)	(4)	(2)	(2)	-					
as % of sales	1.8%	1.9%	1.3%	1.6%	-					
Cash flow from financing activities	321	(29)	(133)	0	-					
o/w Dividends paid	-	-	-	-	-					
o/w Net debt issued/(repaid)	(25)	(1)	(1)	0	-					
Net change in cash	107	(138)	(45)	8	-					
Adj. Free cash flow to firm	2	(24)	88	8	-					
y/y Growth	(95.0%)	(1316.7%)	(465.2%)	(91.4%)	-					

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
10-Nov-22	N	6.99	12
01-Mar-23	N	9.64	11
12-May-23	N	7.84	9

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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IB clients**	67%	64%	53%

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