tecsys

2nd Quarter Fiscal 2023 Report

Committed to a Connected World

Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management Discussion and Analysis (MD&A) dated November 30, 2022, comments on our operations, financial performance and financial condition as at and for the three and six-month periods ended October 31, 2022 and October 31, 2021 and should be read in conjunction with the unaudited condensed interim consolidated financial statements of Tecsys Inc. ("Tecsys", the "Company") and Notes thereto, which are included in this document, and the annual report for the year ended April 30, 2022. The Company's second quarter of fiscal year 2023 ended on October 31, 2022.

The Company prepares its unaudited condensed interim consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). The unaudited condensed interim consolidated financial statements are prepared by and are the responsibility of the Company's Management.

This document and the unaudited condensed interim consolidated financial statements are expressed in Canadian dollars unless otherwise indicated. The functional currency of the Company and its subsidiaries is the Canadian dollar with the exception of its Danish subsidiaries whose functional currency is the Danish kroner.

The unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 30, 2022. Additional information about Tecsys Inc., including copies of the continuous disclosure materials such as the annual information form and the management proxy circular, can be obtained from SEDAR at www.sedar.com.

Forward-Looking Information

This management's discussion and analysis contains "forward-looking information" within the meaning of applicable securities legislation. Although the forward-looking information is based on what the Company believes are reasonable assumptions, current expectations, and estimates, investors are cautioned from placing undue reliance on this information since actual results may vary from the forward-looking information. Forward-looking information may be identified by the use of forward-looking terminology such as "believe", "intend", "may", "will", "expect", "estimate", "anticipate", "continue" or similar terms, variations of those terms or the negative of those terms, and the use of the conditional tense as well as similar expressions.

Such forward-looking information that is not historical fact, including statements based on management's belief and assumptions, cannot be considered as guarantees of future performance. They are subject to a number of risks and uncertainties, including but not limited to future economic conditions, the markets that the Company serves, the actions of competitors, major new technological trends, and other factors, many of which are beyond the Company's control, that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. The Company undertakes no obligation to update publicly any forward-looking information whether as a result of new information, future events or otherwise other than as required by applicable legislation. Important risk factors that may affect these expectations include, but are not limited to, the factors described under the section "Risks and Uncertainties" in the Company's annual report for the year ended April 30, 2022.

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this management discussion and analysis. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about: (i) competitive environment; (ii) operating risks; (iii) the Company's management and employees; (iv) capital investment by the Company's customers; (v) customer project implementations; (vi) liquidity; (vii) current global financial and geopolitical conditions; (viii) implementation of the Company's commercial strategic plan; (ix) credit; (x) potential product liabilities and other lawsuits to which the Company may be subject; (xi) additional financing and dilution; (xii) market liquidity of the Company's common shares; (xiii) development of new products; (xiv) intellectual property and other proprietary rights; (xv) acquisition and expansion; (xvi) foreign currency; (xvii) interest rates; (xviii) technology and regulatory changes; (xix) internal information technology infrastructure and applications(xx) cyber security and (xxi) expected impact of COVID-19 on the Company's future operations and performance.

Use of non-IFRS Performance Measures

The Company uses certain non-IFRS financial performance measures in its MD&A and other communications which are described in the "Non-IFRS Performance Measures" section of this MD&A. The non-IFRS measures do not have any standardized meaning prescribed by IFRS and may not be comparable to similarly titled measures reported by other companies. Readers are cautioned that the disclosure of these metrics is meant to add to, and not to replace, the discussion of financial results determined in accordance with IFRS. Management uses both IFRS and non-IFRS measures when planning, monitoring and evaluating the Company's performance.

Overview

Tecsys is a global provider of cloud-based supply chain solutions that equip the borderless enterprise for growth and competitive advantage. Spanning multiple complex, regulated and high-volume distribution industries, Tecsys delivers dynamic and powerful solutions for warehouse management, distribution and transportation management, supply management at point of use, order management and fulfillment, as well as financial management and analytics solutions.

Customers running on Tecsys' supply chain platform are confident knowing they can execute, day in and day out, regardless of business fluctuations or changes in technology. As their businesses grow more complex, organizations operating a Tecsys platform can adapt and scale to business needs or size, expand and collaborate with customers, suppliers and partners as one borderless enterprise, and transform their supply chains at the speed that their growth demands. From demand planning to demand fulfillment, Tecsys puts power into the hands of both front-line workers and back-office planners, helping business leaders operate sustainable and scalable logistics so they may focus on the future of their products, services and people, not on their operational challenges.

Customers around the world trust their supply chains to Tecsys in the healthcare, automotive and service parts, third-party logistics, converging commerce, as well as industrial and general wholesale high-volume distribution markets. Tecsys is the market leader in North America for supply chain solutions for health systems and hospitals. Tecsys serves a number of marquee brands located in the U.S., Canada, Europe and Australia, and continues to expand its global footprint across its principal markets.

The Company has five principal sources of revenue:

- Software as a service (SaaS) subscription which represent the right to access our software platform in a hosted and managed environment for a period of time; these subscriptions are typically sold in three to five year term agreements with auto-renewal provisions;
- Maintenance and support services sold with perpetual licenses and hardware maintenance services; these services are typically sold in annual agreements with auto-renewal provisions;
- Professional services, including implementation, consulting and training services provided to customers;
- Licenses;
- Hardware.

Tecsys expects SaaS revenue to continue to grow over time. Revenue from maintenance and support services relate in a large part to our prior business model of selling perpetual licenses with attached maintenance and support fees. The Company expects maintenance and support services revenue to generally decline over time as new customers acquire SaaS subscriptions and existing customers eventually migrate to SaaS.

In the three and six months ended October 31, 2022, the Company generated $38.1 million and $72.3 million in total revenue, respectively. The revenue mix for the three months ended October 31, 2022, was: SaaS 23%; maintenance and support 21%; professional services 36%; license 3%; and hardware 17%. The revenue mix for the six months ended October 31, 2022 was: SaaS 23%; maintenance and support 23%; professional services 38%; license 2%; and hardware 14%.

Key Performance Indicators

The Company uses certain key performance indicators in its MD&A and other communications which are described in the following section. These key performance indicators do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled indicators reported by other companies and cannot be reconciled to a directly comparable IFRS measure. Readers are cautioned that the disclosure of these metrics are meant to add to, and not to replace, the discussion of financial results determined in accordance with IFRS. Management uses IFRS and Non-IFRS measures as well as key performance indicators when planning, monitoring and evaluating the Company's performance.

Recurring Revenue

Recurring revenue (also referred to as Annual Recurring Revenue (ARR)) is defined as the contractually committed purchase of SaaS, maintenance, and customer support services over the next twelve months. The quantification assumes that the customer will renew the contractual commitment on a periodic basis as they come up for renewal unless the customer has cancelled. This portion of the Company's revenue is predictable and stable.

Bookings

Broadly speaking, bookings refer to the total value of accepted contracts. This includes SaaS ARR bookings (the average annual value of committed SaaS recurring revenue at the time of contract signing), professional services bookings and perpetual license bookings. The Company believes that these metrics are primary indicators of business performance.

Backlog

Backlog in general refers to the value of contracted revenue that is not yet recognized. Our backlog reporting focuses on (a) Annual Recurring Revenue and (b) Professional Services Backlog.

The Company also focuses on Remaining Performance Obligation (RPO) as a key performance indicator. The Company enters into SaaS subscription agreements that are typically multi-year performance obligations with original contract terms of three to five years. SaaS RPO represents revenue that we expect to recognize in the future related to firm performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. Unlike ARR which has a one-year time horizon, SaaS RPO can include multiple years of contracted SaaS subscriptions.

Results of Operations

The following table presents a summary of the results of operations:

	Three months ended October 31,		Six months ended October 31,	
(in thousands of CAD, except earnings per share)	**2022**	**2021**	**2022**	**2021**
Statement of Operations				
Revenue	$ 38,111	$ 34,269	$ 72,315	$ 67,501
Cost of revenue	21,432	18,751	40,878	37,554
Gross profit	16,679	15,518	31,437	29,947
Operating expenses	15,631	13,891	30,299	27,232
Profit from operations	1,048	1,627	1,138	2,715
Net finance (income) costs	(56)	128	(31)	243
Profit before income taxes	$ 1,104	$ 1,499	$ 1,169	$ 2,472
Income taxes	389	791	414	1,520
Profit	$ 715	$ 708	$ 755	$ 952
Adjusted EBITDA[1]	$ 2,777	$ 3,206	$ 4,261	$ 5,662
Basic earnings per share	$ 0.05	$ 0.05	$ 0.05	$ 0.07
Diluted earnings per share	$ 0.05	$ 0.05	$ 0.05	$ 0.06
SaaS Remaining Performance Obligation (RPO)[2]			$ 109,534	$ 72,673
Total Annual Recurring Revenue (ARR)[2]			$ 71,198	$ 56,939

Non-IFRS Performance Measures

The terms and definitions of the non-IFRS measures used in this MD&A are provided below. These non-IFRS measures do not have any standardized meanings prescribed by IFRS and may not be comparable to similar measures presented by other companies. Accordingly, they should not be considered in isolation.

EBITDA and Adjusted EBITDA

EBITDA is calculated as earnings before interest expense, interest income, income taxes, depreciation and amortization. Adjusted EBITDA is calculated as EBITDA before stock-based compensation, gain on remeasurement of lease liability and recognition of tax credits generated in prior periods. The exclusion of interest expense, interest income and income taxes eliminates the impact on earnings derived from non-operational activities, and the exclusion of depreciation, amortization, share-based compensation, gain on remeasurement of lease liability and recognition of tax credits generated in prior periods eliminates the non-cash impact of these items.

The Company believes that these measures are useful measures of financial performance without the variation caused by the impacts of the items described above and that could potentially distort the analysis of trends in our operating performance. In addition, they are commonly used by investors and analysts to measure a company's performance, its ability to service debt and to meet other payment obligations, or as a common valuation measurement. Excluding these items does not imply that they are necessarily non-recurring. Management believes these non-GAAP financial measures, in addition to conventional measures prepared in accordance with IFRS, enable investors to evaluate the Company's operating results, underlying performance and future prospects in a manner similar to management. Although EBITDA and Adjusted EBITDA are frequently used by securities analysts, lenders and others in their evaluation of companies, they have limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of the Company's results as reported under IFRS.

[1] Refer to section below "Non-IFRS Performance Measures" for definition.

[2] Refer to section "Key Performance Indicators" for definition.

The reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable IFRS measure is provided below.

	Three months ended October 31,		Six months ended October 31,	
(in thousands of CAD)	**2022**	**2021**	**2022**	**2021**
Profit for the period	$ 715	$ 708	$ 755	$ 952
Adjustments for:				
Depreciation of property and equipment and right-of-use assets	429	553	859	1,096
Amortization of deferred development costs	114	69	216	123
Amortization of other intangible assets	394	411	790	822
Interest expense	178	145	297	306
Interest income	(150)	(40)	(254)	(80)
Income taxes	389	791	414	1,520
EBITDA	$ 2,069	$ 2,637	$ 3,077	$ 4,739
Adjustments for:				
Stock based compensation	708	569	1,184	923
Adjusted EBITDA	$ 2,777	$ 3,206	$ 4,261	$ 5,662

Constant currency

Financial results at constant currency allow results to be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons in the analysis of trends in business performance. Financial results at constant currency are obtained by translating prior period results denominated in U.S. dollars and Danish kroner at the foreign exchange rates of the current period. Current period foreign exchange rates used in the constant currency translation include the impact of designated U.S. dollar revenue hedges.

Revenue

Total revenue for the three and six months ended October 31, 2022, was $38.1 million and $72.3 million, respectively, an increase of $3.8 million or 11% and $4.8 million or 7%, respectively, compared to the same periods last year. Total revenue excluding hardware for the three and six months ended October 31, 2022 increased by 9% and 10%, respectively, compared to the same periods last year (6% and 7%, respectively, on a constant currency basis). Revenue is broken down as follows:

	Three months ended October 31,			Six months ended October 31,		
(in thousands of CAD)	**2022**	**2021**	**Change %**	**2022**	**2021**	**Change %**
SaaS	$ 8,798	$ 6,565	34%	$ 16,799	$ 12,218	37%
Maintenance and support	8,098	8,200	-1%	16,366	16,526	-1%
Professional services	13,539	13,076	4%	27,170	26,202	4%
License	1,055	982	7%	1,514	1,333	14%
Hardware	6,621	5,446	22%	10,466	11,222	-7%
Total Revenue	$ 38,111	$ 34,269	11%	$ 72,315	$ 67,501	7%
Total Revenue Excluding Hardware	$ 31,490	$ 28,823	9%	$ 61,849	$ 56,279	10%

Approximately 70% of the Company's revenues were generated in U.S. dollars during the second quarter of Fiscal 2023 (2022-65%). The U.S. dollar averaged CA$1.3314 in the second quarter of Fiscal 2023 in comparison to CA$1.2570 in the same period of Fiscal 2022. The increase in the value of the U.S dollar combined with the net impact of the Company's partial hedging of U.S. revenue gave rise to a net favorable foreign currency related revenue variance of $1.4 million in comparison to the second quarter of Fiscal 2022.

Approximately 68% of the Company's revenues were generated in U.S. dollars during the first six months of Fiscal 2023 (2022-66%). The U.S. dollar averaged CA$1.3091 in the first six months of Fiscal 2023 in comparison to CA$1.2431 in the same period of Fiscal 2022. The increase in the value of the U.S dollar combined with the net impact of the Company's partial hedging of U.S. revenue gave rise to a net favorable foreign currency related revenue variance of $2.0 million in comparison to the first six months of Fiscal 2022.

On a constant currency basis, revenue for the three and six months ended October 31, 2022 grew by approximately 9% and 5%, respectively, compared to the same period last year.

Total ARR on October 31, 2022, was $71.2 million, up 25% compared to $56.9 million on October 31, 2021. A significant amount of ARR is denominated in currencies other than Canadian Dollars. As a result, movements in exchange rates will have an impact on ARR. On a constant currency basis, ARR increased 18% during the twelve months ended October 31, 2022. ARR was up 9% sequentially compared to the first quarter of Fiscal 2023 and up 4% on a constant currency basis.

SaaS revenue

The Company generates revenue from proprietary software under a SaaS model. SaaS subscriptions represent the right to access our software platform in a hosted and managed environment for a period of time. The Company enters into SaaS subscription agreements that are typically multi-year performance obligations with original contract terms of three to five years.

SaaS revenue in the second quarter of Fiscal 2023 was $8.8 million, up 34% or $2.2 million compared to the second quarter of Fiscal 2022 and up $0.8 million sequentially compared to the first quarter of Fiscal 2023. The increases are due to new SaaS revenue from bookings in recent quarters and foreign exchange, net of cancellations impacting the quarter. Foreign exchange positively impacted reported SaaS revenue growth as a significant portion of the Company's SaaS revenue is denominated in U.S. dollars. On a constant currency basis, SaaS revenue in the second quarter of Fiscal 2023 grew by approximately 30% compared to the same period of Fiscal 2022. SaaS revenue for the first half of Fiscal 2023 was $16.8 million, up 37% (34% on a constant currency basis) or $4.6 million compared to the same period in Fiscal 2022.

In the second quarter of Fiscal 2023, SaaS subscription bookings (measured on an ARR basis) were $2.8 million, down 31% compared to $4.0 million in the second quarter of Fiscal 2022. In the first six months of Fiscal 2023, SaaS bookings were $6.7 million, up 30% from $5.1 million in the same period last year. The Company has historically seen some lumpiness in quarterly deal closings, and the Company expects this to continue.

On October 31, 2022, SaaS RPO was $109.5 million, up 51% from $72.7 million at the same time last year. A significant amount of SaaS RPO is denominated in currencies other than Canadian Dollars. As a result, movements in exchange rates will impact reported SaaS RPO. On a constant currency basis, SaaS RPO increased 43% during the twelve months ended October 31, 2022. SaaS RPO was up 7% sequentially compared to the first quarter of Fiscal 2023 and up 2% on a constant currency basis.

Maintenance and support revenue

Maintenance and support revenue derives largely from the Company's legacy perpetual license installed base. The Company enters into maintenance and support contracts that typically have an original term of one year and are subject to annual renewal. Maintenance and support revenue for the second quarter and first half of Fiscal 2023 was $8.0 million and $16.4 million, respectively, both down 1% compared to the same periods of Fiscal 2022. On a constant currency basis, second quarter and first half of Fiscal 2023 maintenance and support revenue declined by approximately 3% and 2%, respectively, compared to same periods of Fiscal 2022. Maintenance and support revenue generally follows the trend of License revenue, and we expect a decline in maintenance and support revenue over time as the business continues to shift to SaaS.

Professional services revenue

Professional services revenue includes fees for implementation, consulting and training services provided to customers, as well as reimbursable expenses. Professional services revenue for the second quarter and first half of Fiscal 2023 was $13.5 million and $27.2 million, respectively, both up 4% compared to $13.1 million and $26.2 million, respectively, in the same periods last year. Foreign exchange positively impacted reported professional services revenue growth as a significant portion of the Company's professional services revenue is denominated in U.S. dollars. On a constant currency basis, second quarter professional services revenue was flat compared to the same period last year and first half of Fiscal 2023 professional services revenue grew by approximately 1%, compared to the prior year period. In the second quarter of Fiscal 2023, Professional services bookings were $15.0 million, down 16% compared to $17.9 million in the same period of Fiscal 2022. In the first half of Fiscal 2023, Professional services bookings were $24.6 million, down 24% compared to $32.4 million in the same period of Fiscal 2022. Professional services bookings are in part linked to SaaS subscription bookings and license bookings and are subject to timing. The decline in Professional Services bookings is also impacted by lower customization services as a result of growth in SaaS and healthcare vertical sales as well as increased collaboration with implementation partners. We are starting to see an uptick on work performed by implementation partners and expect this trend to continue and have a long-term effect of moderating professional Services revenue growth.

License revenue

License revenue includes revenue from proprietary software as well as third-party software. In the three months ended October 31, 2022, license revenue amounted to $1.1 million, up 7% from $1.0 million in the same period last year. For the six months ended October 31, 2022, license revenue was $1.5 million, up 14% from $1.3 million compared to the same period last year. Perpetual license bookings in the three and six months ended October 31, 2022 and 2021 were $1.0 million and $1.3 million respectively. We expect license revenue to generally decline over time because of the shift to SaaS.

Hardware revenue

Hardware revenue includes third-party hardware products and proprietary technology products. While hardware revenue can tend to be uneven, it is a key component of our market offering and thereby supports our recurring revenue business. Hardware revenue for the three months ended October 31, 2022, was $6.6 million, up 22% from $5.4 million in the same period last year. For the six months ended October 31, 2022, hardware revenue was $10.5 million, down 7% from $11.2 million during the same period last year. The variation in hardware revenue is due to timing of deliveries.

Cost of Revenue and Gross Profit

(in thousands of CAD)	Three months ended October 31, 2022	2021	Change %	Six months ended October 31, 2022	2021	Change %
Cost of revenue:						
SaaS, maintenance, support and professional services	$ 16,401	$ 14,324	15%	$ 32,656	$ 28,682	14%
License and hardware	5,031	4,427	14%	8,222	8,872	-7%
Total cost of revenue	**21,432**	**18,751**	**14%**	**40,878**	**37,554**	**9%**
Gross profit & gross profit margin:						
SaaS, maintenance, support and professional services gross profit	$ 14,034	$ 13,517	4%	27,679	26,264	5%
Gross profit margin	46%	49%		46%	48%	
License and hardware gross profit	$ 2,645	$ 2,001	32%	3,758	$ 3,683	2%
Gross profit margin	34%	31%		31%	29%	
Total gross profit	**$ 16,679**	**$ 15,518**	**7%**	**$ 31,437**	**$ 29,947**	**5%**
Total gross profit margin	**44%**	**45%**		**43%**	**44%**	

Total cost of revenue for the second quarter and first half of Fiscal 2023, increased to $21.4 million and $40.9 million, respectively, or an increase of 14% and 9%, respectively, compared to the same periods last year. The increase is mainly driven by higher SaaS, maintenance, support and professional services costs.

For the second quarter and first half of Fiscal 2023, the cost of SaaS, maintenance, support and professional services increased to $16.4 million and $32.7 million, respectively, up $2.1 million and $4.0 million, respectively, compared to the same periods last year. Cost of SaaS, maintenance, support and professional services increased compared to prior year periods as a result of direct costs associated with higher revenue, including higher employee costs and higher public cloud infrastructure costs. Sequentially from the first quarter of Fiscal 2023, cost of SaaS, maintenance, support and professional services was up less than 1%. For the second quarter and first half of Fiscal 2023, the cost of SaaS, maintenance, support and professional services includes tax credits of $0.8 million and $1.5 million, respectively, compared to $0.6 million and $1.3 million, respectively, for the same periods in Fiscal 2022.

The cost of license and hardware increased to $5.0 million in the second quarter of Fiscal 2023, up $0.6 million or 14% in comparison to the same period in Fiscal 2022. The increase was attributed primarily to higher hardware revenue. The cost of license and hardware decreased to $8.2 million in the first half of Fiscal 2023, down $0.7 million or 7% compared to the same period last year, mainly driven by lower hardware revenue.

Gross profit was $16.7 million, up $1.2 million in the second quarter of Fiscal 2023 compared to the same period last year led by higher gross profit contribution from both SaaS, maintenance, support and professional services as well as license and hardware. In the first half of Fiscal 2023 gross profit increased to $31.4 million, up $1.5 million compared to the same period in Fiscal 2022. This is mainly due to higher SaaS, maintenance, support and professional services gross profit contribution.

As a percentage of revenue, total gross profit margin for the three months ended October 31, 2022 was 44% compared to 45% for the same period last year. For the six months ended October 31, 2022, total gross profit margin was 43% compared to 44% for the same period in Fiscal 2022.

Combined SaaS, maintenance support and professional services gross profit margin for the three and six months ended October 31, 2022 was 46%, compared to 49% and 48%, respectively, for the same periods last year. This decline was primarily driven by the impact of our investment to expand delivery capacity.

Operating Expenses

	Three months ended October 31,		Change	Six months ended October 31,		Change
(in thousands of CAD)	**2022**	**2021**	**%**	**2022**	**2021**	**%**
Sales and marketing expenses	$ 6,703	$ 6,022	11%	$ 12,953	$ 11,704	11%
As a percentage of Revenue	18%	18%		18%	17%	
General and administration expenses	3,072	2,801	10%	5,806	5,660	3%
As a percentage of Revenue	8%	8%		8%	8%	
Research and development expenses, net of tax credits	5,856	5,068	16%	11,540	9,868	17%
As a percentage of Revenue	15%	15%		16%	15%	
Total operating expenses	**$ 15,631**	**$ 13,891**	**13%**	**$ 30,299**	**$ 27,232**	**11%**
As a percentage of revenue	**41%**	**41%**		**42%**	**40%**	

Total operating expenses for the three and six months ended October 31, 2022 were $15.6 million and $30.3 million, respectively, an increase of $1.7 million and $3.1 million, respectively, compared to the same periods last year. The impact of foreign exchange during the three and six months ended October 31, 2022 had an unfavorable impact on expenses of $0.6 million and $1.0 million, respectively, when compared to the same periods last year.

Sales and marketing expenses

Sales and marketing expenses for the three and six months ended October 31, 2022 amounted to $6.7 million and $13.0 million, respectively, an increase of $0.7 million and $1.3 million, respectively, when compared to the same periods of last year. The increase is mainly attributed to higher personnel costs, travel and marketing program costs representing investments to take advantage of expected market opportunity.

General and administrative expenses

General and administrative expenses for the three months ended October 31, 2022, were $3.1 million, an increase of $0.3 million compared to the same period last year. The increase is attributed to higher professional fees, bad debt expense and stock-based compensation.

General and administrative expenses for the six months ended October 31, 2022 were $5.8 million, an increase of $0.1 million compared to the same period in fiscal 2022. The increase is attributed to higher bad debt expense and stock-based compensation, partially offset by lower professional fees.

Net R&D expenses

Net R&D expenses for the three and six months ended October 31, 2022, were $5.9 million and $11.5 million, respectively, an increase of $0.8 million and $1.7 million, respectively, from the same periods last year. The increase was mainly attributable to higher personnel costs resulting from investment in the second half of last fiscal year. For the three and six months ended October 31, 2022, the Company deferred development costs of $0.3 million and $0.5 million, respectively, compared to $0.2 million and $0.7 million, respectively, in the same periods last year.

The Company recorded R&D tax credits and e-business tax credits of $0.7 million for the second quarter of Fiscal 2023 compared to $0.6 million for the same period in Fiscal 2022. The Company amortized deferred development costs and other intangible assets of $0.1 million in the second quarter of Fiscal 2023 and Fiscal 2022.

For the first half of Fiscal 2023, the Company recorded R&D tax credits and e-business tax credits of $1.4 million compared to $1.2 million for the same period in Fiscal 2022. Amortized development costs and other intangible assets during the first half Fiscal 2023 was $0.2 million in comparison to $0.1 million for the same period in the prior fiscal year.

Net Finance (Income) Costs and Income Taxes

	Three months ended October 31,		Change	Six months ended October 31,		Change
(in thousands of CAD)	**2022**	**2021**	**%**	**2022**	**2021**	**%**
Net Finance (Income) Costs	$ (56)	$ 128	-144%	$ (31)	$ 243	-113%
Income Tax Expense	389	791	-51%	414	1,520	-73%
Income Tax Expense as a percentage of profit before income taxes	35%	53%		35%	61%	

Net finance income for the three months ended October 31, 2022 was $0.1 million, compared to net finance costs of $0.1 million in the same period last year. For the first six months of Fiscal 2023, net finance income was not significant, compared to net finance costs of $0.2 million in the same period last year. Net finance income and costs consist primarily of interest expense on long term debt and lease obligations as well as interest income and foreign exchange.

Income tax expense for both the three and six months ended October 31, 2022 were $0.4 million, compared to $0.8 million and $1.5 million, respectively, for the same periods last year. The decrease in income tax expense was due primarily to a lower consolidated effective tax rate resulting from the amalgamation of certain entities in the group as well as lower pre-tax income. The amalgamation was completed effective May 1, 2022.

Profit

(in thousands of CAD)	Three months ended October 31, 2022	2021	Change %	Six months ended October 31, 2022	2021	Change %
Profit	$ 715	$ 708	1%	$ 755	$ 952	-21%
Adjusted EBITDA	$ 2,777	$ 3,206	-13%	$ 4,261	$ 5,662	-25%
Basic earnings per share	0.05	0.05		0.05	0.07	
Diluted earnings per share	$ 0.05	$ 0.05		$ 0.05	$ 0.06	

Profit, Adjusted EBITDA and earnings per share were all negatively impacted by investment in delivery capacity, sales and marketing and research and development, primarily in the second half of last fiscal year. Approximately 68% of the Company's revenue in the first half of Fiscal 2023 is denominated in US dollars while a significant majority of the Company's costs are denominated in Canadian dollars. As such, foreign exchange movements can have a material impact on reported Profit, Adjusted EBITDA and earnings per share. During the second quarter and first half of fiscal 2023, favorable foreign exchange movements had a positive impact on Profit and Adjusted EBITDA of approximately $0.8 million and $1.0 million, respectively, compared to the same periods in Fiscal 2022.

Quarterly Selected Financial Data

The following table summarizes selected results for the eight most recently completed quarters to October 31, 2022:

(in thousands of CAD, except earnings per share)	FY 2023 Q2	FY 2023 Q1	FY 2022 Q4	FY 2022 Q3	FY 2022 Q2	FY 2022 Q1	FY 2021 Q4	FY 2021 Q3
Total revenue	$ 38,111	$ 34,204	$ 34,288	$ 35,411	$ 34,269	$ 33,232	$ 32,374	$ 31,942
Profit	715	40	2,586	940	708	244	2,020	1,847
Comprehensive (loss) income	(796)	(110)	2,159	317	489	(147)	1,088	1,527
Adjusted EBITDA[3]	2,777	1,484	1,730	2,738	3,206	2,456	3,917	3,964
Basic earnings per common share	0.05	0.00	0.18	0.06	0.05	0.02	0.14	0.13
Diluted earnings per common share	0.05	0.00	0.17	0.06	0.05	0.02	0.14	0.12

Total quarterly revenue excluding hardware has generally trended upward over the past eight quarters, primarily due to an increase in revenue from SaaS. During Fiscal 2022, the impact of foreign exchange, lower license revenue as well as additional investment in delivery capacity, sales and marketing and research and development moderated Profit and Adjusted EBITDA. Profit in the fourth quarter of Fiscal 2022 included the recognition of approximately $1.9 million net deferred tax assets, $0.6 million gain on remeasurement of lease liability and $0.6 million recognition of tax credits generated in prior periods.

[3] Refer to section below "Non-IFRS Performance Measures" for definition.

Liquidity and Capital Resources

On October 31, 2022, current assets totaled $80.9 million compared to $74.4 million at the end of Fiscal 2022. Cash and cash equivalents combined with short-term investments decreased $1.5 million to $41.8 million compared to $43.2 million at the end of Fiscal 2022. The net decrease results from cash inflows from operating activities being more than offset by cash outflows relating to financing activities and investing activities.

Accounts receivable and work in progress totaled $23.0 million on October 31, 2022, an increase of $4.5 million compared to $18.5 million as of April 30, 2022. The increase is mainly attributed to higher revenue and timing of cash collections. The Company's Days Sales Outstanding (DSO) stood at 54 days at the end of October 31, 2022 compared to 49 days at the end of Fiscal 2022. DSO is a measure of the average number of days that a company takes to collect revenue after a sale. The Company's DSO is determined on a quarterly basis and can be calculated by dividing the total of accounts receivable and work in progress at the end of a quarter by the total value of sales during the same quarter and multiplying the result by 90 days.

Current liabilities on October 31, 2022, totaled $52.2 million compared to $43.5 million at the end of Fiscal 2022. The increase is mainly due to an increase in accounts payables and accrued liabilities and higher deferred revenues.

Cash from Operating Activities

Operating activities generated $7.0 million of cash in the second quarter of Fiscal 2023 compared to $0.6 million in the same period of Fiscal 2022. Operating activities generated $2.0 million in the first half of Fiscal 2023 compared to using $4.4 million in the same period of Fiscal 2022.

Cash from operating activities excluding changes in non-cash working capital items increased by $0.8 million to $3.2 million in the second quarter of Fiscal 2023 compared to the same period of Fiscal 2022. Changes in non-cash working capital items provided $3.8 million in the second quarter of Fiscal 2023. This was a result of increased accounts payable and accrued liabilities and deferred revenue, partially offset by higher accounts receivable due to timing of billing and cash collections.

For the first half of Fiscal 2023, cash from operating activities excluding changes in non-cash working capital items decreased by $1.8 million to $3.9 million. Changes in non-cash working capital items used $1.9 million in the first half of Fiscal 2023 driven primarily by growth in accounts receivable and taxes credits partially offset by growth in deferred revenue.

Financing Activities

Cash used in financing activities was $2.7 million for the second quarter of Fiscal 2023 in comparison to $1.5 million for the same period in Fiscal 2022. The main cash outflow for both periods was payment of dividends. In the prior year quarter, $1.0 million of cash inflow from the issuance of common shares on the exercise of options partially offset the dividend payment outflow in the quarter. Cash flows used in financing activities was $3.3 million for the first six months of fiscal 2023 in comparison to $2.2 million for the same period of Fiscal 2022.

Investing Activities

During the second quarter of Fiscal 2023, investing activities used funds of $0.3 million compared to $0.5 million in the same period in Fiscal 2022. The Company used funds of $0.2 million for the acquisition of property and equipment in the second quarter of Fiscal 2023 compared to $0.3 million in the same period in Fiscal 2022. Additionally, in the second quarter of Fiscal 2023, the Company invested in its proprietary products with the capitalization of $0.3 million reflected as deferred development costs compared to $0.2 million for the same period in Fiscal 2022.

During the first six months of Fiscal 2023 investing activities used funds of $0.4 million compared to $1.2 million for the same period in Fiscal 2022.

The Company believes that funds on hand at October 31, 2022 together with cash flows from operations, and its accessibility to the operating line of credit will be sufficient to meet its covenants and needs for working capital, R&D, capital expenditures and dividend policy, as well as to invest in long-term growth.

Related Party Transactions

Under the provisions of the share purchase plan for key management and other management employees, the Company provided interest-free loans to key management and other management employees of $0.4 million during the six months ended October 31, 2022 ($0.3 million for the same period last year) to facilitate their purchase of the Company's common shares. As of October 31, 2022, loans outstanding amounted to $0.4 million (April 30, 2022 - $0.2 million).

Subsequent Events

November 30, 2022, the Company's Board of Directors declared a quarterly dividend of $0.075 per share to be paid on January 6, 2023 to shareholders of record on December 15, 2022.

Current and Anticipated Impacts of Current Economic Conditions

Current overall economic conditions together with market uncertainty and volatility may have an adverse impact on the demand for the Company's products and services as the industry may adjust quickly to exercise caution on capital spending. This uncertainty may impact the Company's revenue.

Based on ARR of $71.2 million and Professional services backlog of $31.9 million, the Company's management believes that total services revenue (including SaaS, maintenance and support and professional services revenue) ranging between $30.0 million and $31.0 million per quarter can be sustained in the short term.

Strategically, the Company continues to focus its efforts on the most likely opportunities within its existing vertical markets and customer base. The Company also currently offers subscription-based licensing, hosting services, modular sales and implementations and enhanced payment terms to promote revenue growth. We see continued market appetite for subscription-based SaaS licensing. To the extent our bookings continue to shift from perpetual license to SaaS and considering that license revenue is typically recognized up front while SaaS revenue is recognized over the contract period, revenue and operating profit will be impacted in the medium term.

The exchange rate of the U.S. dollar in comparison to the Canadian dollar continues to be an important factor affecting revenues and profitability as the Company generally derives approximately 65% to 70% of its business from U.S. customers while the majority of its cost base is in Canadian dollars.

The Company will continue to adjust its business model to ensure that costs are aligned to its revenue expectations and economic reality to the extent possible.

Outstanding Share Data

As at October 31, 2022, the Company had 14,568,894 common shares outstanding. The Company issued 5,999 shares on the exercise of stock options in the second quarter of Fiscal 2023.

Critical Accounting Policies and Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The Company's critical accounting policies are those that it believes are the most important in determining its financial condition and results.

The preparation of the unaudited condensed interim consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions, and judgments that affect the application of accounting policies and the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and recognized amounts of revenue and expenses. Actual results may differ from these estimates.

Reported amounts and note disclosures reflect the overall economic conditions that are most likely to occur and the anticipated measures that management intends to take. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

There have been no significant changes in the key sources of estimation uncertainty and judgements made in relation to the accounting policies applied to those disclosed in the Company's annual consolidated financial statements for the year ended April 30, 2022.

New standards and interpretations not yet adopted:

A number of new standards, interpretations and amendments to existing standards were issued by the IASB that are not yet effective for the period ended October 31, 2022 and have not been applied in preparing these condensed interim consolidated financial statements. The following amendments are currently being assessed by the Company:

Standard	Issue date	Effective date for the Company	Impact
IAS 1, Presentation of Financial Statements	January 2020, July 2020 and February 2021	May 1, 2023	In assessment
IAS 8, Definition of Accounting Estimates	February 2021	May 1, 2023	In assessment
IAS 12, Income Taxes	May 2021	May 1, 2023	In assessment

Refer to the Company's annual consolidated financial statements for Fiscal 2022 for a discussion of new standards and interpretations not yet adopted.

Controls & Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's Chief Executive Officer (CEO) and its Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures regarding the communication of information. They are assisted in this responsibility by the Company's Executive Committee, which is composed of members of senior management. Based on the evaluation of the Company's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of October 31, 2022.

Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with IFRS in its unaudited condensed interim consolidated financial statements. The control framework that was designed by the Company's ICFR is in accordance with the framework criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013) (COSO).

No changes to internal controls over financial reporting have come to management's attention during the three-month period ending on October 31, 2022, that have materially affected or are reasonably likely to materially affect internal controls over financial reporting.

Supplemental Information

Reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable IFRS measure

	FY 2023		FY 2022				FY 2021	
(in thousands of CAD)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Profit for the period	$ 715	$ 40	$ 2,586	$ 940	$ 708	$ 244	$ 2,020	$ 1,847
Adjustments for:								
Depreciation of property and equipment and right-of-use assets	429	430	515	551	553	543	567	554
Amortization of deferred development costs	114	102	87	80	69	54	60	48
Amortization of other intangible assets	394	396	382	408	411	411	404	425
Interest expense	178	119	178	138	145	161	158	158
Interest income	(150)	(104)	(57)	(337)	(40)	(40)	(18)	(43)
Income taxes	389	25	(1,111)	537	791	729	516	683
EBITDA	2,069	1,008	2,580	2,317	2,637	2,102	3,707	3,672
Adjustments for:								
Stock based compensation	708	476	340	421	569	354	210	292
Gain on remeasurement of lease liability	-	-	(573)	-	-	-	-	-
Recognition of tax credits generated in prior periods	-	-	(617)	-	-	-	-	-
Adjusted EBITDA	$ 2,777	$ 1,484	$ 1,730	$ 2,738	$ 3,206	$ 2,456	$ 3,917	$ 3,964

Condensed Interim Consolidated Financial Statements

(Unaudited)

TECSYS INC.

For the three and six-month periods ended October 31, 2022 and 2021

MANAGEMENT'S COMMENTS ON THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTH PERIODS ENDED OCTOBER 31, 2022 and 2021

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's Management.

The Company's independent auditors, KPMG LLP, have not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditors.

Dated this 30th day of November 2022.

Tecsys Inc.

Condensed Interim Consolidated Statements of Financial Position

As at October 31, 2022 and April 30, 2022 (Unaudited)

(In thousands of Canadian dollars)

	Note	October 31, 2022	April 30, 2022
Assets			
Current assets			
Cash and cash equivalents		$ 21,331	$ 23,004
Short-term investments	3	20,456	20,239
Accounts receivable		21,370	16,962
Work in progress		1,651	1,579
Other receivables		718	234
Tax credits		7,912	5,224
Inventory		949	806
Prepaid expenses		6,574	6,392
Total current assets		80,961	74,440
Non-current assets			
Other long-term receivables		179	192
Tax credits		4,083	3,782
Property and equipment		1,775	2,064
Right-of-use assets	4	4,421	4,547
Contract acquisition costs	5	3,507	3,177
Deferred development costs		2,121	1,870
Other intangible assets		9,502	10,301
Goodwill		16,856	16,863
Deferred tax assets		8,613	8,608
Total non-current assets		51,057	51,404
Total assets		$ 132,018	$ 125,844
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 19,963	$ 16,971
Deferred revenue		30,343	24,689
Current portion of long-term debt	6	1,200	1,200
Lease obligations	7	660	662
Total current liabilities		52,166	43,522
Non-current liabilities			
Long-term debt	6	6,600	7,200
Deferred tax liabilities		1,257	1,258
Lease obligations	7	4,975	5,181
Total non-current liabilities		12,832	13,639
Total liabilities		$ 64,998	$ 57,161
Equity			
Share capital	8	$ 44,094	$ 43,973
Contributed surplus		14,336	13,176
Retained earnings		11,685	12,968
Accumulated other comprehensive loss	12	(3,095)	(1,434)
Total equity attributable to the owners of the Company		67,020	68,683
Total liabilities and equity		$ 132,018	$ 125,844

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Tecsys Inc.

Condensed Interim Consolidated Statements of Income and Comprehensive Income

For the three and six-month periods ended October 31, 2022 and 2021
(Unaudited)
(In thousands of Canadian dollars, except per share data)

	Note	Three Months Ended October 31, 2022	Three Months Ended October 31, 2021	Six Months Ended October 31, 2022	Six Months Ended October 31, 2021
Revenue:					
SaaS		$ 8,798	$ 6,565	$ 16,799	$ 12,218
Maintenance and Support		8,098	8,200	16,366	16,526
Professional Services		13,539	13,076	27,170	26,202
License		1,055	982	1,514	1,333
Hardware		6,621	5,446	10,466	11,222
Total revenue		**38,111**	**34,269**	**72,315**	**67,501**
Cost of revenue	10	**21,432**	**18,751**	**40,878**	**37,554**
Gross profit		**16,679**	**15,518**	**31,437**	**29,947**
Operating expenses:					
Sales and marketing		6,703	6,022	12,953	11,704
General and administration		3,072	2,801	5,806	5,660
Research and development, net of tax credits		5,856	5,068	11,540	9,868
Total operating expenses		15,631	13,891	30,299	27,232
Profit from operations		**1,048**	**1,627**	**1,138**	**2,715**
Net finance (income) costs	11	(56)	128	(31)	243
Profit before income taxes		**1,104**	**1,499**	**1,169**	**2,472**
Income tax expense		389	791	414	1,520
Net profit, attributable to the owners of the Company		**$ 715**	**$ 708**	**$ 755**	**$ 952**
Other comprehensive (loss) income:					
Effective portion of changes in fair value on designated revenue hedges	12	(2,007)	233	(1,853)	(125)
Exchange differences on translation of foreign operations	12	496	(452)	192	(485)
Comprehensive (loss) profit, attributable to the owners of the Company		**$ (796)**	**$ 489**	**$ (906)**	**$ 342**
Basic earnings per common share	8	**$ 0.05**	**$ 0.05**	**$ 0.05**	**$ 0.07**
Diluted earnings per common share	8	**$ 0.05**	**$ 0.05**	**$ 0.05**	**$ 0.06**

See accompanying notes to the unaudited condensed interim consolidated financial statements

Tecsys Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the three and six-month periods ended October 31, 2022 and 2021
(Unaudited)
(In thousands of Canadian dollars)

		Three Months Ended October 31,		Six Months Ended October 31,	
	Note	**2022**	**2021**	**2022**	**2021**
Cash flows from operating activities:					
Net profit		$ 715	$ 708	$ 755	$ 952
Adjustments for:					
Depreciation of property and equipment and right-of-use-assets		429	553	859	1,096
Amortization of deferred development costs		114	69	216	123
Amortization of other intangible assets		394	411	790	822
Interest expense (income) and foreign exchange (gain) loss	11	(56)	128	(31)	243
Unrealized foreign exchange and other		1,063	(333)	691	928
Non-refundable tax credits		(439)	(366)	(860)	(732)
Stock-based compensation	8	708	569	1,184	923
Income taxes		305	680	330	1,373
Net cash from operating activities excluding changes in non-cash working capital items related to operations		3,233	2,419	3,934	5,728
Accounts receivable		(3,847)	(223)	(4,390)	(2,715)
Work in progress		883	(1,275)	(71)	(1,822)
Other receivables		105	106	(230)	72
Tax credits		(1,081)	(911)	(2,129)	(1,821)
Inventory		112	(53)	(143)	(65)
Prepaid expenses		380	(443)	(182)	(908)
Contract acquisition costs		(77)	(226)	(330)	(98)
Accounts payable and accrued liabilities		2,931	(750)	(81)	(4,683)
Deferred revenue		4,415	2,000	5,653	1,941
Changes in non-cash working capital items related to operations		3,821	(1,775)	(1,903)	(10,099)
Net cash provided by (used in) operating activities		**7,054**	**644**	**2,031**	**(4,371)**
Cash flows from financing activities:					
Repayment of long-term debt		(300)	(304)	(600)	(616)
Payment of lease obligations	7	(178)	(224)	(422)	(455)
Payment of dividends		(2,038)	(1,889)	(2,038)	(1,889)
Interest paid		(178)	(145)	(297)	(306)
Issuance of common shares on exercise of stock options		35	1,020	97	1,020
Net cash used in financing activities		**(2,659)**	**(1,542)**	**(3,260)**	**(2,246)**
Cash flows from investing activities:					
Interest received	11	150	40	254	80
Acquisitions of property and equipment		(171)	(304)	(231)	(534)
Acquisitions of other intangible assets		-	(7)	-	(22)
Deferred development costs		(258)	(195)	(467)	(681)
Net cash used in investing activities		**(279)**	**(466)**	**(444)**	**(1,157)**
Net increase (decrease) in cash and cash equivalents during the period		4,116	(1,364)	(1,673)	(7,774)
Cash and cash equivalents - beginning of period		17,215	19,342	23,004	25,752
Cash and cash equivalents - end of period		**$ 21,331**	**$ 17,978**	**$ 21,331**	**$ 17,978**

See accompanying notes to the unaudited condensed interim consolidated financial statements

Tecsys Inc.

Condensed Interim Consolidated Statements of Changes in Equity

For the six-month periods ended October 31, 2022 and 2021

(Unaudited)

(In thousands of Canadian dollars, except number of shares)

	Note	Share capital Number	Share capital Amount	Contributed surplus	Accumulated other comprehensive (loss)	Retained earnings	Total
Balance, May 1, 2022		**14,562,895**	**$ 43,973**	**$ 13,176**	**$ (1,434)**	**$ 12,968**	**$ 68,683**
Net profit		-	-	-	-	755	755
Other comprehensive income:							
Effective portion of changes in fair value on designated revenue hedges	12	-	-	-	(1,853)	-	(1,853)
Exchange difference on translation of foreign operations		-	-	-	192	-	192
Total comprehensive (loss)		**-**	**-**	**-**	**(1,661)**	**755**	**(906)**
Stock-based Compensation	8	-	-	1,184	-	-	1,184
Dividends to equity owners	8	-	-	-	-	(2,038)	(2,038)
Share options exercised	8	5,999	121	(24)	-	-	97
Total transactions with owners of the Company		**5,999**	**121**	**1,160**	**-**	**(2,038)**	**(757)**
Balance, October 31, 2022		**14,568,894**	**$ 44,094**	**$ 14,336**	**$ (3,095)**	**$ 11,685**	**$ 67,020**
Balance, May 1, 2021		**14,505,095**	**$ 42,700**	**$ 11,745**	**$ 226**	**$ 12,419**	**$ 67,090**
Net profit		-	-	-	-	952	952
Other comprehensive income:		-	-	-	-	-	
Effective portion of changes in fair value on designated revenue hedges		-	-	-	(125)	-	(125)
Exchange difference on translation of foreign operations		-	-	-	(485)	-	(485)
Total comprehensive income		**-**	**-**	**-**	**(610)**	**952**	**342**
Stock-based Compensation	8	-	-	923	-	-	923
Dividends to equity owners		-	-	-	-	(1,889)	(1,889)
Share options exercised	8	57,800	1,273	(253)	-	-	1,020
Total transactions with owners of the Company		**57,800**	**$ 1,273**	**$ 670**	**$ -**	**(1,889)**	**$ 54**
Balance, October 31, 2021		**14,562,895**	**$ 43,973**	**$ 12,415**	**$ (384)**	**$ 11,482**	**$ 67,486**

See accompanying notes to the unaudited condensed interim consolidated financial statements

1. Description of business:

Tecsys Inc. (the "Company") was incorporated under the Canada Business Corporations Act in 1983. The Company's principal business activity is the development, marketing and sale of enterprise-wide supply chain management software for distribution, warehousing, transportation logistics, point-of-use and order management. The Company sells its software primarily on a subscription basis as Software as a Service and also on a perpetual license basis with recurring support. The Company also provides related consulting, education and support services. The Company is headquartered at 1, Place Alexis Nihon, Montréal, Canada, and derives most of its revenue from customers located in the United States, Canada and Europe. The Company's customers consist primarily of healthcare systems, services parts, third-party logistics, retail and general wholesale high volume distribution industries. The condensed interim consolidated financial statements comprise the Company and its wholly owned subsidiaries. The Company is a publicly listed entity, and its shares are traded on the Toronto Stock Exchange under the symbol TCS.

2. Basis of preparation:

(a) Statement of compliance:

The Company's unaudited condensed interim consolidated financial statements and the notes thereto have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). They do not include all the information required in the full annual financial statements. Certain information and footnote disclosures normally included in annual financial statements were omitted or condensed where such information is not considered material to the understanding of the Company's interim financial information. As such, they should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended April 30, 2022.

The unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 30, 2022.

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual consolidated financial statements as at April 30, 2022.

(b) Functional and presentation currency:

The unaudited condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company. All financial information presented in Canadian dollars has been rounded to the nearest thousand ($000) except when otherwise indicated.

(In thousands of Canadian dollars, except per share data)

2. Basis of preparation (continued):

New standards and interpretations not yet adopted:

A number of new standards, interpretations and amendments to existing standards were issued by the IASB that are not yet effective for the period ended October 31, 2022 and have not been applied in preparing these condensed interim consolidated financial statements. The following amendments are currently being assessed by the Company:

Standard	Issue date	Effective date for the Company	Impact
IAS 1, Presentation of Financial Statements	January 2020, July 2020 and February 2021	May 1, 2023	In assessment
IAS 8, Definition of Accounting Estimates	February 2021	May 1, 2023	In assessment
IAS 12, Income Taxes	May 2021	May 1, 2023	In assessment

Refer to the Company's annual consolidated financial statements for Fiscal 2022 for a discussion of new standards and interpretation not yet adopted.

3. Short-term investments:

	Three-Months Ended October 31, 2022	Twelve Months Ended April 30, 2022
Balance, beginning of period	$ 20,239	$ 20,100
Interest on short-term investments	217	139
Balance, end of period	**$ 20,456**	**$ 20,239**

Short-term investment consists of Guaranteed Investment Certificate (GIC). The GIC has a 31-day withdrawal notice requirement, and the interest is automatically reinvested monthly.

4. Right-of-use assets:

The following table presents the right-of-use assets for the Company:

	Offices	Data centers	Vehicles and equipment	Total
Balance, April 30, 2022	$ 4,474	$ -	$ 73	$ 4,547
Depreciation	(283)	(30)	(26)	(339)
Additions	-	217	-	217
Effect of foreign currency exchange differences	(1)	(2)	(1)	(4)
Balance, October 31, 2022	**$ 4,190**	**$ 185**	**$ 46**	**$ 4,421**

(In thousands of Canadian dollars, except per share data)

5. Contract acquisition costs:

The following table presents the contract acquisition costs for the Company:

		Six-Months Ended October 31, 2022		Twelve Months Ended April 30, 2022
Balance, beginning of the period	$	4,891	$	4,202
Additions		1,391		2,482
Amortization		(985)		(1,793)
Balance, end of period	$	**5,297**	$	**4,891**

Presented as:

		October 31, 2022		April 30, 2022
Current	$	1,790	$	1,714
Non-current	$	3,507	$	3,177

The current portion of contract acquisition costs is included in Prepaid expenses in the unaudited condensed interim consolidated statements of financial position. Amortization of contract acquisition costs is recorded in sales and marketing expense.

6. Banking facilities and long-term debt:

On January 30, 2019, the Company entered into a Credit Agreement. The Credit Agreement includes a Term Facility of up to $12,000 and a Revolving Facility of $5,000. The Term Facility was used for the purchase of Tecsys A/S and for general corporate purposes. The Revolving Facility is for general corporate purposes. As at October 31, 2022, the Company had outstanding $7,800 under the Term Facility (the ''Term Loan'') (April 30, 2022 - $8,400). The Revolving Facility was undrawn as of October 31, 2022 and April 30, 2022.

Canadian Dollar borrowings under the Credit Agreement are made in the form of Prime Rate Loans (bearing interest at prime plus 0.75%-1.75% per annum) or Banker's Acceptances (bearing interest at base plus 1.75% - 2.75% per annum). The Company may repay outstanding amounts under the Credit Agreement at any time.

Security under the credit agreement consists of a first-ranking movable hypothec on the Company's corporeal and incorporeal, present, and future movable property.

The current Credit Agreement requires the Company to maintain a Fixed Charge Coverage Ratio of not less than 1.20 : 1.0 and a Net Debt to Bank EBITDA ratio not greater than 2.50 : 1. On October 31, 2022, the Company was in compliance with all its financial covenants.

(In thousands of Canadian dollars, except per share data)

6. Banking facilities and long-term debt (continued):

The remaining term loan is payable in quarterly installments of $300 until January 2024, with the balance payable on that same date.

		October 31, 2022		April 30, 2022
Term loan, secured by a hypothec on movable properties	$	7,800	$	8,400
Presented as:				
Current portion		1,200		1,200
Long-term debt	$	6,600	$	7,200

7. Lease obligations:

The Company's leases are for office space, data centers, vehicles, and equipment. Most of these leases do not contain renewal options. The range of renewal options for those that have such options are between 5 to 10 years. The Company has included renewal options in the measurement of lease obligations when it is reasonably certain to exercise the renewal option.

The following table presents lease obligations for the Company:

		October 31, 2022		April 30, 2022
Current	$	660	$	662
Non-Current		4,975		5,181
	$	**5,635**	**$**	**5,843**

The following table presents the contractual undiscounted cash flows for lease obligations as at October 31, 2022:

Less than one year	$	805
One to five years		4,135
More than five years		1,555
	$	**6,495**

Interest expense on lease obligations for the three and six months ended October 31, 2022 was $53 and $107 ($82 and $166 for the same periods of fiscal 2022). Total cash outflow was $231 and $529 for the three months and six months ended October 31, 2022 ($306 and $621 for the same periods of fiscal 2022), including $178 and $422 of principal payments on lease obligations ($224 and $455 for the same periods of fiscal 2022). The expense relating to variable lease payments not included in the measurement of lease obligations was $286 and $539 for the three and six months ended October 31, 2022 ($264 and $533 for the same periods of fiscal 2022). This consists of variable lease payments for operating costs, property taxes and insurance.

(In thousands of Canadian dollars, except per share data)

7. Lease obligations (continued):

Expenses relating to short-term leases not included in the measurement of lease obligations for the three and six months ended October 31, 2022 was $3 and $7 ($29 and $60 for the same periods of fiscal 2022). Expenses relating to leases of low value assets was $54 and $109 for the three and six months ended October 31, 2022 ($43 and $79 for the same periods of fiscal 2022). Additions on lease obligations during the three months ended October 31, 2022 were $nil (same for the same period of fiscal 2022) and for the six months ended October 31, 2022 were $217 ($nil for the same period of fiscal 2022).

8. Share capital and Stock option plan:

(a) Dividend policy:

The Company maintains a quarterly dividend policy. The declaration and payment of dividends is at the discretion of the Board of Directors, which will consider earnings, capital requirements, financial conditions and other such factors as the Board of Directors, in its sole discretion, deems relevant.

On June 29, 2022, the Company's Board of Directors declared a quarterly dividend of $0.07 per share, paid on August 5, 2022 to shareholders of record on July 15, 2022.

On September 8, 2022, the Company declared a dividend of $0.07 per share, paid on October 7, 2022 to shareholders of record on September 23, 2022.

(b) Earnings per share:

The calculation of basic earnings per share is based on the profit attributable to common shareholders and the weighted average number of common shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to common shareholders and the weighted average number of common shares outstanding after adjustment for the effects of all dilutive common shares.

Basic and diluted earnings per share are calculated as follows:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2022	**2021**	**2022**	**2021**
Net profit, attributable to common shareholders	$ 715	$ 708	$ 755	$ 952
Weighted average number of common shares outstanding (basic)	14,567,499	14,534,623	14,565,718	14,512,538
Diluted impact of stock options	271,029	440,762	268,494	393,522
Weighted average number of common shares outstanding (diluted)	14,838,528	14,975,385	14,834,212	14,906,060
Basic earnings per common share	$ 0.05	$ 0.05	$ 0.05	$ 0.07
Diluted earnings per common share	$ 0.05	$ 0.05	$ 0.05	$ 0.06

(In thousands of Canadian dollars, except per share data)

8. Share capital and Stock option plan (continued):

As at October 31, 2022, 380,407 options were excluded from the three and six months weighted average number of diluted common shares as their effect would have been anti-dilutive (2,000 for the comparative periods of fiscal 2022).

(c) Stock option plan:

The Company has a stock option plan under which stock options may be granted to certain employees and directors. Under the terms of the plan, the Company may grant options up to 10% of its issued and outstanding shares. The stock option plan is administered by the Board of Directors who may determine, in accordance with the terms of the plan, the terms relating to each option, including the extent to which each option is exercisable during the term of the options.

The exercise price is generally determined based on the weighted average trading price of the Company's common shares for the 5 days prior to the date the Board of Directors grants the option.

The movement in outstanding stock options for the six months ended October 31, 2022 is as follows:

	Number of options		Weighted average exercise price
Outstanding at April 30, 2022	806,666	$	22.64
Granted	214,846		34.81
Exercised	(5,999)		16.24
Forfeited	(10,490)		35.51
Outstanding at October 31, 2022	**1,005,023**	**$**	**25.14**

The following table outlines the outstanding stock options of the Company as at October 31, 2022:

		Fair value per option	Remaining contractual life in years	Number of options currently exercisable		Exercise price	Outstanding options
Granted on September 6, 2018	$	4.42	0.85	108,900	$	17.23	108,900
Granted on July 3, 2019		3.28	1.67	297,092		14.29	364,733
Granted on February 28, 2020		4.78	2.33	4,688		18.95	7,500
Granted on July 8, 2020		6.95	2.68	81,570		26.75	143,483
Granted on December 2, 2020		10.74	3.09	2,850		36.77	6,514
Granted on February 24, 2021		18.79	3.32	750		60.62	2,000
Granted on June 29, 2021		12.66	3.66	52,020		40.34	162,637
Granted on June 29, 2022		12.90	4.66	13,212		34.91	205,756
Granted on September 2, 2022		10.80	4.84	146		28.55	3,500

The issued options vest on quarterly straight-line basis (6.25% per quarter) over the vesting period of 4 years and must be exercised within 5 years from the date of grant.

(In thousands of Canadian dollars, except per share data)

8. Share capital and Stock option plan (continued):

The fair value of options granted on June 29, 2022 and September 26, 2022 were determined using the Black-Scholes option pricing model with the following assumptions:

	Fiscal 2023		Fiscal 2022
	June 29, 2022	**September 26, 2022**	**June 29, 2021**
Exercise share price	$ 34.91	$ 28.55	$ 40.34
Expected option life (years)	5	5	5
Weighted average expected stock price volatility	39.67%	41.53%	36.61%
Weighted average dividend yield	0.77%	0.96%	0.62%
Weighted average risk-free interest rate	3.26%	3.39%	0.97%

For the three and six months ended October 31, 2022, the Company recognized stock-based compensation expense of $708 and $1,184 ($569 and $923 for the same periods of fiscal 2022). The contributed surplus accounts are used to record the accumulated compensation expense related to equity-settled share-based compensation transactions. Upon exercise of stock options, the corresponding amounts previously credited to contributed surplus are transferred to share capital.

9. Remaining performance obligation

The Company enters into SaaS subscription agreements and has historically entered into hosting agreements (classified under Maintenance and Support) that are typically multi-year performance obligations with original contract terms of three to five years. The Company enters into maintenance and support contracts other than hosting agreements that typically have an original term of one year and are subject to annual renewal. These contracts with an original term of one year (or less) are excluded from the table below.

The following table presents revenue expected to be recognized in the future related to SaaS and maintenance and support performance obligations that are part of a contract with an original duration of greater than one year and that are unsatisfied (or partially satisfied) at October 31, 2022:

	Remainder of fiscal 2023	Fiscal 2024	Fiscal 2025 and thereafter	Total
SaaS	$ 17,857	31,948	59,729	109,534
Maintenance and support	931	939	163	2,033
	$ 18,788	**32,887**	**59,892**	**111,567**

(In thousands of Canadian dollars, except per share data)

10. Cost of revenue:

	Three Months ended October 31,		Six Months ended October 31,	
	2022	**2021**	**2022**	**2021**
SaaS, maintenance, support and professional services:				
Gross expenses	$ 16,650	$ 14,642	$ 33,144	$ 29,369
Amortization of intangible assets	172	154	345	310
Reimbursable expenses	371	163	692	286
E-business tax credits	(792)	(635)	(1,525)	(1,283)
	$ 16,401	$ 14,324	$ 32,656	$ 28,682
License and hardware	5,031	4,427	8,222	8,872
	$ 21,432	**$ 18,751**	**$ 40,878**	**$ 37,554**

11. Net finance (income) costs:

	Three Months ended October 31,		Six Months ended October 31,	
	2022	**2021**	**2022**	**2021**
Interest expense on bank loans and other	$ 125	$ 63	$ 190	$ 140
Interest accretion expense – lease obligations	53	82	107	166
Foreign exchange loss (gain)	(84)	23	(74)	17
Interest income	(150)	(40)	(254)	(80)
	$ (56)	**$ 128**	**$ (31)**	**$ 243**

12. Derivative instruments and risk management:

The Company is exposed to currency risk as a certain portion of the Company's revenues and expenses are incurred in U.S. dollars resulting in U.S. dollar-denominated accounts receivable and accounts payable and accrued liabilities. In addition, certain of the Company's cash and cash equivalents are denominated in U.S. dollars. These balances are therefore subject to gains or losses due to fluctuations in that currency. The Company may enter into foreign exchange contracts in order to (a) offset the impact of the fluctuation of the U.S. dollar on its U.S. net monetary assets and (b) hedge highly probable future revenue denominated in U.S. dollars. The Company uses derivative financial instruments only for risk management purposes, not for generating trading profits. As such, any change in cash flows associated with derivative instruments is expected to be offset by changes in cash flows related to the net monetary position in the foreign currency and the recognition of highly probable future U.S. denominated revenue and related accounts receivable.

Non-hedge designated derivative instruments

On October 31, 2022, the Company held one outstanding foreign exchange contract with maturity date for December 30, 2022, to sell US$1,500 into Canadian dollars at the exchange rate of CA$1.3600 to yield CA$2,040. As of October 31, 2022, the Company recorded an unrealized exchange loss of $2 included in the accounts payable and accrued liabilities representing the change in fair value of this outstanding contract since inception.

On October 31, 2021, the Company held four outstanding foreign exchange contracts with various maturities to February 2022 to sell US$3,900 into Canadian dollars at rates averaging CA$1.2456 to yield CA$4,858. As of October 31, 2021, the Company recorded an unrealized exchange gain of $31 included in other receivables representing the change in fair value of these outstanding contracts since inception.

Revenue hedge designated derivative instruments

On October 31, 2022, the Company held fifty-two outstanding foreign exchange contracts with various maturities to July 2024 to sell US$82,000 at rates averaging CA$1.3158 to yield CA$107,893. Of the outstanding US$82,000 hedge designated foreign exchange contracts, US$70,000 pertain to highly probable future revenue denominated in U.S. dollars expected over the eighteen-month period through April 2024 while US$12,000 relates to realized U.S. dollar denominated revenue. On October 31, 2022, the Company had recorded an unrealized loss of $3,325 included in accounts payables and accrued liabilities and an unrealized gain of $241 included in other receivables representing the change in fair value of these outstanding contracts since inception and their initial measurement.

On October 31, 2021, the Company held seventeen outstanding foreign exchange contracts with various maturities to July 2022 to sell US$28,000 at rates averaging CA$1.2585 to yield CA$35,239. Of the outstanding US$28,000 hedge designated foreign exchange contracts, US$18,250 pertained to highly probable future revenue denominated in U.S. dollars expected over the six-month period through April 2022 while US$9,750 related to realized U.S. dollar denominated revenue. On October 31, 2021, the Company had recorded an unrealized exchange gain of $566 included in other receivables representing the change in fair value of these outstanding contracts since inception.

(In thousands of Canadian dollars, except per share data)

12. Derivative instruments and risk management (continued):

The following table represents the movement in accumulated other comprehensive income (loss) since the designation of hedging derivative instruments.

	Three Months ended October 31,		Six Months ended October 31,	
	2022	**2021**	**2022**	**2021**
Accumulated other comprehensive (loss) income on cash flow hedges as at the beginning of period	$ (47)	$ 134	$ (201)	$ 492
Net gain (loss) on derivatives designated as cash flow hedges	(3,512)	364	(3,345)	57
Amounts reclassified from accumulated other comprehensive income to net earnings, and included in:				
Revenue	913	(26)	955	(136)
Net finance costs	592	(105)	537	(46)
Accumulated other comprehensive (loss)/ gain from cash flow hedges	$ (2,054)	$ 367	$ (2,054)	$ 367
Accumulated other comprehensive loss- translation adjustment from foreign operations at the end of period	(1,041)	(751)	(1,041)	(751)
Total accumulated other comprehensive loss as at the end of period	**$ (3,095)**	**$ (384)**	**$ (3,095)**	**$ (384)**

13. Related party transactions:

Key management includes Board of Directors (executive and non-executive) and members of the Executive Committee that report directly to the President and Chief Executive Officer of the Company.

As at October 31, 2022, key management and their spouses control 20.5% (April 30, 2022 – 21.6%) of the issued common shares of the Company.

The compensation paid or payable to key management for employee services during the three and six month periods ended October 31, 2022 and 2021 is as follows:

(In thousands of Canadian dollars, except per share data)

13. Related party transactions (continued):

	Three Months ended October 31,		Six Months ended October 31,	
	2022	2021	2022	2021
Salaries	$ 1,286	$ 1,571	$ 2,356	$ 2,630
Other short-term benefits	64	86	114	168
Payment to defined contribution plans	27	34	57	70
	$ 1,377	**$ 1,691**	**$ 2,527**	**$ 2,868**

Under the provisions of the share purchase plan for key management and other management employees, during the three months ended October 31, 2022 the Company provided interest-free loans to key management and other management employees of $nil ($nil for the same period of fiscal 2022). During the six months ended October 31, 2022 the Company provided interest-free loans to key management and other management employees of $416 ($300 for the same period of fiscal 2022) to facilitate their purchase of the Company's common shares during the six months ended October 31, 2022. As of October 31, 2022, loans outstanding amounted to $408 (April 30, 2022 - $241) and are included in other receivables and other long-term receivables in the unaudited condensed interim consolidated statements of financial position.

14. Operating segment:

Management has organized the Company under one reportable segment: the development and marketing of enterprise-wide distribution software and related services. As at October 31, 2022, substantially all of the Company's property and equipment, goodwill and other intangible assets are located in Canada and Denmark. For Denmark, the property and equipment (including right-of-use assets), goodwill and other intangible assets (including deferred development costs) as at October 31, 2022 were $644, $6,074 and $5,448 respectively (April 30, 2022 – $540, $6,081 and $5,720). For Canada, the amounts were $5,552, $10,782 and $6,175 respectively (April 30, 2022 - $6,071, $10,782 and $6,451). As at October 31, 2022, total assets attributable to Denmark were $16,477 (April 30, 2022 - $15,300). The Company's subsidiaries in the U.S. and the U.K. comprise sales and service operations offering implementation and maintenance services only.

Following is a summary of revenue by geographic location in which the Company's customers are located:

	Three Months ended October 31, 2022		Six Months ended October 31, 2022	
	2022	2021	2022	2021
Canada	$ 6,098	$ 7,654	$ 13,010	$ 14,610
United States	26,612	22,141	49,122	44,277
Europe	4,174	4,280	8,626	8,116
Other	1,204	194	1,557	498
	$ 38,111	$ 34,269	$ 72,315	$ 67,501

15. Subsequent event:

November 30, 2022, the Company’s Board of Directors declared a quarterly dividend of $0.075 per share to be paid on January 6, 2023 to shareholders of record on December 15, 2022.

Tecsys Inc.
1 Place Alexis Nihon
Suite 800
Montreal, Quebec H3Z 3B8
Canada
Tel: (800) 922-8649
(514) 866-0001
Fax: (514) 866-1805

www.tecsys.com