Perspectec

Executive Summary:

Discussions with industry experts lead us to believe this new SaaS IPO is materially undervalued

Docebo (DCBO-TSX)

Target: C$23

Rating: **Buy**

Return-to-Target: 42%

Robin Manson-Hing
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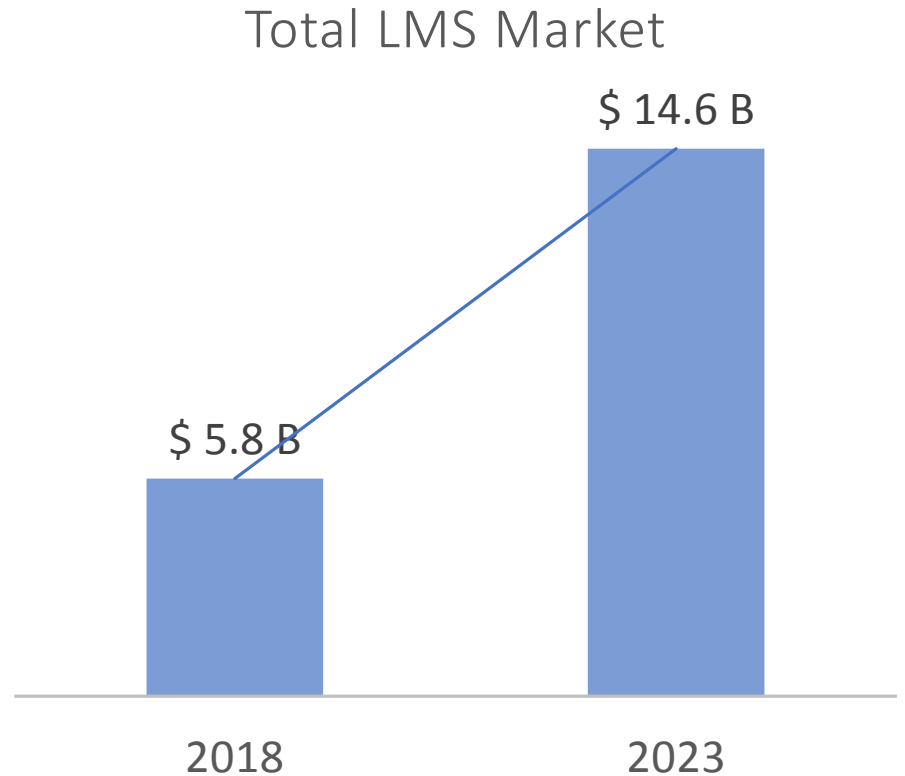(416) 898-8546

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Industry Background

1. The Learning Management Software (LMS) enterprise TAM was estimated to be $5.8. billion in 2018, and is expected to grow at a CAGR of **21%** to $14.6 billion by 2023

2. Fragmented industry with material switching costs
   - Public competitors: CSOD, INST, SAP, ORCL
   - Private competitors: Skillsoft Sum Total, Saba, Blackboard
   - **Legacy bundled packages are set for disruption**

3. Biggest factors in decision-making process for the customer are:
   - Usability and Features
   - Pricing
   - Service and Support

Total LMS Market

$ 14.6 B

$ 5.8 B

2018   2023

Source: https://www.capterra.com/learning-management-system-software/user-research

Price Movement Since the IPO on October 7th, 2019

16.09 CAD +0.090 (0.56%) ↑
Nov. 27, 4:00 p.m. EST · Disclaimer

| 1 day | 5 days | 1 month | 6 months | YTD | 1 year | 5 years | Max |

16.00 CAD Tue, 8 Oct

Open	16.04	Div yield	-
High	16.10	Prev close	16.00
Low	15.95	52-wk high	16.25
Mkt cap	-	52-wk low	11.29
P/E ratio	-		

- Minimal price movement after a strong Q3/19 results on **Nov 13th**

- DCBO is an under covered stock that appears attractive on a relative SaaS basis.

EMEA
31%

North America
69%

Revenue for the nine months ended September 30, 2019

Technology & Media
THOMSON REUTERS
hp
Investopedia
PEARSON
CINEPLEX

Consulting & Services
Newcross HEALTHCARE
experian.
randstad
AMNESTY INTERNATIONAL
lastminute.com

Manufacturing & Consumer
L'ORÉAL
brf
HEINEKEN
BMW
Denny's

Source: Company Presentation
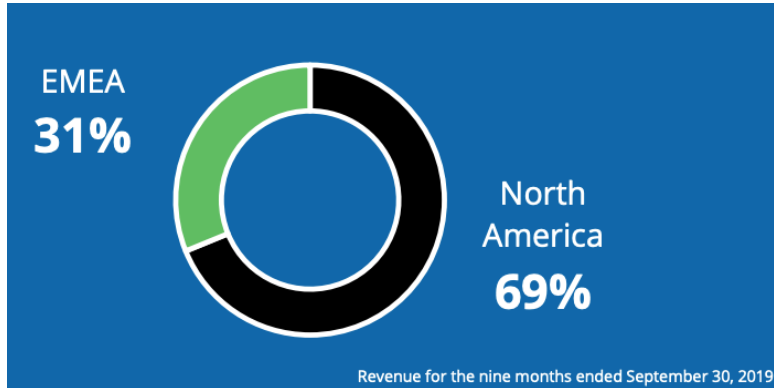
Docebo at-a- glance

- Roughly 1,600 customers
- USD $ 40M ARR[1]
- ~300 employees
- 93% of revenue is recurring[1]
- Offices in Toronto, Athens, GA, Milano, London, Dubai
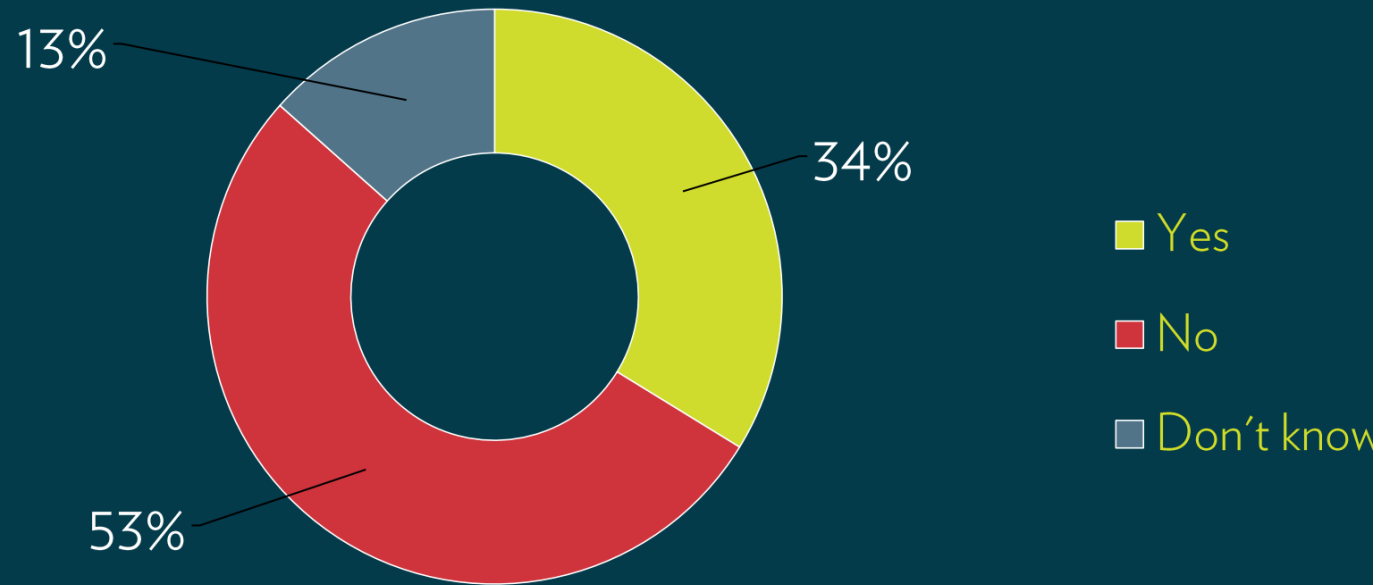- 100% Cloud-based with some features powered by their inhouse built A.I.

Investment Thesis

- **LMS professionals are un-enamored with legacy LMS providers**
  - Enterprises are shifting their focus away from traditional Learning and Development (L&D) methods;
  - An increase in spending on modern 3rd party cloud LMS solutions
  - DCBO's low price & high performing tools are preferred by both L&D professionals and learners
  - DCBO's target market (mid-sized enterprise) is the fastest growing customer base within LMS
- **Efficiently run business with a unique sales approach**
  - Native cloud allows DCBO to scale easily
  - R&D is being spent on new developments vs. Technology Debt
  - High leverage on S&M when comparing to peers
  - Meeting with department heads vs. HR/IT as is done by competitors
- **Attractive valuation**
  - **11.2x** of FY '20 TTM GM $ added x TTM LTV Added / TTM GC   = C$23
  - **2.9x** of FY'20 TTM GM $ x LTV Added / GC   = C$23

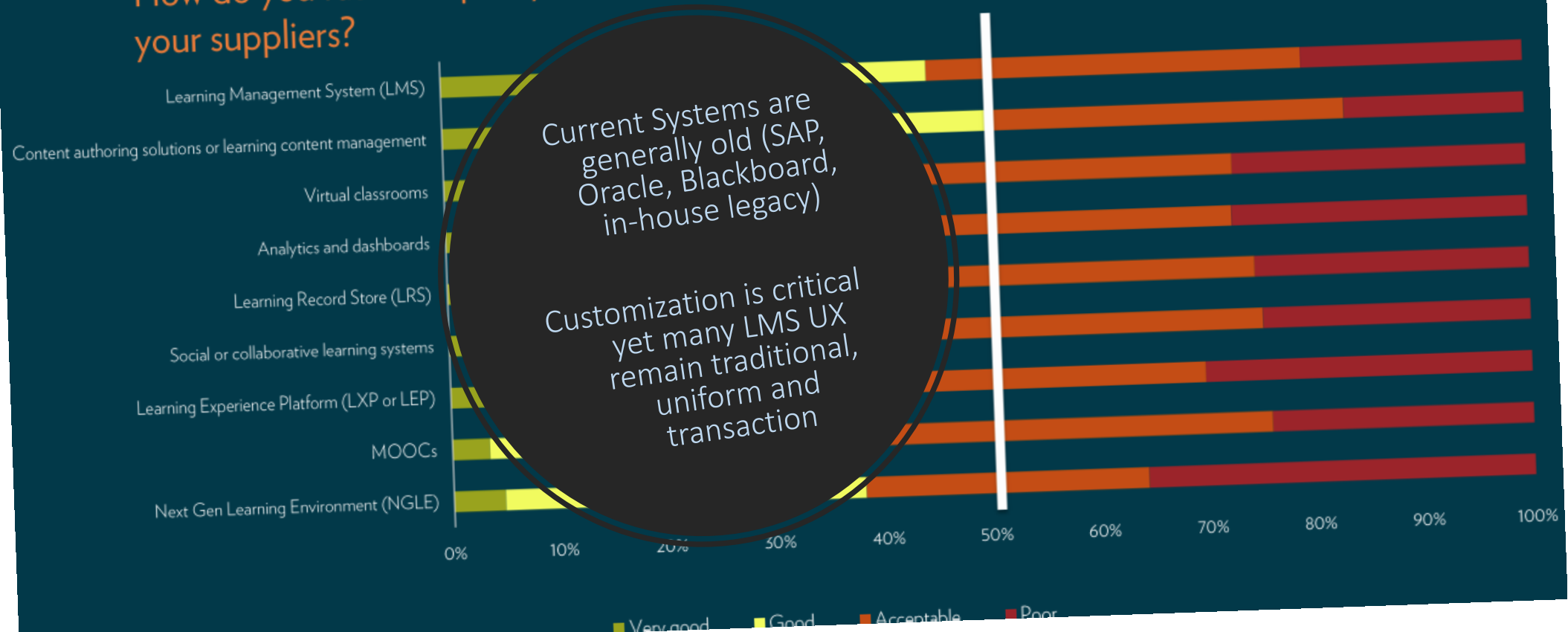Do you think your current learning platforms are fit for the modern workforce?

13%
34%
53%

Yes
No
Don't know

The Majority of LMS Enterprise Users are Unhappy With Their LMS Solutions

LMS Professionals Are Un-enamored With non-DCBO LMS

Source: https://www.gartner.com/document/3970435?ref=solrAll&refval=234533905

LMS Professionals Are Un-enamored With Legacy, non-DCBO Providers

Billons of Dollars Have Shifted Away from Outsourced Training in Just One Year

2018 U.S. Enterprise Trainning Budget

$ 44.5 B

$ 29.6 B

$ 7.5 B

$ 11.0 B

$ 50.0 B
$ 40.0 B
$ 30.0 B
$ 20.0 B
$ 10.0 B
$ 0.0 B

2017

2018

■ Spending on outside product/services
■ Spending on in travel, training facilities, in-house trainning

Source: 2018 trainning industry report
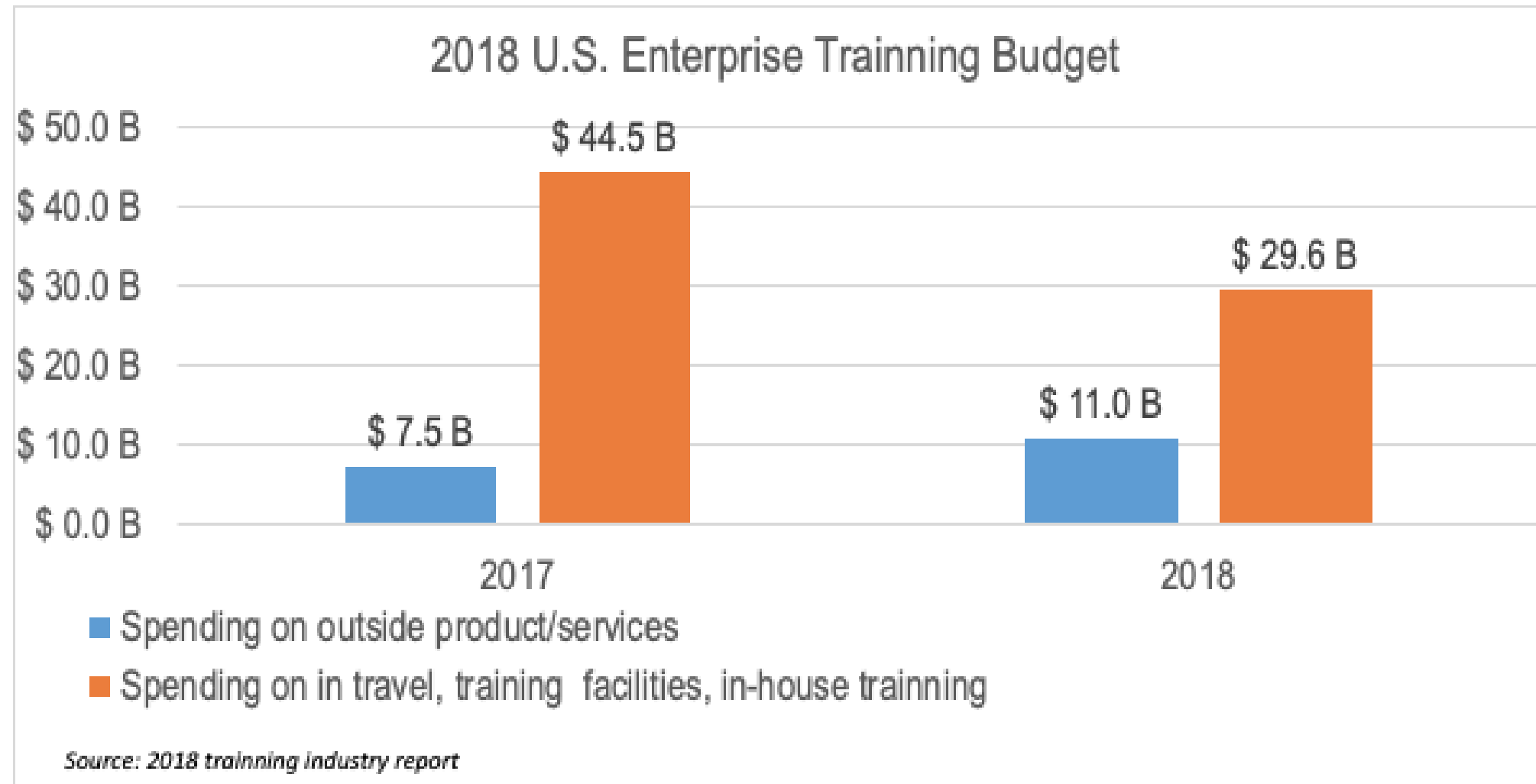
Increase spending from corporations already using a modern LMS solutions

Based on our discussions, we estimate companies will spend **5**% more on their modern LMS solutions each year

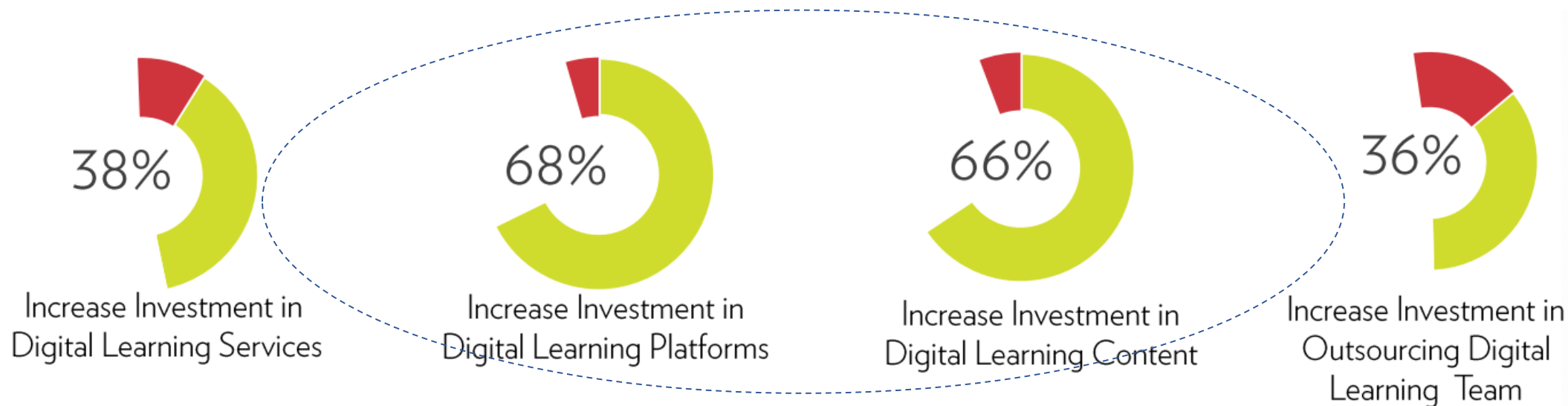# LMS Professionals Are Un-enamored With Legacy, non-DCBO Providers

Perspectec LMS Industry Survey	
Spend vs. 3yrs ago	**% of participants**
<80%	8%
80%-90%	0%
Same	50%
110-120	25%
>120%	17%
Weighted Avg.	**105%**

Source: Perspectec

LMS Professionals Are Un-enamored With Legacy, non-DCBO Providers

A 2018 Fosway Survey of Learning and Development Buyers indicated an expected increase in spending on modern LMS solutions. This is inline with our survey.

- LMS spending compared to 2017:
  - 60% expected to see an increase vs. 30% expecting level spending vs. 6% expecting to see a decrease

38%
Increase Investment in
Digital Learning Services

68%
Increase Investment in
Digital Learning Platforms

66%
Increase Investment in
Digital Learning Content

36%
Increase Investment in
Outsourcing Digital
Learning Team

Source: https://www.fosway.com/wp-content/uploads/2017/05/Digital-Learning-Realities-2017_Part-1.pdf

DCBO's Product Ranked High Among Competitors

DCBO Offers the Best Value for Performance and Potential among LMS Solutions
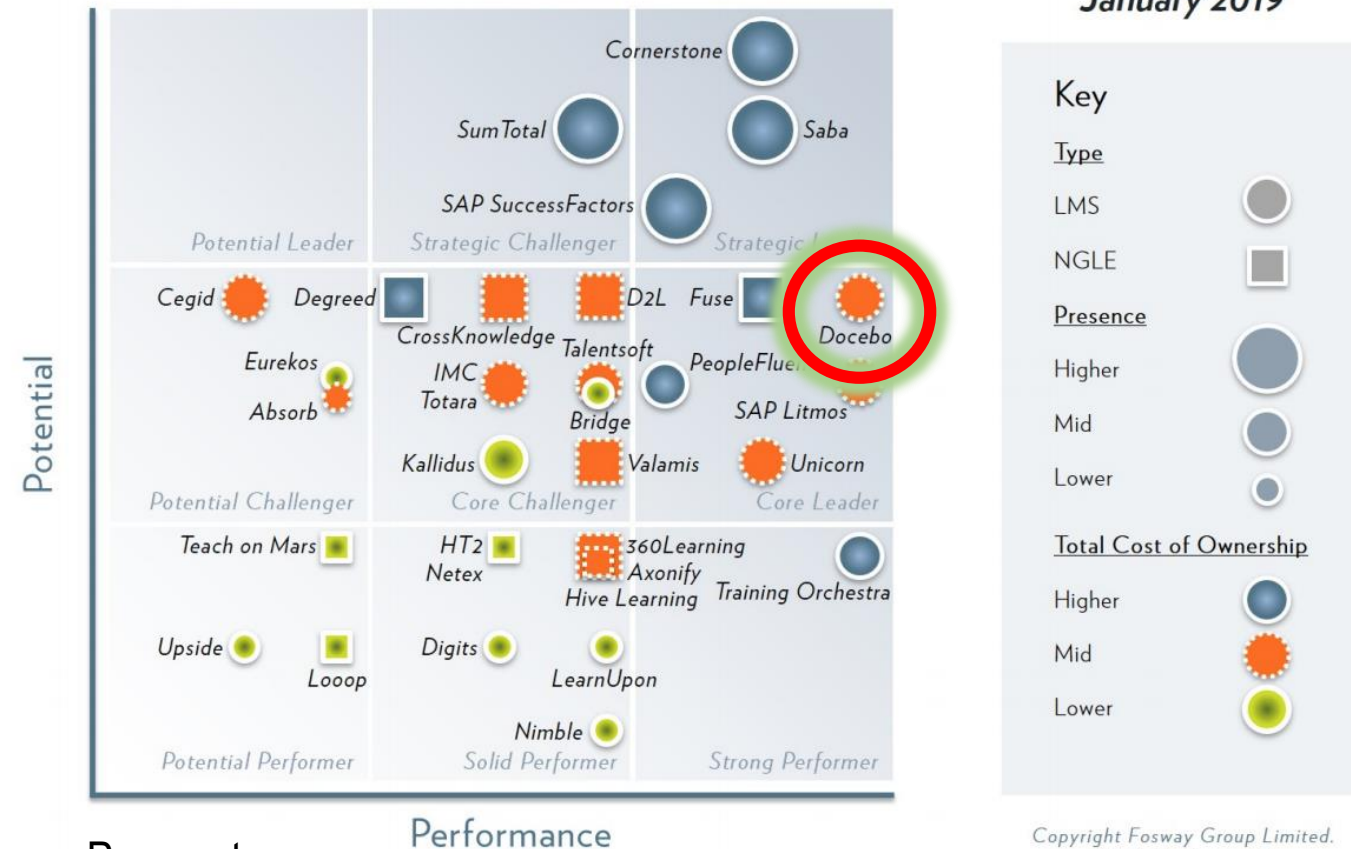
Source: Perspectec

LMS Professionals Are Un-enamored With Legacy, non-DCBO Providers

Total Score: 4.1/5.0

DCBO's Relatively Low Price and Strong Relationships with Mid-sized Enterprises Represent the Sweet Spot for Growth

Why Decebo	% of users
Pre-existing Relationship	17.4%
Overall Cost	15.9%
Strong Service	14.5%
Strong User Community	10.1%
Financial/Organizational Viability	8.7%
Breadth of Service	7.2%
Strong Consulting Partnership	7.2%
Strong Customer Focus	7.2%
Product Functionality and Perform	7.2%
Product Roadmap and Future Visi	4.3%
Total	100.0%
Source: Gartner Peer Review	

Docebo wins on Value and Relationships with LMS Specialists

LMS Professionals Are Un-enamored With Legacy, non-DCBO Providers

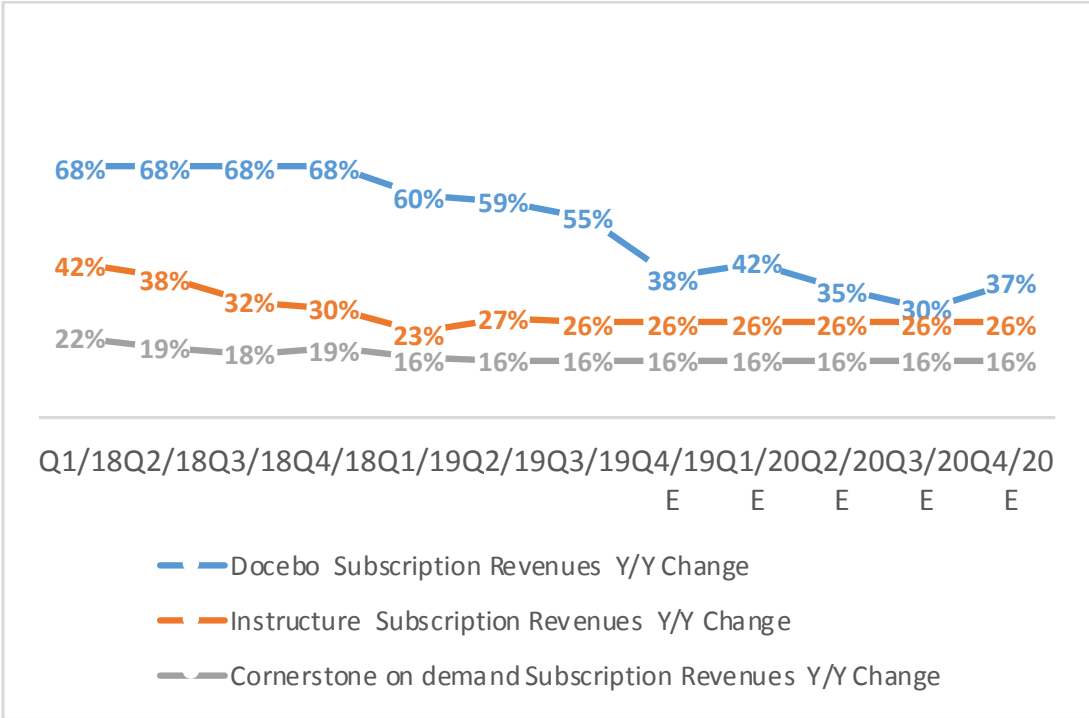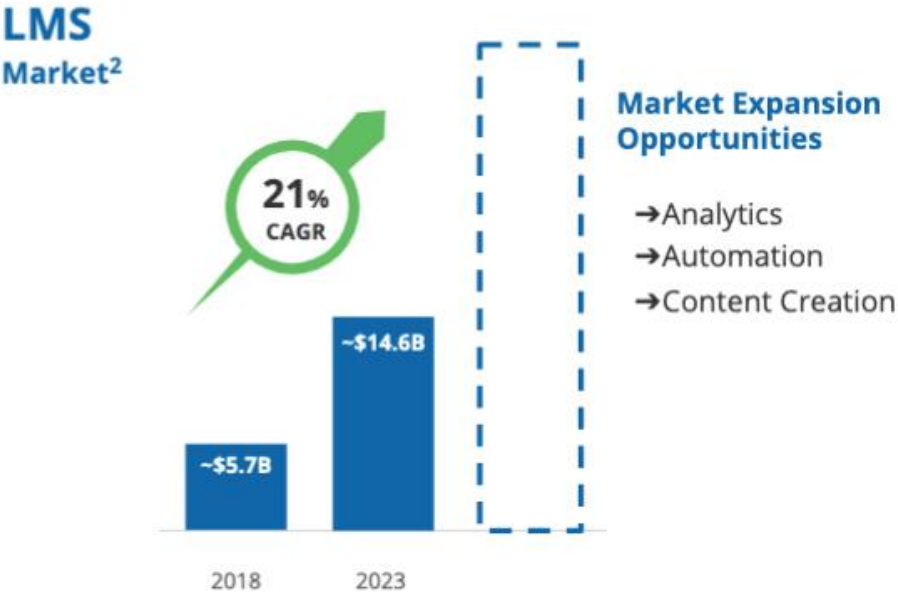| Avg. Trainning Exp. (in '000 USD)	2017	2018	YOY change
Large Corp.	$17,000	$19,700	16%
Mid-Enterprises	**$600**	**$2,100**	**250%**
Small Businesses	$1,000	$358	-64%
Source: 2018 Trainning Industry Report			

Mid-Sized Enterprise (1,000 to 10,000 employees) Represent the LMS Industry's Fastest Growing Customer Segment

Reasons for out-growth:
- Mid-sized companies lack large learning team/ significant IT resources
- Ease of use, customization, and easy access to off-the-shelf content are critical to these companies

LMS Professionals Are Un-enamored With Legacy, non-DCBO Providers

Good Bang-for-the-Buck, Strong Relationships and Mid-sized Businesses are Driving Faster than Market Growth for DCBO
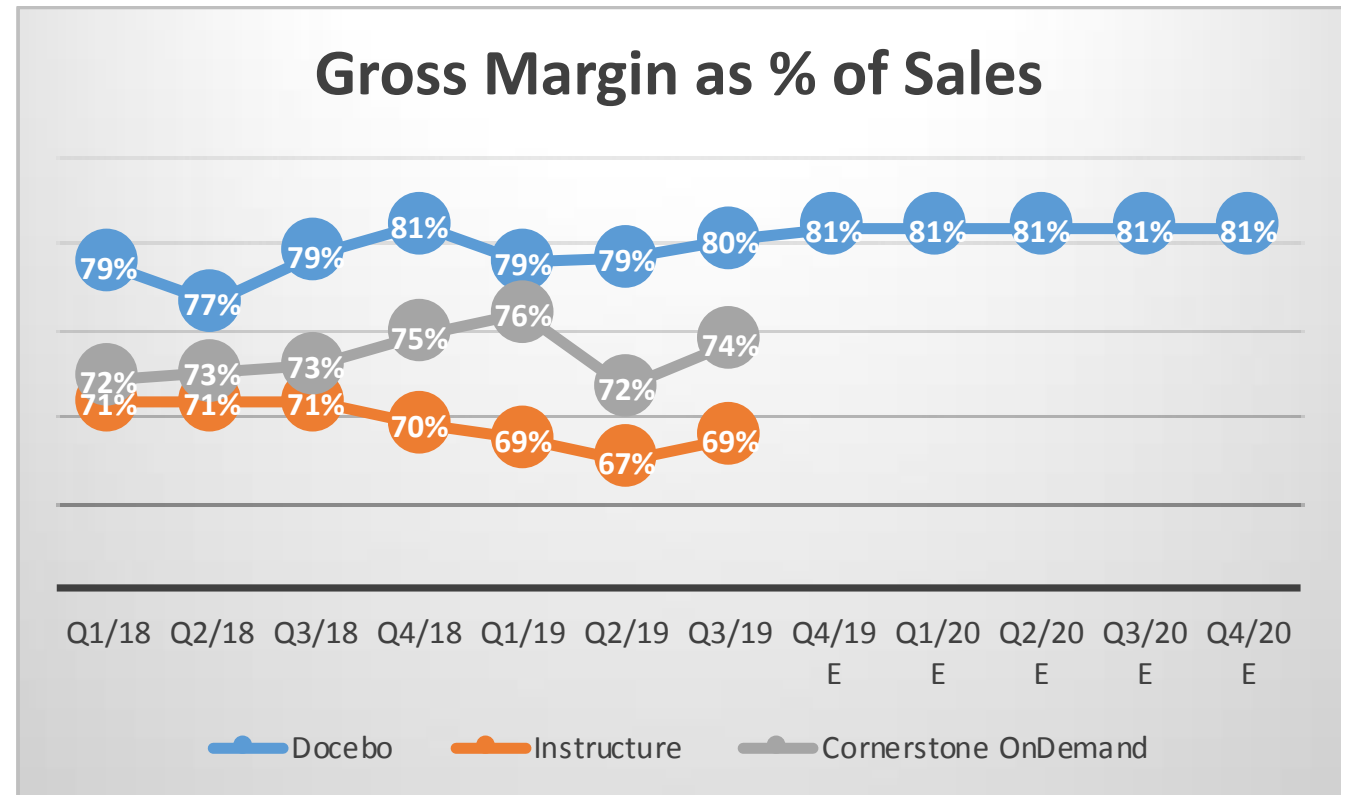

LMS Market[2]

21% CAGR

~$5.7B (2018)
~$14.6B (2023)

Market Expansion Opportunities
→ Analytics
→ Automation
→ Content Creation

Docebo Subscription Revenues Y/Y Change: 68% 68% 68% 68% 60% 59% 55% 38% 42% 35% 30% 37%

Instructure Subscription Revenues Y/Y Change: 42% 38% 32% 30% 23% 27% 26% 26% 26% 26% 26% 26%

Cornerstone on demand Subscription Revenues Y/Y Change: 22% 19% 18% 19% 16% 16% 16% 16% 16% 16% 16% 16%

Q1/18 Q2/18 Q3/18 Q4/18 Q1/19 Q2/19 Q3/19 Q4/19 Q1/20 Q2/20 Q3/20 Q4/20
E E E E E

- - - Docebo Subscription Revenues Y/Y Change
- - - Instructure   Subscription Revenues Y/Y Change
- - - Cornerstone on demand Subscription Revenues Y/Y Change

We Forecast Docebo's Revenue to grow at a CAGR of 34% until 2021 vs. the LMS Industry forecasted to grow by 21% until 2023

Thesis Two: Docebo is an Efficiently Run Business With a Unique Sales Approach

- Native Cloud allows for **faster scale**, DCBO's margins are much higher relative to their public competitors

- *"The improvement was due to benefit of scale in infrastructure cost structure"* — Company 10'Q

- Management expects Gross Margin (GM) to be *"around"* **81%** moving forward

Gross Margin as % of Sales

Docebo: Q1/18 79%, Q2/18 77%, Q3/18 79%, Q4/18 81%, Q1/19 79%, Q2/19 79%, Q3/19 80%, Q4/19E 81%, Q1/20E 81%, Q2/20E 81%, Q3/20E 81%, Q4/20E 81%

Cornerstone OnDemand: Q1/18 72%, Q2/18 73%, Q3/18 73%, Q4/18 75%, Q1/19 76%, Q2/19 72%, Q3/19 74%

Instructure: Q1/18 71%, Q2/18 71%, Q3/18 71%, Q4/18 70%, Q1/19 69%, Q2/19 67%, Q3/19 69%

Legend: Docebo — Instructure — Cornerstone OnDemand

Source: Perspectec and Company Reports

Efficiently Run Business With a Unique Sales Approach

- R&D spend is on new modules vs. "technology debt" or fixing bugs

- Reported spending on Docebo's Income Statement relative to their revenue is less than INST and higher than CSOD, however:
  - **DCBO has not capitalized R&D**
  - CSOD: R&D capitalization roughly **5%** of sales for past 3 yrs.;
  - INST: R&D capitalization roughly **9%** of sales for the past 3 yrs.

- In terms of the impact to cash flow, Docebo spends the least relative to their revenue.
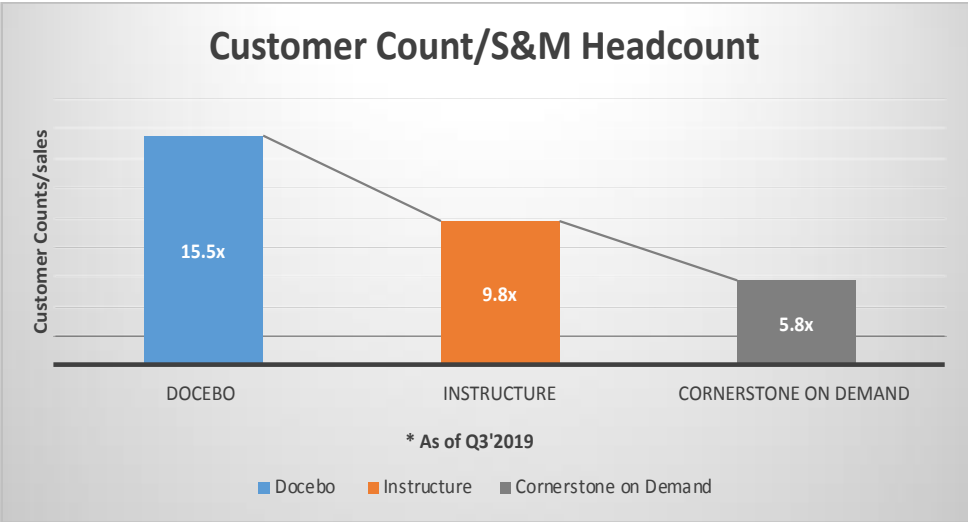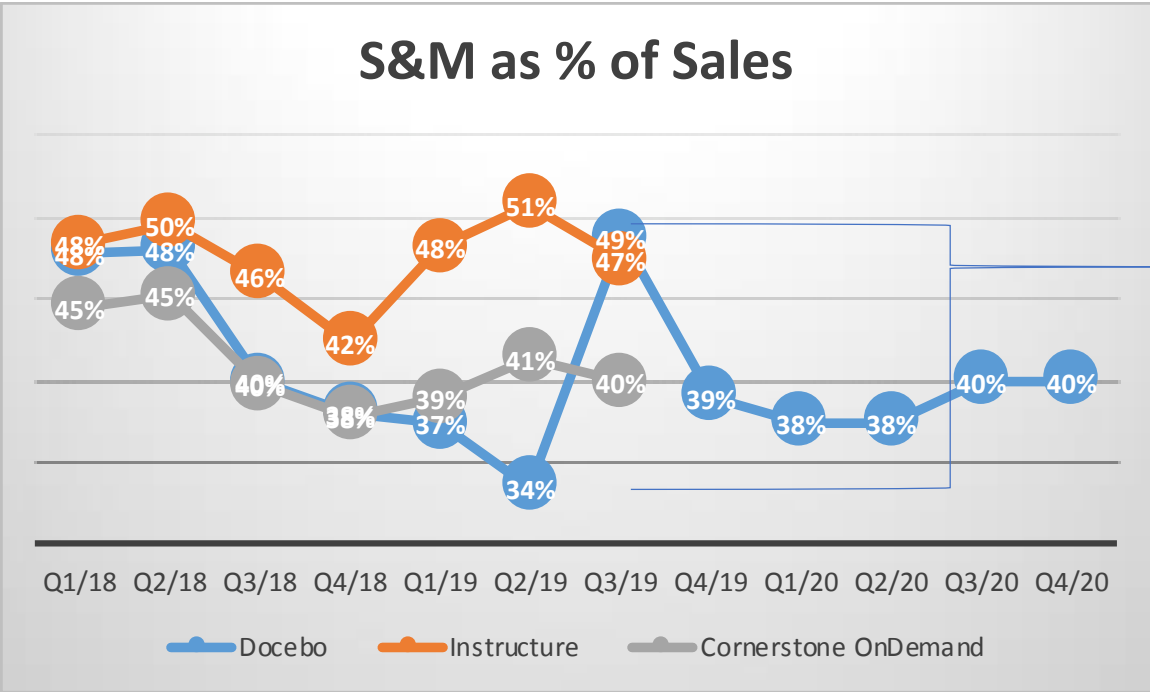

R&D as % of Sales
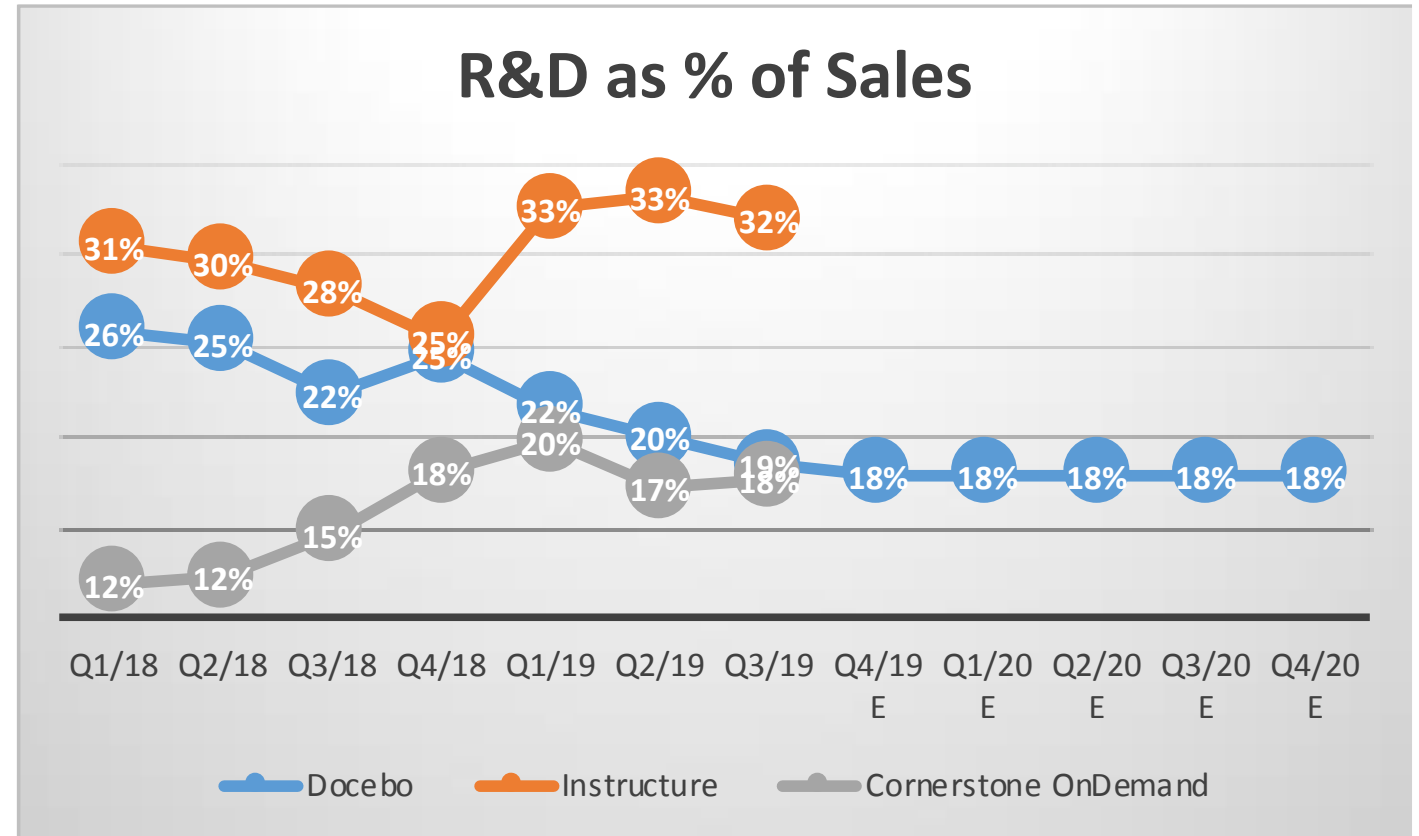
Source: Perspectec and Company Reports

* Graph does not include Capitalized R&D

Efficiently Run Business With a Unique Sales Approach

- High leverage on S&M compared to peers.

- Management guidance: run rate **late 2019/early 2020** S&M should be in the range of **35% -40%** of sales

Customer Count/S&M Headcount

Customer Counts/sales

DOCEBO 15.5x | INSTRUCTURE 9.8x | CORNERSTONE ON DEMAND 5.8x

* As of Q3'2019

Docebo | Instructure | Cornerstone on Demand

S&M as % of Sales

Q1/18	Q2/18	Q3/18	Q4/18	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20	Q3/20	Q4/20	

Docebo: 48%, 48%, 40%, 37%, 38%, 34%, 49%, 39%, 38%, 38%, 40%, 40%
Instructure: 48%, 50%, 46%, 42%, 48%, 51%, 47%
Cornerstone OnDemand: 45%, 45%, 40%, 38%, 39%, 41%, 40%

Docebo — Instructure — Cornerstone OnDemand

Sudden jump in S&M as % of Sales in Q3'19 is due to the timing of certain advertising and marketing events impacting the results, including our annual "Docebo Inspire" conference held in September 2019.

Source: Perspectec and Company Reports

Efficiently Run Business With a Unique Sales Approach

- **Switching Cost** embedded in the LMS industry
  - Direct: implementation costs are **$12,000 - $20,000 (one-time)**
  - Indirect: new system training; loss of important data during transition
  - LMS being sold as a bundled package with Talent Management (TM) solution or Core HR suits is common; our survey indicates legacy providers are losing share

- DCBO's sales team is meeting with **department heads** (example sales head, marketing head), vs. HR/IT as is done by their competitors;

- **DCBO's solution is treated as an "add-on" depending on a departments' training needs; it's not necessarily seen as a replacement to a company's primary LMS system.**

Thesis Three: Attractive Valuation

Est. Fiscal Q4/20 Subscription Gross Margin of $11.8M (vs. the company gross margin of $12.4M)
(Est. Quarterly Industry Churn of 8.3% / Est. Quarterly Net Expansion Rate of 102% + Quarterly WACC of 1.4%).
= $118.2 million

Note we are punishing Docebo with a materially higher churn vs. its larger public peers, generally inline with the overall industry based on our estimates and discussions. This is driven by it's relatively smaller customer base and the fact Docebo's software is unbundled

TTM LTV added:
Sum of (Q1'20+Q2'20+Q3'20+Q4'20 LTV) – Sum of (Q1'19+Q2'19+Q3'19+Q4'19 LTV)

Growth Cost (GC): S&M exp. + R&D exp – Non-recurring Revenue

2020 TTM Lifetime Value Added/Growth Cost= $113.4 million / $26.2 million = **4.3x**

Thesis Three: Attractive Valuation. Both Methods get us to a Target of $23

Gross Margin $ Added (TTM)

Sum of (Q1'20+Q2'20+Q3'20+Q4'20 GM) – Sum of (Q1'19+Q2'19+Q3'19+Q4'19 GM)

= $10.8M

Gross Margin $ Added (TTM) * LTV Added (TTM)/ GC (TTM)

=$10.8M *4.3x = $46.70 M

Gross Margin $ (TTM) * LTV Added (TTM)/ GC (TTM)

=$41.8M* 4.3x= $180.6 M

	Q4/20 E	Multiples	EV	Target Price USD	Target Price CAD
Gross Margin $ added (TTM) x LTV Added (TTM) / GC (TTM)	$ 46.70	11.2x	$ 523.73	$ 17.46	$ 22.70
Gross Margin $ (TTM) x LTV Added (TTM) / GC (TTM)	$ 180.63	2.9x	$ 518.87	$ 17.32	$ 22.51

Thesis Three: Attractive Valuation-Regressions

Docebo's LMS Peers' Enterprise Values show a Strong Correlation with Perspectec's SaaS Metrics

Regression Statistics								
Multiple R	0.9346678							
R Square	0.87360389							
Adjusted R Square	0.79668082							
Standard Error	868.278363							
Observations	14							
ANOVA								
	df	SS	MS	F	Significance F			
Regression	1	67739529.2	67739529.2	89.8512692	6.3644E-07			
Residual	13	9800795.11	753907.316					
Total	14	77540324.3						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Gross Margin $ added (TTM) x LTV Added (TTM) / GC (TTM)	11.2138276	1.18301913	9.47899094	3.3353E-07	8.65807016	13.7695851	8.65807016	13.7695851

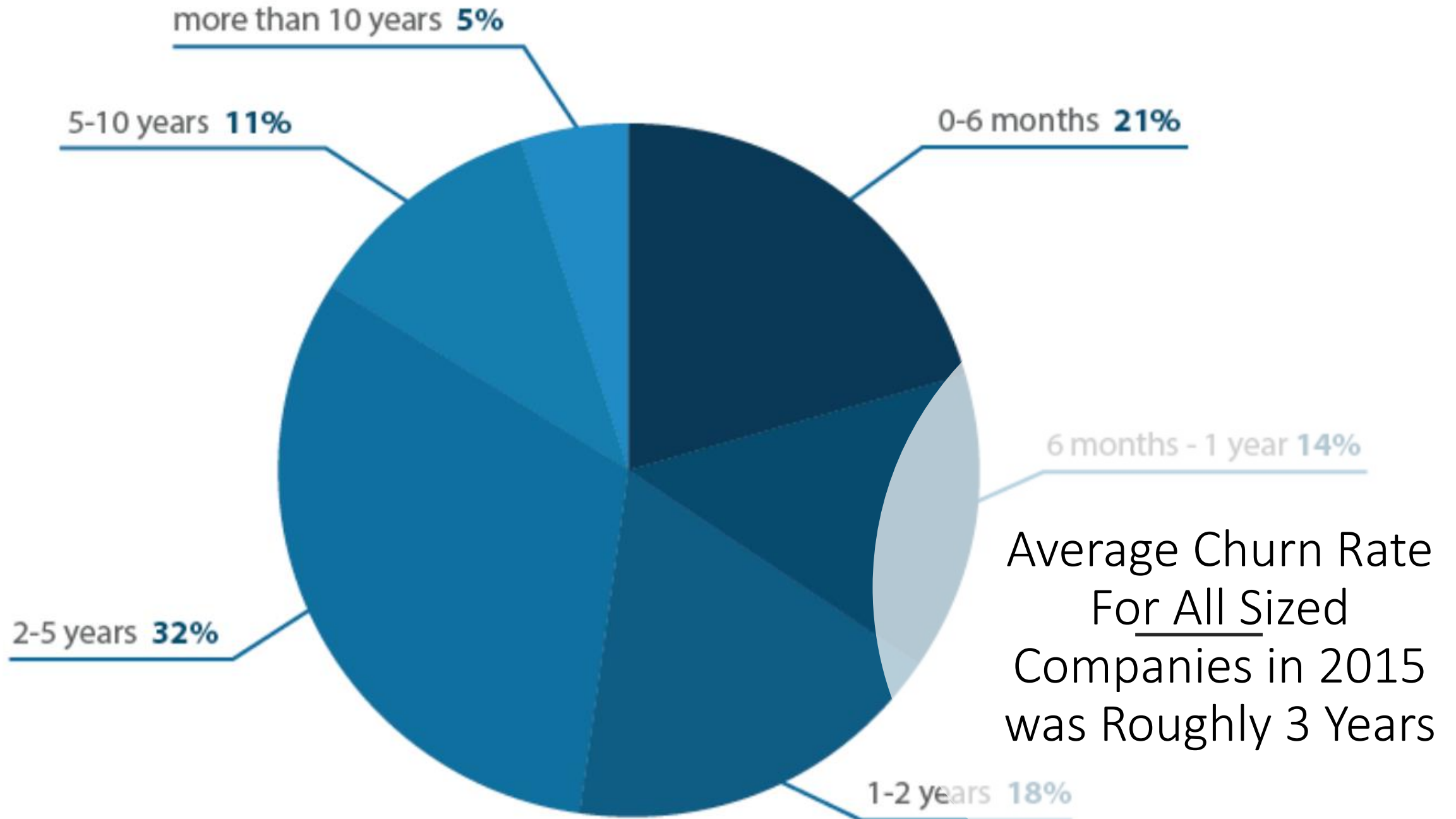| Regression Statistics								
Multiple R	0.96774852							
R Square	0.93653719							
Adjusted R Square	0.85961412							
Standard Error	615.250207							
Observations	14							
ANOVA								
	df	SS	MS	F	Significance F			
Regression	1	72619397.7	72619397.7	191.844391	9.6352E-09			
Residual	13	4920926.62	378532.817					
Total	14	77540324.3						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Gross Margin $ (TTM) x LTV Added (TTM) / GC (TTM)	2.87255086	0.20739256	13.8507903	3.6753E-09	2.42450647	3.32059525	2.42450647	3.32059525

Thesis Three: Attractive Valuation-Churn Rate Estimates

Average Age of Active LMS in HigherEd (North America)
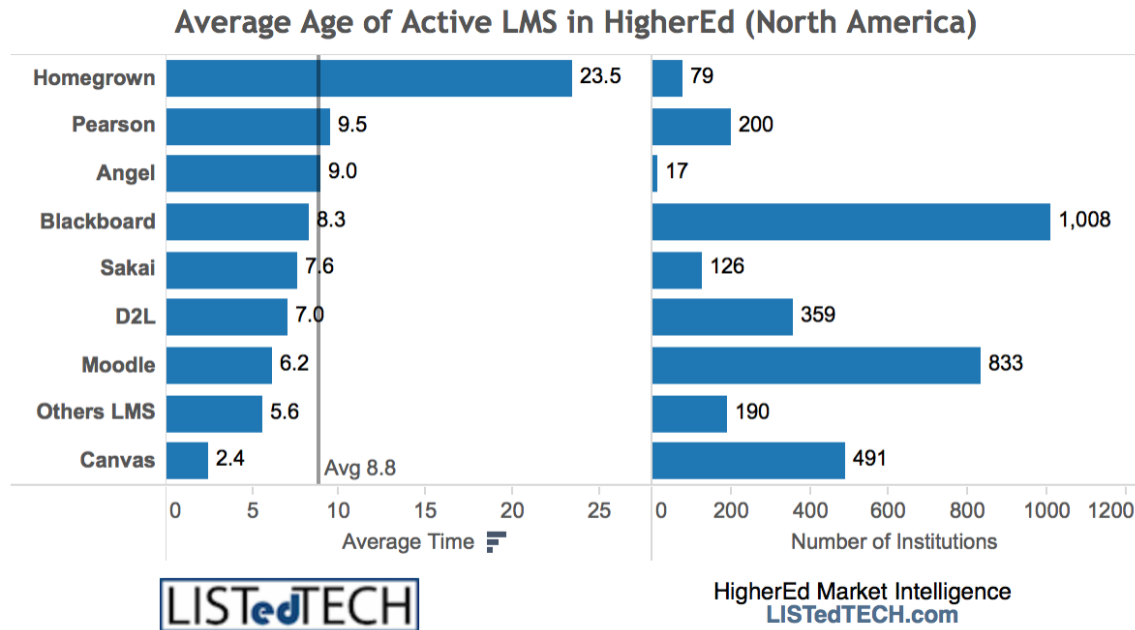
Education LMS Churn Rate is on average 8.8 years

Source: https://eliterate.us/data-on-average-age-of-current-institutional-lms-implementation/

- Almost all public LMS players don't disclose customer Churn rate, we suspect quarterly volatility of this metric might one of the reasons;
- Based on various third-party independent researches and our survey of LMS providers, we estimate the industry churn rate to be **20% annually.**

more than 10 years **5%**

5-10 years **11%**

0-6 months **21%**

6 months – 1 year **14%**

2-5 years **32%**

Average Churn Rate For All Sized Companies in 2015 was Roughly 3 Years

1-2 years **18%**

Source: https://www.capterra.com/learning-management-system-software/user-research

Conclusion: We Believe DCBO should be purchased now.

Our expected timeframe to recognize our target price is 12 months (November 2020)

Docebo's Price and Performance Relative to Legacy LMS Solutions is Best-in-Class

Attractive KPIs and Efficient Business Model

Attractive Relative Valuation

Management is Aligned with Shareholders

Experienced Management and Board

GLOBAL MANAGEMENT TEAM

Claudio Erba, CEO & Board Member
- CEO of Docebo since 2005
- Over 15 years of experience in learning and development

Ian Kidson, CFO
- Recently appointed CFO of Docebo
- Former CFO and COO of TSX-listed public companies

Martino Bagini, COO
- COO since January 2018
- Over 15 years of experience as an investor and entrepreneur

Alessio Artuffo, CRO
- CRO of Docebo since 2012
- Previous COO of Docebo in North America

Fabio Pirovano, CTO
- Joined Docebo in 2005
- Graduated from Politecnico di Milano (Computer Science)
- CTO of Docebo since 2012

BOARD OF DIRECTORS

Jason Chapnik, Chairman
- Founder, Chair and CEO of Intercap; former Chairman of Dealer.com; 30+ years of experience
- Board member at Guestlogix, StickerYou, Brand Lab Partners, ESquared Inc. and Resolver

Daniel Klass
- Founder and President of Klass Capital; former private equity investor at TD Bank and Edgestone Capital Partners
- Board member at Resolver (Chair), Nulogy, Optimy and Good Foot Delivery

Steve Spooner
- Former CFO of Mitel Networks
- Board member of Jamieson Wellness

Kristin Halpin Perry
- Previously Chief Talent Officer at Dealer.com with over 25 years experience as an HR executive
- Board member at Fluency

Will Anderson
- CEO of Resolver since 2014; previous led software businesses within Iron Data and Constellation Software

James Merkur
- President at Intercap and the President and CEO at Logan Peak Capital Inc.
- Board member of Canaccord Genuity Growth II Corp., CryptoStar Corp. and Guestlogix Inc.

Summary capitalization

CURRENT OWNERSHIP SUMMARY*

Intercap	62.3%
Klass	11.2%
Claudio Erba	5.8%
Other	20.7%
	100%

LOCK-UPS POST OFFERING

All Shareholders (other than CEO): One-third released at 6 months, 12 months and 18 months post-closing

Claudio Erba, CEO: 90% of holdings for 36 months with 10% released per above

*Common shares; post IPO

docebo 19

Source: Company Presentation Nov. 2019

Financial Summary

	Subscription Revenues ($M)	Professional Services ($M)	Revenue ($M)	Gross Profit (%)	Operating Income ($M)	Non-IFRS EBITDA ($M)	Average Contract Value per Customer ($USD)	Customers
Q3/19 Results	**9,802.0**	**785.0**	**10,587.0**	**80.3%**	**-3084.0**	**-1516.0**	**$ 24,000**	**1,638**
Prior Quarter (Q2/19)	8,637.9	1,284.6	9,922.6	79.2%	-1798.1	-1493.9	$ 23,000	1,618
Q/Q Change	13.5%	-38.9%	6.7%	110 bps	41.7%	1.5%	4.3%	1.2%
Prior Year (Q3/18)	6,341.0	551.0	6,892.0	79.5%	-1427.0	-1297.0	$ 17,600	1,468
Y/Y Change	54.6%	42.5%	53.6%	78 bps	53.7%	14.4%	36.4%	11.6%
Q4/19 Estimate	**10,173.6**	**925.0**	**11,098.6**	**81.0%**	**-1650.0**	**-102.0**	**$ 25,500**	**1,673**
Prior Quarter (Q3/19)	9,802	785	10,587	80.3%	-3084.0	-1516.0	$ 24,000	1,638
Perspectec est. Q/Q change	3.8%	17.8%	4.8%	74 bps	-86.9%	-1386.8%	6.3%	2.1%
Prior Year (Q4/18)	7,364	685	8,050	81.1%	-2471.9	-2339.2	$ 19,000	1,540
Perspectec est. Y/Y change	38.1%	34.9%	37.9%	-8 bps	-49.8%	-2194.2%	34.2%	8.6%
2019 Perspectec Estimate	**36,210**	**4,034**	**40,244**	**79.9%**	**-8390.0**	**-6450.0**	**$ 25,500**	**1,673**
Prior Year (2018)	23,881	3,193	27,075	79.1%	-8955.0	-8479.6	$ 19,000	1,540
Y/Y Change	51.6%	26.3%	48.6%	78 bps	-6.7%	-31.5%	34.2%	8.6%
2020 Perspectec Estimate	**49,074**	**3,845**	**52,919**	**81.0%**	**-6390.3**	**-5165.6**	**$ 32,473**	**1,796**
Prior Year (2019)	36,210	4,034	40,244	79.9%	-8390.0	-6450.0	$ 25,500	1,673
Y/Y Change	35.5%	-4.7%	31.5%	109 bps	-31.3%	-24.9%	27.3%	7.4%

Important Disclosures and Disclaimer – Docebo (DBCO-Toronto)

DCBO.TO RATING	CURRENT RATING	PREVIOUS RATING
BUY	✓	n/a
HOLD/NEUTRAL		n/a
SELL		n/a