FINAL TRANSCRIPT

ProntoForms Corporation

Third Quarter 2019 Conference Call

Event Date/Time: November 7, 2019 — 9:00 a.m. E.T.

Length: 32 minutes

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PRESENTATION

Operator

Good morning. My names is Brittany and I will be your conference Operator today. At this time, I would like to welcome everyone to the Pronto Forms Third Quarter 2019 Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there'll be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press *, then the number 2. Thank you.

Babak Pedram, you may begin your conference.

Babak Pedram — Investor Relations, Virtus Advisory Group Inc., ProntoForms Corporation

Thanks, Brittany. Good morning, everyone. Before we begin, I will read our cautionary notes regarding forward-looking information. Certain information to be discussed during this call contains forward-looking statements within the meaning of applicable security laws, including, among others, statements concerning the Company's 2019 objectives, the Company's strategy to achieve those objectives, as well as statements with respect to management's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance, or expectations that are not historical facts. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management and is subject to a number of significant risks and uncertainties that could cause actual results to differ materially from those anticipated.

Also, our commentary today will include adjusted financial measures which are non-GAAP measures. These should be considered as a supplement to and not as a substitute for GAAP financial measures. Reconciliations between the two can be found in our Management Discussion & Analysis, which is available on sedar.com and our website.

And finally, note that because we now report in US dollars, all amounts discussed today are in US dollars unless otherwise indicated.

With that, I will hand over the call to our CEO, Mr. Alvaro Pombo. Please go ahead, sir.

Alvaro Pombo — Chief Executive Officer, ProntoForms Corporation

Thank you, Babak. Thank you, Brittany. Good morning, everybody, and welcome to our company's conference call. Before I hand over the call to our CFO David Croucher to discuss this quarter's financials, I'd like to take some time to discuss the ProntoForms business in terms of its strategy, our 2019 execution, and where we see the business heading over the next 24 months.

The engine of this company continues to be recurring revenue, and our main focus is to keep refining our business model to create more of it. Q3 was a strong quarter for us, as growth in recurring revenue increased by 6 percent over Q1—over Q2 2019 to 3.3 million, and our ARR base at 30 percent annual growth, continuing our track record of bookings and revenue growth.

Enterprise growth continues to be very favourable to us. Our largest accounts are becoming even bigger. Today, we have 35 percent of our base made of customers with more than 100,000 of ARR, up 24 percent a year ago. We have a base of more than 100 enterprises accounts with low penetration. And now that we have reached a good EBITDA level, we're continuing to invest in sales to perfect the motions to further penetrate these large accounts.

Some good customer examples that we put on the press release. Fortune Global 500 company added more than 390,000 in ARR to bring it over $1 million, an important milestone for this company. A utility in the United States added more than 175,000 in ARR to bring it to 960,000, to expand technician inspections and compliance reporting. A national leader in the electrical industry expanded its number of technicians utilizing the platform for equipment installation and maintenance. A Fortune 50, a snack and beverage corporation, launch a new deployment of manufacturing processes improvements with our platform. A Fortune 500 personal care corporation launch a new deployment for inspections and quality control. A leading gas utility launch a new development to empower its field technicians to handle asset maintenance and inspections. And I'm not going to bother you with the rest, actually. It was a pretty good quarter in terms of activity.

Also from a market perspective, the news is good. The LCAP—stands for low-code application platform—is very real, and our position in the Gartner Magic Quadrant has become a very good testament to it. It is LCAP and democratization of IT is one of the top-10 strategic technology trends for 2020 by Gartner.

Democratization of IT encompasses the need to enable line of business analysts to build apps to accelerate the Company's digital transformation. That need has never been greater. Our unique approach to enable the rapid building of field-centric apps has been clearly recognized. This is just the beginning of the journey of being a player in a well-identified, rapid-growing market.

Another important element of our equation is—for getting closer to large customers—is our product. We introduced new product tiers and successfully transitioned customers to yearly contracts on it. We will continue with that motion throughout the next quarters.

We recently announced an IRAP grant which is going to help us accelerating our product plan, too.

To wrap up, the demand for our product continues to grow. The complexity of field workflows is growing every day—more sensors, more digital twinning, more machine learning, more data ingestion requirements. Large organizations have made very clear decisions about enabling their line of business analysts with low-code and self-serve application development capabilities. More intelligent workflows are needed in the field and the old way to dealing with them through building custom apps is not sustainable, particularly for enterprise operations. Our product delivers on both needs at scale, so I see no end in sight to the problem we solve.

With that, I will hand over to—the call to Dave to discuss our financial performance for the quarter. Dave?

Dave Croucher — Chief Financial Officer, ProntoForms Corporation

Thank you, Alvaro. I'll go through the financial highlights, but I'd refer to our Management Discussion & Analysis and SEDAR for more detailed analyses.

Total revenue for the third quarter of 2019 was $3.84 million, representing a 4.5 percent increase over Q2 2019 and a 21 percent increase over the comparable Q3 2018. Of this total revenue, 91 percent was recurring. Recurring revenue in the third quarter was 3.5 million, representing a 6 percent increase over Q2 and a 26 percent increase over the comparable Q3 2018.

In terms of bookings, our ARR base at September 30, 2019 was 15.03 million, representing a total increase of 30 percent over September 30, 2018 balance and a 9.6 percent increase over the end of Q2 2019. This is our strongest dollar bookings quarter to date. As Alvaro mentioned, our ARR base is shifting to a higher proportion of larger customers. Customers with greater than $100,000 of ARR are contributing 35 percent of the total ARR base versus 24 percent a year ago and 30 percent in Q2 2019—at the end of Q2 2019.

Revenue from professional services was 338,000 for Q3 compared to 372,000 in Q2 2019 and 397,000 in Q3 2018. Gross margin on total revenue for the third quarter was 84 percent, consistent with the 84 percent last quarter and up from 81 percent in Q3 2018. This is a blended rate of both our professional services and recurring revenue components. Gross margin on recurring revenue isolated in Q3 2019 was 90 percent, consistent with Q2 2019 and up from 88 percent in Q3 2018.

Operating expenses for the third quarter were 3.67 million, up 5 percent over Q2. The increase is primarily attributable to building out enterprise sales and related infrastructure to support our long-term growth strategy.

Loss from operations for Q3 2019 was 460,000, up from the second quarter of 2019 of 417,000 and down from 510,000 in Q3 2018. Net loss for Q3 2019 was 421,000, a reduction from the $530,000 loss seen in the second quarter of 2019 and down from a net loss of 642,000 in Q3 2018. Non-GAAP op loss for Q2 was—or sorry—Q3 was 378,000, an increase from 335,000 in the second quarter of 2019 and a decrease from 423,000 from the prior-year quarter.

Our cash balance at the end of June was 5.7 million compared to 3.3 million as at December 31, 2018. The increase in cash is attributable mainly to the exercise of warrants providing US$2.4 million and another $600,000 that we received from option exercises. Of note, cash flow from operations for the first half of the year was slightly positive but were reserved somewhat in Q3 due to cash outflow from seasonal prepaids and accounts payable payments. As we add enterprise bookings, we are looking for an increase in cash from prepaid customer contracts to offset the majority of non-GAAP op loss and expect to see that coming back later in the year. This is subject to variability from quarter to quarter.

In summary, we are pleased with the trends that are continuing from 2018 and 2019. First, we added 9.6 percent sequential growth in ARR bookings, which is a definite uptick from the steady growth that we have seen for eight quarters now. This quarter represents the strongest level of Q-over-Q growth we have seen to date.

Our enterprise greater-than-100K ARR base grew to 35 percent of our total base, representing our strongest area growth and reinforcing our commitment to add enterprise sales strength. Our non-GAAP op loss increased slightly as planned. And as we have been mentioning for the last two quarterly calls, as we grow revenue, we want to reinvest that growth into enterprise product development and sales. Year-to-date cash outflow from operations was significantly lower than our non-GAAP op loss, and we are looking for that trend to continue as we get prepaid cash from enterprise contracts.

And number five, while we may see volatility in growth in the short term, as we continue to build out our enterprise capabilities, we are continuing to invest in sales and product to add depth and to be able to take advantage of the continuing strong demand that we are seeing.

That concludes the financial highlights. With that, I will ask the Moderator to open up the line for questions. Thank you.

Q&A

Operator

Thank you, ladies and gentlemen. We will now begin the question-and-answer session. Should you have a question, please press the *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request, and your questions will be polled in the order that they are received. Should you wish to decline from the polling process, please press the *, followed by the 2. If you're using a speakerphone, please lift your handset before pressing any keys. One moment, please, for your first question.

Your first question comes from Gabriel Leung from Beacon Securities. Please go ahead.

Gabriel Leung — Beacon Securities

Good morning, and thanks for taking my questions. A couple of things. So first, Alvaro, maybe you can talk a little about your largest customer, the Fortune Global 500 company that added almost 400,000 in ARR to take it over to 1 million. Talk about what's driving that increase in ARR and whether you can—whether you might see something similar happen with some of the other larger customers that are currently over 100K right now in annual recurring revenues.

Alvaro Pombo

Yeah. Thanks, Gabriel, and thanks for the question. So, yes, we're seeing that—probably not surprising—but with the accounts that we've been in and we've been deploying and being close to them, they're finding new use cases and they're adding more. So that, in short, is what is going on. Once you're there, once you're present, once they've seen the benefits, there is more coming up.

Gabriel Leung

And so in the case of that Fortune 500 company, was it more subs? Or was it more—or different products or approach were being used? Are you at liberty to talk about some specifics on that?

Alvaro Pombo

Yeah. So subs, I mean, this is one of those where we've laid out the contract, I mean, a multiyear contract with them. At the end of year one, they looked into it and they basically want more. So they deploy more, they adopt more, and even in that particular case, it continues. So no, there will be end to it at some point, of course, but we still have room to grow there.

Gabriel Leung

Gotcha. And you obviously don't provide guidance on a quarter-over-quarter basis, but obviously we had a pretty good sequential lift in Q3 from a ARR bookings perspective. As you look into calendar Q4, what sort of visibility or what sort of indications can you provide to us about how things will progress—sorry—from Q3 to Q4?

Dave Croucher

On a bookings basis, Gabriel? Or on revenue basis?

Gabriel Leung

Revenues or bookings, whatever you feel comfortable talking about.

Dave Croucher

Yeah, I mean, that 9 percent growth is a pretty good indication of kind of the next quarter. There is some variability. We get some in-quarter ads that might be higher in a previous quarter and maybe not as high. And there's other factors, FX on the non-US dollar stuff. But generally, it's a pretty good starting point to predict the following quarter revenue growth.

Gabriel Leung

Gotcha. And then from a—

Dave Croucher

Meaning, our bookings from the prior quarter are a pretty good indication of where we're heading for revenue in the following quarter.

Gabriel Leung

Right. And in terms of sort of new accounts or expansion of existing accounts in Q4, how are things progressing quarter to date?

Dave Croucher

It's going well. I think the one in Q3 was a really nice one, and we haven't seen that. I think that might be the biggest one in terms of expansion in a particular period. So I don't know that we can count on those transactions of that size, but certainly we're seeing more. We have our largest group, our customers greater than 100K, that are still expanding and there's still lots of opportunity for growth there. And then we have the next level that we've described previously of roughly 150 accounts that are enterprise-size but the penetration isn't that 100K yet. So we're continuing to work on those guys, and we've been adding to the sales force to be able to take advantage of that. I'd say that's maybe a bit of a work in process. We have a good core group that we've had from the beginning of the year, but we want to grow it quite significantly. So a lot of the people in that sales group are newer and still learning the product and how we sell to these guys. So we think it's steadily improving, but I don't know if we're going to get the big hits in a steady stream like that, so.

Gabriel Leung

Gotcha. And—

Dave Croucher

Yeah, so we're—

Gabriel Leung

Yeah.

Dave Croucher

Go ahead.

Gabriel Leung

And maybe just remind us again, just from a metrics perspective, I think you got—your base—you got—your recurring base is about 100 enterprise accounts. How many of those are currently over 100K in ARR?

Dave Croucher

Roughly 20. A little less than 20.

Gabriel Leung

Gotcha. Okay. Great. Thanks a lot, and congrats on the quarter again.

Dave Croucher

Great. Thanks, Gabriel.

Alvaro Pombo

Thanks, Gabriel.

Operator

Your next question comes from David Kwan from PI Financial. Please go ahead.

David Kwan — PI Financial

Hey, guys. Good job on the quarter. Wondering on the growth in the ARR and I guess recurring revenues as well. How much of that is really being driven by the direct sales? I think historically that's been the vast majority. I assume that we'll see that to continue. And then also, kind of what you're doing on the partner front to help drive faster growth there.

Alvaro Pombo

Yeah. So I'll take a crack at it then Dave can follow. So the growth—I mean, the majority of these large accounts are direct accounts that they either are on our paper or if they belong to the partner, we're very close to those accounts. So nobody has sold any monstrous things without us involved. So that investment in direct sales and being close to the customer, we're not subcontracting that to anybody. So we own the—I mean, we have that relationship and we work with our partners in some of those cases, but we're very close to all of them.

From a perspective of deal flow from partners, it's getting better. I mean, partners, they understand it takes a while, as you know, but I mean they understand very well our position in the market and what we do for them, so it's getting better. So I think this quarter someone asked what did work so well. Everything, I answered. And it's—or not everything—almost everything, and that's great. I mean that's the whole objective of growth comes from multiple places and there are multiple motions that we keep on investing on.

David Kwan

Well, Alvaro, if you had to break down the growth this quarter, for example, how much of that would have come from your direct sales team? Would that have been kind of north of 80, 90 percent?

Dave Croucher

Around that 80 percent probably. I mean, the partner stuff did come through. There was a number of deals, actually, in—none of them in the 100K ARR range, but potential to get there. And I think out of the 20, we might have one that's in there that came from partner and that's been there for a little while now. But we're starting to see more bookings from that area. And oftentimes, these guys come in and it'll be, say 25,000 ARR and with the potential to move up quite a bit, so those guys are kind of in that range and we're working with them to try to get them up to higher penetration.

David Kwan

Thanks, Dave. I assume that that one that you were talking I guess from the indirect side, that was the one coming out from AT&T, and I think why the AT&T contribution bumped up a bit this quarter. Was that the US utility customer you guys mentioned?

Dave Croucher

Yeah.

Alvaro Pombo

Yeah.

David Kwan

Okay. And then, I guess, on the sales team, can you provide an update there? I think there was I think 12 at the end of last quarter and 15 kind of mid quarter when you guys came out with the Q2 results. Can you talk about I guess where the team is right now, including as it relates to stuff like productivity, quotas, et cetera, et cetera?

Dave Croucher

Yeah, you're right. It was 12 at the end of Q2 and around 15 at the end of Q3, and we're up around 17 now and shooting to get to around 20 by the end of the year. So good uptick, but as I said, we had 10 at the start of the year so, and with a little bit of turnover. So we're—a lot of them are still new. Probably half of them are new, so in various phases of ramping up and building a pipeline, and expecting more impact from those new adds as we go forward, so.

Alvaro Pombo

I mean, with regards to—

David Kwan

So that's—

Alvaro Pombo

—building up the sales force productivity levels, still a lot more we can do to get them ramp up faster, so we're working on that. I mean, we've added a lot of sales guys and it's helping, definitely. More people to put in front of customers. We have a lot of customers; we just need to get closer to them.

David Kwan

Can you provide a breakdown, I guess, of that number? What percent would kind of be outbound versus inside sale that might be helping drive customer expansions?

Dave Croucher

Yeah. Great question. It's a little difficult because they do a combination. So as new reps come on, we give them some lead flow, so you could say that's an inside sales motion. Plus, we give them a number of accounts that are already existing accounts that we think there's opportunity for expansion, so that's more of an inside motion to start with and then hopefully get them out in front of the customer. And then the new ones are expected to go and do some outbound motion, so go and find new, similar customers in some of the sweet spots that we've been seeing. So oftentimes—so it's hard to say that an individual is completely inside or completely outside in a lot of cases.

I would say that, out of the group, we have seven or eight that are focused on commercial size, so decent-size opportunities, and then 9 to 10 that are focused more on the enterprise side, which is that mix, and trying to get more of the newer ones—hiring a few more in the States that can be closer to the customers and doing more of the outbound motions. So I'd say, if you had—if I had to pick a number, I'd say maybe half of those new enterprise guys are going to be more heavily weighted to outbound versus inbound activities. Does that make sense, David?

David Kwan

No, that's helpful, Dave. And then I guess, to the extent you might want to provide commentary, but looking out to next year, kind of can you talk about your hiring plans on the sales side?

Dave Croucher

Yeah. Great question. And we're kind of going through our strategy right now, so just getting through—working through the fine details of that, but really adding more on the enterprise side. So I think we have a good amount on the commercial and the lead flow there is predictable. We're increasing the budget a little bit, but really where we're adding in big chunks is on the enterprise side, getting more real enterprise sales reps. So the next phase of going from 17 to 20, those will be all enterprise reps, and then going on from there, maybe add a little bit on the commercial but more heavily on the enterprise side.

David Kwan

No, that's helpful. Just a couple more questions. Have you guys seen much, I guess, tangible impact from the good exposure and inclusion in that Gartner Magic Quadrant report yet?

Alvaro Pombo

Yes, we have. And it's an interesting position to be in in that Magic Quadrant because I mean we're in a niche position with monsters. I mean you've seen the Magic Quadrant, like Microsoft and people like that. So does that mean we're competing with Microsoft? We're in the same—this is a big space, is basically the underlying theme here, and LCAP has the capability. Many people are raising their hand and saying, no, I have one of those or that capability. What it translates into is when people do things for field automation, LCAPs are not the same; not even close. So specialization has given us a very clear advantage, sustainable.

And I think it's very fortunate, to be honest, I mean that we had that light being shed on us on something that—it was the reason to do it, but we came to that reason not because we wanted to build an LCAP platform that it was going to be used across all the enterprises to move people from a desktop to a cell phone. So you get that visibility, which is great, and the story is very well-described, being focused on the field, and it's been a very good thing for us. Leads are flowing and it's been good. Good exposure across the board.

David Kwan

Thanks, Alvaro. Just two more quick questions here. Just on the IRAP funding. How should we be thinking about modelling that in over the next, I guess, couple of years here?

Dave Croucher

Yeah. IRAP is C$750,000 and it's going to be coming in over the next 18 months, starting Q4 this year. Maybe a little bit more. Their government year-end is March, so they want—so you kind of manage between their government year-end as well. So maybe a little more heavily weighted towards our Q4 and Q1 as we ramp up and add people. It's going to be net neutral from a budget standpoint I think for the first few quarters. So if you say, those additional people, they're kind of free for the first next couple of quarters and then they come into our budget, which is kind of when we were planning to add the headcount anyway. So we get them free for six months, if you want to think about it that way, but. So really, on a modelling standpoint, it's almost zero net cash effect, but we get the benefit of those extra workers contributing to the innovation.

David Kwan

So should we expect kind of R&D spend, at least from a cash perspective, to be flattish over the next few quarters here?

Dave Croucher

Yeah. It's going to go up a little bit. Well, actually, yeah, you're right. It's going to be roughly that.

David Kwan

Okay. Perfect.

Dave Croucher

Because we have higher expense offset by the reduction from the funding.

David Kwan

Okay. Perfect. Thanks, Dave. Just one last one. Just in the MD&A, I noticed you guys pushed out the date I guess in terms of how long you expect your capital to last for; looks like roughly six months or so here. So I know you guys have talked about reinvesting into incremental growth to help drive even faster growth here. But I guess maybe looking out to 2020, should we kind of start to see that burn start to narrow here and potentially turn to positive cash flow at some point maybe in the latter part of next year, possibly early 2021?

Dave Croucher

Yeah. When you say cash flow, so there's two things here. Actually, sorry. I'll just comment on the date. Really, we had it at through 2020 before and now we're another quarter into it, so we just kind of pushed it out. We didn't want to go too far there because we have the debt repayment that comes due at the end of 2021 and we're working on some alternatives. We have lots of options for that so we're being pretty conservative, I think, in our approach there.

In terms of how we manage the cash, so if you look at our non-GAAP op loss so far this year, it's right around $1 million, so roughly 350 million a quarter. That's a good kind of steady state, we think, maybe even a little more. The thing that's offsetting that from a cash standpoint is, we're getting money in from prepaid contracts. And if you say cash burn, then for the first six months of the year, we were actually slightly positive on cash because that deferred revenue was offsetting that non-GAAP op loss. And that's something that we think can continue. We've come from a background where we were dealing with operators and partners where we didn't have a choice; we were billing month to month. The enterprise contracts, as we add them, we're able to bill annually in advance. We don't get much more than that, but annually in advance really helps that cash flow and build up the deferred revenue over time. So we think that can continue and then that'll leave us in a close-to-neutral position on cash from operations or free cash flow.

David Kwan

Okay. No, that makes sense, Dave. Thanks, guys.

David Croucher

Okay.

Alvaro Pombo

Thank you.

Operator

Your next question comes from Greg Steers from Scotiabank. Please go ahead. Greg, you're on for questions. You may go ahead.

Ladies and gentlemen, as a reminder, should you have a question, please press the *, followed by the 1.

There are no further questions at this time. Please proceed.

Alvaro Pombo

Okay. So thank you, everybody. So we see a stronger demand supported by industry experts, and we believe that we're on the right track investing in our enterprise product and sales team to take full advantage of this great opportunity. We are very excited about what's ahead for the business.

So I really want to thank everybody for spending your time with us this morning. And as always, I would like to thank you for your continued support. Thank you, everybody, and have a great day.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.