FINAL TRANSCRIPT

ProntoForms Corporation

Fourth Quarter 2019 Conference Call

Event Date/Time: March 12, 2020 — 9:00 a.m. E.T.

Length: 29 minutes

CORPORATE PARTICIPANTS

Babak Pedram
Virtus Advisory Group Inc. — Investor Relations

Alvaro Pombo
ProntoForms Corporation — Chief Executive Officer

Dave Croucher
ProntoForms Corporation — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

David Kwan
PI Financial — Analyst

PRESENTATION

Operator

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

After the speakers' remarks, there will 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. And if you would like to withdraw your question, simply press *, then number 2. Thank you.

Mr. Babak Pedram, you may now begin.

Babak Pedram — Investor Relations, Virtus Advisory Group Inc.

Thank you very much. Good morning, everyone. Before we begin, I will read our cautionary note regarding forward-looking information.

Certain information to be discussed during this call contains forward-looking statements within the meaning of applicable securities' law including, among others, statements concerning the Company's 2020 objectives; the Company's strategies 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 reflects management's current belief 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 supplements to, and not as a substitute, for GAAP financial measures. Reconciliations between the two can be found in our Management Discussion and Analysis, which is available on sedar.com and our website.

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

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

Alvaro Pombo — Chief Executive Officer, ProntoForms Corporation

Thank you, Babak, and thank you, Sylvie. Good morning, everybody, and welcome to our company's conference call. Before I hand this call over 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 results, 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. Q4 was another good quarter for us as growth in recurring revenue increased by 8 percent over Q3 2019 to 3.8 million. And, for the year, we grew at 27 percent from 2018.

Our ARR base also grew by 27 percent, 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 36 percent of our base made of customers with more than 100K or ARR, up from 26 percent a year ago.

Customer examples that I wanted to discuss. In the press release, you can see examples of customers in the operational highlights. However, for this call, I have decided to highlight three specific points.

Number one. I was visiting one of our largest customers who shared with us that with ProntoForms they have automated about 13 processes over the last 18 months, using between one and two full-time resources, while another division of the same company has been using 41 people supporting a legacy product, with no major automations to present in the same amount of time.

Number two. We were present at a field service medical event a few weeks back in San Diego. I was the MC and keynote for the first day of the conference, and our VP of Customer Success led the full afternoon. We're present. People recognize us. And it has become very clear that we solved the shared pain of many large medical equipment manufacturers who serve sophisticated machinery.

Number three. ProntoForms earned a 4.7 out of 5 overall rating from enterprise customers in the Gartner Peer Insights Voice of the Customer Report, published December 12, 2019. The same report showed a 95 percent of customers willing to recommend. This is a significant accomplishment in that publication.

Field automation delivered the LCAP way is something unique. I call it delivering the LCAP way by delivering it in a simple way, mainly done by those people in the edge of the organization. This is differentiable and something our customers understand. We are implementing a very sound strategy for 2020. We're getting closer to our customers. We're in the process of expanding an enterprise sales function, which includes the right depth of management, enablement, and technical expertise. We call it the scaffolding for scale.

Finally, we have reached the right expense profile, and we have a good amount of cash in the bank. In other words, good progress. We're building it, but it takes a bit of time.

Large organizations have made very clear decisions about enabling their line of business analysts with low-code and self-serve application development capabilities. The demand for our product continues to grow, the complexity of the field workflows is growing every day; more sensors, more digital twinning, more machine learning, more data ingestion requirements. I see no end in sight to the problems we solve.

With that, I will hand over 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 for the fourth quarter and for the 2019 year, but, of course, I would please refer everyone to the MD&A for the more detailed analysis.

Total revenue for the fourth quarter of 2019 was 4.1 million, representing a 6 percent increase over Q3 2019 and a 23 percent increase over the comparative Q4 2018. Total revenue for the full 2019 year was 15.1 million compared to 12.1 million for 2018, an increase of 24 percent.

Of this total revenue, 91 percent was recurring. Recurring revenue in the fourth quarter was 3.8 million, representing an 8 percent increase over Q3 and a 28 percent increase over the comparative Q4 2018. Recurring revenue for the full 2019 year was 13.7 million compared to 10.9 million for 2018, an increase of 27 percent.

In terms of revenue bookings, our ARR base at December 31, 2019, was 15.7 million, representing an increase of 27 percent year over year, and a 5 percent increase over Q3 2019. We have seen consistent sequential ARR growth now for eight quarters, averaging 6 percent over that period.

As Alvaro mentioned, our ARR base is shifting to a higher proportion of larger customers. Customers with greater than $100,000 of annual equivalent recurring revenue has grown to be 36 percent of our base versus 26 percent a year ago.

Revenue from professional services was 296,000 for Q4 2019 compared to 338,000 in Q3 2019 and 350,000 in Q4 of 2018. PS revenue for the full 2019 year was 1.4 million versus 1.3 million in 2018.

You may recall that we had a large enterprise project in 2018 that contributed approximately 400K of PS revenue that year. Comparatively, the 2019 growth has been from a broad base of standard deployment services.

Overall, gross margins on total revenue has remained consistent and was 83 percent for 2019 compared to 82 percent in 2018. Gross margin on recurring revenue was also very consistent and was 90 percent for 2019 versus 89 percent in 2018.

Operating expenses for Q4 2019 were 4 million, up 9 percent over Q3. The Q4 increase in OpEx relates to our plan to add sales and marketing and G&A infrastructure to support growth. Plus, we had an uptick in non-cash share-based compensation, which tends to hit more heavily in Q4 based on our annual option grant cycle. Operating expenses for the full 2019 year totalled 14.4 million compared to 12.4 million for 2018, an increase of 17 percent. While we saw moderate increases in each area of OpEx, we grew sales and marketing at a faster pace as we continued to build out our sales organization. We plan to continue this approach of reinvestment in customer acquisition and expansion as we grow.

Loss from operations for Q4 2019 was 582,000, up from 459,000 in Q3 2019. As mentioned, most of this net increase was related to non-cash option expenses. Loss from operations for the full 2019 year was 1.9 million, a decrease of 22 percent from the 2.4 million op loss in 2018.

Net loss for Q4 2019 was 781,000 compared to 421,000 in Q3 2019 and up from 410,000 in Q4 2018. The higher Q4 net loss relates to foreign exchange losses, mostly attributable to the Canadian dollar liabilities, to the BDC debt, and the lease obligation. Net loss for the 2019 year was 2.3 million compared to 2.5 million for 2018. Non-GAAP op loss for Q4 was 403,000, up a bit from 378,000 in Q3 2019 and from 330,000 in Q4 2018. Non-GAAP op loss for the 2019 year was 1.4 million, a significant decrease from 1.97 million in 2018.

Our cash balance at the end of June was $5.7 million compared to 3.3 million as at December 31, 2018. Recall that our cash position reached approximately 5.7 million in Q2 after it received proceeds from warrant exercises, and it has remained pretty level through Q3 and Q4 as the prepayments from customers has offset large portions of the operating losses through the second half of the year.

In summary, 2019 was a strong year for ProntoForms as we continued to execute our long-term growth strategy. Number one, we enjoyed 8 percent sequential recurring revenue growth in Q4 on the back of 9.6 percent growth in ARR bookings in Q3. We followed that up with approximately 5 percent ARR bookings growth in Q4. All this adds to our track record of steady growth that we have seen for eight quarters now.

Number two, our enterprise greater than $100,000 of ARR base grew to 36 percent of our total base, representing our strongest area of growth and reinforcing our commitment to add enterprise sales strength.

Our non-GAAP op loss increased slightly in the second half of 2019, as planned, and as mentioned for the last few quarterly calls. As we grow revenue, we want to reinvest that growth in our enterprise product development and sales.

Cash outflow from operations for 2019 was negative 2 percent of revenue and significantly lower than our non-GAAP op loss at negative 9 percent of revenue. We are looking for that positive variance to continue as the prepayment of cash from enterprise contracts offsets significant portions of our operating losses.

And lastly, 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 products to add depth and be able to take advantage of the continuing strong demand that we are seeing.

That concludes the financial highlights. With that, I would ask the Moderator to open the line up for questions. Thanks.

Q&A

Operator

Thank you. Ladies and gentlemen, if you do have a question, please press *, followed by 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request. And if you do not hear the prompts, please press *, 0. And if you decide to withdraw your request, simply press *, followed by 2. And if you are using a speakerphone, we do ask that you please lift the handset before pressing any keys.

And your first question will be from David Kwan at PI Financial. Please go ahead.

David Kwan — PI Financial

Hi, guys.

Dave Croucher

Hi, David.

David Kwan

Hey. Just curious to get some commentary. I think the growth, at least over the last year or two, has really been driven by your direct sales team. Can you comment on stuff that you're seeing out of your partners and what your expectations are for the upcoming year?

Alvaro Pombo

I can take a crack at that. Hey, Dave. Thanks for joining us so early in the day for you. And look, the answer is same as last year is what we have in our mind. Even though we're getting, I mean, where the proposition with these partners is becoming more and more clear. So we continue to execute on those three partners that we're focusing on. And from an expectations perspective, same that we've seen before.

David Kwan

Okay. So I guess still expect most of your growth this year to be driven by your direct sales team.

Alvaro Pombo

Yeah. Yeah. Yeah.

David Kwan

Okay. Obviously, topic du jour is the impact of COVID-19. From your standpoint, I think it'd more be related to customer demand, obviously, versus supply chain and manufacturing, which aren't applicable. Have you seen your customers pushing out decision-making, like sales cycles are a bit lengthening here? And also, from your perspective, are you restricting travel for your sales team in particular?

Alvaro Pombo

Yeah. So multiple things. Let me start internally.

Internally, we've been taking it very seriously. We have a business continuity plan that came with the SOC 2 compliance, things that we did over the last two years. So we invoked that business continuity plan, and we got everybody informed with what they should do, et cetera, et cetera. So yesterday there was an event in Ottawa with regards to a case, so we invoked the working-from-home provision, and we'll continue to help and enable people to continue their operation, but remotely. So that's from an internal perspective.

From an external perspective, we haven't. Okay? But I think we're all early into a reaction of people. So I have my concerns. Nothing that has translated in the numbers. But I have concerns that everybody's definitely at a degree of alert and a degree of concern. However, I mean, the good news as well—I don't know if there is a silver lining in these tough times—is that this kind of capability, and we've seen it in other disasters, I mean obviously of a very different scale. But what we sell and what we enable is highly used in moments of distress. It depends on the business processes. So there are some, I would say, people that will accelerate consumption. However, the majority of the cases, I think we all remain cautious and watching it.

David Kwan

That's helpful, Alvaro. Thanks. The question for Dave; just on the gross margins in particular for the professional and other services, that's come down in the last couple of quarters here. Has that been due to increased hiring on the team? Or is there something else going there? And what should we be expecting in terms of gross margins for this particular revenue line going forward?

Dave Croucher

Well, if you look at the 2019 year as a whole, the average is probably where we fit in. I think 2019 was probably the first year where it was really the deployment group that was delivering. We did see a bit of a drop in bookings on that side in Q3. And we started to get some of that back in Q4, but they're going to operate in a reasonable range. I think it's nice to get a profit in there. We're not really pushing to get very high profits. Our goal is still to have rapid deployments. Right? And having our group do it is one option out of a few. Right? So you can do it yourself. You can hire your own consultants who know your systems really well. Or you can have us. Right?

And those deployment services are building out forms, custom outputs, and really training people to get up and running. So it's really the group is what it is. We haven't been adding drastically to it. So it's not a step function in terms of cost, but it's a bit more of do we have the group that's able to deliver and deploy according to the bookings that we've been getting.

David Kwan

So I think, Dave, the number was roughly about 17 percent for the year.

Dave Croucher

Yeah.

David Kwan

So something in that kind of mid to high teens range?

Dave Croucher

Yeah. Yeah. I think that's right. And then in 2018, we had a great pickup. Right? With very high margins on enterprise. And there's still some of that that we could see that will change that up more significantly. But you're right. Most of it is going to be in that high-teens range and just continue on that way.

David Kwan

Well, that sounds good. On the sales side, I know you've been looking to more aggressively hire on the sales rep side. I think you were targeting getting to 20 by the end of Q4. Can you comment on where you got to? And maybe where it is right now? And plans for the balance of 2020?

Dave Croucher

Yeah. I can start if, Alvaro, you want to jump in, but—

Alvaro Pombo

Yup.

Dave Croucher

Yeah. We almost got to 20. We're up 20 now, but it's not the same 20. So it's still in a bit of, I don't want to say flux, but we're still trying to get the right group, the right skill set. And so that group has been changing. So today, we're at 20 overall. I think it's 11 in the commercial side and 9 in the enterprise.

And the nice thing is that that's about the level that we want to be and then grow from there. So there was a catch-up. If you recall, last year, we were at 10 at the end of the year, total quota bearing sales reps, and then we went down a bit. And then over the course of the year, we started building it up. So most of that group is still fairly new, and we've been really focusing on A) getting the sales reps, at having the bench strength there, but also building around them much more expertise. And Alvaro's probably better qualified to talk about that and just how we'll make that a stronger group that—and start delivering going forward.

Alvaro Pombo

Yeah. So, Dave, I mean the dynamic of building an enterprise sales team is an interesting one because, I mean, it's number one, bring the right reps. And on the "right" part of my sentence, it's reiterating making sure that you've got the right profile, you've got the right thing. I think we have nailed that. And number two, attracting people. Okay? So we are putting more resources. You've seen some of the LinkedIn videos, some of the stuff. We're starting to look a lot more attractive, which is good. So we're starting to get a much better funnel of candidates.

And the last part, which is not a minor part, is okay. Now you have started getting them. How do you make them productive? And so we're investing more in sales enablement. We're investing more in the ratio of rep to manager because the enterprise motion is not only taking leads that come in or just calling an outbound. There are comprehensive motions of expansion, and they require a multitude of skills. So that's the stage we're at.

I think we know, definitely, what we're doing. It's implementing it, and we're focusing a lot of effort in building the scale of that group.

David Kwan

That's helpful, guys. Just a couple more questions. The G&A, it ticked up in Q4 here. I think there was some mention in the MD&A related to, I think, investments for growth and other infrastructure. Is that a decent run rate level now? Or should we expect other changes?

Dave Croucher

No. There was a couple things that I mentioned earlier. We did have an uptick on the stock-based comp. And that's, as you know, stock-based comp, under IFRS, is pretty heavily weighted in the early periods after you do a grant. So we typically do our grants in Q3. And so you'll see a higher expense in Q4. And it's higher than normal just because of the uptick in the stock price over the course of last year. So it'd be higher than the previous Q4. Right? And certainly higher than Q3. So that was probably the biggest single factor.

And then, I mean we've been implementing new programs. So we have NetSuite now that we started using over the second half of last year and would've been paying for. And now that's in place starting January 1 and going forward. So a little bit more cost in the short term but setting us up for scale going forward. Right?

But I think Q4 is a bit higher than normal, David, but it's a bit of a seasonal thing, and it's a bit of that stock-based comp, the non-cash piece, which I think we broke that out in our MD&A, so you can see what that number is.

David Kwan

Okay. Great. Thanks, Dave. Just last question. Just assume you guys maintain the pace of growth—at least, I guess, maintain the pace of growth that you've seen from a revenue standpoint, and even with, I guess, the investments that you're planning to make and sales and on product development, could you see you getting to positive EBITDA by the end of this year?

Dave Croucher

Well, it's not really the plan. So the EBITDA, which we use non-GAAP op loss as that measure, that's not really—I shouldn't say our focus. Our focus is not to get that to zero. Our focus is really to kind of be in a cash-neutral situation. So instead of EBITDA, we're looking at cash from operations. Right? Or free cash flow.

And that should be fairly neutral. It'll come back a little bit, but generally, the idea is that we remain in control of the situation. We have $5.7 million of cash. So we want to make sure that we keep the cash at a decent level that we have enough to exit 2020 and carry on within our control. I can't give specifics. I don't want to get into guidance.

But that's our plan is to invest in sales and marketing, so keep that going at a decent pace, but also have the cash that we get in from these prepayments as a positive impact that offsets most of those operating losses.

David Kwan

Sorry. That probably gets to another question I've got, then. Because you've obviously got a BDC debt that's coming up next; I think middle of next year. So are you looking to refinance that then, just to maintain that cash balance? Or are you trying to make sure you have the cash to, at the very least, pay it off if you don't have other financing availability?

Dave Croucher

Yeah. So good question. So on the debt side, in terms of doing something with that, that you're right. So it comes due in September 2021, so it would become current on our balance sheet towards the end of this year, Q3.

We are looking at a few different options. I can't announce anything specific or that's completed, but we think we have some options there, and including working with BDC to extend that. And they've been very helpful in the past. And we've started working with them back in 2012, I believe it was. So we think that, A) that we have a good relationship with them and can carry that forward, and B) that we have some other options that may be more—better terms for us that are more senior debt because the shape of the business is much better than it was three years ago when we entered that BDC agreement. So we're looking at our options, but nothing completed.

David Kwan

That's helpful. Thanks, guys.

Alvaro Pombo

Thank you, Dave.

Operator

Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question, please press *, followed by 1 on your touch-tone phone.

And at this time, we have no other question registered. Please proceed.

Alvaro Pombo

Okay. So, Dave, thanks for the good questions. I think you covered a very good spectrum and so appreciate your continuous interest on this story and the good coverage on it.

So just to closing remarks, we see 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. We're very excited about what's ahead for our business.

Once again, thank you very much for spending your time with us this morning. And as always, I would like to thank you all for your continued support. Have a wonderful day.

Operator

Thank you, Mr. Pombo. Ladies and gentlemen, this does indeed conclude your conference call. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines.