FINAL TRANSCRIPT

**ProntoForms Corporation**

**Second Quarter 2020 Results Conference Call**

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## CORPORATE PARTICIPANTS

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## CONFERENCE CALL PARTICIPANTS

**David Kwan**
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## PRESENTATION

**Operator**

Good morning, ladies and gentlemen, and welcome to the ProntoForms Corporation Second Quarter 2020 Results Conference Call. At this time, all lines are in a listen-only mode.

Following the presentation, we will conduct a question-and-answer session.

If at any time during this call you require assistance, please press *, 0 for the Operator.

This call is being recorded on Thursday, August 20, 2020.

I'd now like to turn the conference over to Director of Investor Relations, Babak Pedram. Please go ahead.

**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 laws, including, among others, statements concerning the Company's 2020 objectives; the Company's strategy to achieve those objectives; as well as statements with respect to managements 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 beliefs and are based on information currently available to management, and is subject to a number of significant risks and uncertainty 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 and Analysis, which is available on sedar.com and our website.

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

With that, I will pass the call to our CEO, Mr. Alvaro Pombo, to provide you with a corporate update. Thank you.

**Alvaro Pombo** — Chief Executive Officer, ProntoForms Corporation

Good morning. Thank you, Babak, and thank you, Pam. Good morning, everybody, and welcome to our company's conference call.

Before I hand the call over to our CFO, Dave Croucher, to discuss the quarter's financials, I would like to take some time to discuss the ProntoForms business.

Since the last earnings call, the most-asked question to me has been, how are you doing and how is the Company doing. I am one of those lucky that could answer very well to both.

The business transitioned incredibly well to a fully remote operation. Our office has been closed since March 9th, and every function is executed remotely with remarkable success, including enterprise sales. Yes, large enterprises continue to buy, with almost everyone operating remotely.

As a team, we have improved our operational framework with new meeting cadences, tighter objectives, and tighter metrics to track the result. Our corporate value of caring has shined with an incredible response from our employees, and that has translated into empathy with our customers and an ability to attract new talent in these peculiar days.

Now let's focus on our customers. Some have experienced difficulties, but both churn and adds from our core enterprise segment have remained resilient. Even though it took some time to reactivate, I believe that the pandemic has accelerated the secular trend around the need for more sophisticated workflows in the field, enabling workers to remain productive in changing circumstances as well as tracking and improving their safety at work.

We remain focused on listening to them, adding more resources to support them with targeted programs that bring us much closer, creating more advocacy around the use of our product.

Bookings from existing customers are trending in the right direction. Also, we have released new product functionality that has been well-received, and our roadmap has some critical features in the second half of the year that will make us even better at what we do—complex workflows executed by individuals and teams in the field.

Let’s talk about some new and expansion progress from these enterprise customers, two Fortune medical equipment manufacturers with sizable licenses and professional services deals.

A global brand manufacturer grew its ProntoForms deployment from 8,000 to 12,000 subscribers. This subscriber addition encompasses all North American-based employees working in corporate offices and customer locations as a key technology component of its reopening strategy to improve the safety of employees and customers. A Global 500 European-based logistic company has expanded its ProntoForms subscribers to support outsourced logistic services. A leading American food manufacturer and processing company signed an agreement and rapidly deployed a ProntoForms solution for employee symptom tracking. Further expansion in global brand manufacturers as well.

Finally, I want to share two more key customer-centric events. We’re hosting something that we call idea shares. These events allow us to share our views on the market with potential customers and other industry leaders in our space.

I hosted one with ServiceMax, an invitation-only digital transformation Zoom event for 25 top medical device manufacturers. A great panel discussion which I moderated with Philips Healthcare on

Medtronic on how custom low-code applications are a key part of their strategy supporting the field engineers. These idea shares are working very well for us.

On Wednesday, October 7th, we're also going to be hosting our annual Empower User Conference. The objective of our Empower User Conference is to inspire customers to explore new use cases for our platform; to foster and deepen connections and relationship between our customers and the ProntoForms team; and finally, to learn more about our customers, including their needs, priorities, and challenges.

We're also excited to announce that the conference will be both digital and free of charge. We invite investors who are interested to join us on October 7th to learn more about our product and hear directly from our customers on how they use our platform to improve their field operations. Please register on prontoforms.com/empower.

Now let me comment on our Q2 results. In the early stages of the pandemic, we were focused on ensuring that our people had the ability to continue to provide high-quality services to our customers and show its stability in the business. We saw some net churn, but mainly in our SMB segments.

As we progressed throughout the quarter, we saw more opportunities opening and enterprise deals closed that allowed us to increase our base by 2.5 percent from the end of Q1. We also accessed pandemic-related funding that solidified our plan to continue to grow our team while maintaining a solid balance sheet.

Enterprise continues to be our focus and our top priority. We remained focused on our customers' success and the financial viability of our operations for our employees, customers, and shareholders.

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. Good to have everyone on the call. I'll go through the financial highlights, but I won't repeat all the detail included in our MD&A.

Total revenue in the second quarter of 2020 was $4.16 million, representing a 2 percent decrease from Q1 2020 and a 13 percent increase over the comparative Q2 2019. Of this total revenue, 93 percent was recurring.

Recurring revenue in the second quarter of 2020 was $3.89 million, representing a 1 percent decrease from Q1 2020 and an 18 percent increase over the comparative Q2 2019.

Our annualized recurring revenue base or ARR at June 30th totalled $16.14 million, representing an increase of 2.5 percent from March 31, 2020, an increase of 18 percent from June 30, 2019.

As Alvaro mentioned, we saw a net churn earlier in Q2 mainly in our SMB segments, but we were able to offset that with strong enterprise bookings in June. We are pleased that we showed positive sequential growth, given the uncertainty early in the quarter.

Customers with greater than $100K of annual recurring revenue has grown to be 38 percent of our base, up from 37 percent at the end of Q1 2020 and up from 30 percent a year ago.

Revenue from professional services was $271,000 for Q2 2020 compared to $301,000 in Q1 2020 and $372,000 in Q2 2019.

Gross margin on total revenue for the second quarter was 88 percent, an increase from 85 percent in Q1 2020 and 84 percent in Q2 2019.

Gross margin on recurring revenue in Q2 2020 was 93 percent versus 92 percent gross margin in Q1 2020 and 90 percent in Q2 2019.

Our gross margins, measured in percentages, were unusually high in Q2 due to government assistance received related to the pandemic. Without the government assistance, our gross margins would have been 91 percent on recurring revenue and 85 percent on total revenue.

Operating expenses for the second quarter were $3.32 million, down 14 percent from last quarter and down 5 percent from Q2 2019. The decrease from Q1 was primarily attributed to $480,000 of pandemic-related government funding that reduced our operating expenses in each of our functions. Excluding this funding, our OpEx would have been relatively flat from Q1.

We also received $270,000 of IRAP funding that reduced our R&D expenses in Q2. The IRAP funding for this project is now complete, and the pandemic-related funding was one-time in Q2, so these two programs will have no further impact on our results after Q2. We will, of course, pursue additional funding programs in the future.

Income from operations for Q2 was $348,000 versus a loss from operations of $238,000 in the first quarter of 2020 and a loss of $417,000 in Q2 2019.

Net income for Q2 2020 was $207,000 compared to a net loss of $168,000 for the first quarter of 2020 and a net loss of $530,000 in Q2 2019.

Non-GAAP income from operations for Q2 was $446,000, an increase from $90,000 loss in the first quarter of 2020 and a $335,000 loss in Q2 2019. The improvement in profitability relates primarily to the previously mentioned pandemic-related government funding totalling $625,000 that reduced cost of sales and operating expenses in Q2.

Our cash balance at the end of June was $5.5 million compared to $5.7 million at December 31, 2019.

In summary, we are pleased with our second quarter results and we feel that we have some things in our favour in light of the new environment.

Number one, we made the transition to work remotely well and we have incorporated a number of initiatives to keep morale and execution high. This has allowed us to continue with our business activities in a controlled and effective manner and continue to deliver the ProntoForms services to our customers very well.

Number two, Q2 net bookings increased after an uptick in churn. Mainly within our SMB segments early, we saw a number of enterprise deals close in the last month to overcome the deficit and post a gain of 2.5 percent in the base.

Number three, we have a diversified base and we continue to keep a close eye on key metrics within that base, including usage, churn, new bookings, and cash collection from accounts. We have seen improvement in each of these key areas as the quarter progressed. Our enterprise greater-than-$100K of ARR base continues to grow and reached 38 percent of our total base, representing our strongest area of growth and reinforcing our commitment to add enterprise sales strength. Enterprise, historically, has been our lowest area of churn and has so far shown resiliency, even in the new environment.

Number four, we had non-GAAP operating income of $446,000, a positive swing from of $536,000 from Q1, primarily related to the one-time government funding mentioned earlier. But recall that our non-GAAP op loss also decreased significantly in Q1.

We continue to have the benefit, the financial benefit of having 90 percent of our revenue in US dollars and 80 percent of our costs in Canadian dollars, plus the reduction in travel and event costs, as one would expect.

We have not reduced headcount, but rather we selectively increased our strength in key areas, including enterprise, product, and sales. We continue to manage costs without infringing on our ability to grow as demand returns in earnest. Our approach is that when we see tangible increases in demand and bookings, we are reinvesting capital in the pursuit of more growth.

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

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## Q&A

**Operator**

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press *, followed by 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 they are received. Should you wish to decline from the polling process, please press *, followed by 2. If you're using a speakerphone, please lift your handset before pressing any keys. One moment for your first question.

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

**David Kwan** — PI Financial

Morning, guys.

**Dave Croucher**

Morning, Dave.

**Alvaro Pombo**

Morning, Dave.

**David Kwan**

I was wondering just if you could talk about how much more challenging it is, I guess, given COVID here in terms of winning new customers. Are you allocating more resources to maybe selling to your existing customers, given it's probably easier, given you've got that existing relationship?

**Alvaro Pombo**

Dave, you want to—

**Dave Croucher**

Sure.

**Alvaro Pombo**

I can take a crack. Yeah. You go first.

**Dave Croucher**

Okay. Now, David, I mean we came into this year, we wanted to increase our sales team, especially on the enterprise side. And not only just the quota-bearing reps but also, as Alvaro described, the scaffolding around that, so adding more direct managers, adding more sales engineering depth, and adding what we call client directors, so subject matter experts or project managers, to have a bigger team to be able to go after not only existing but also new enterprise accounts.

And that was really being built up in Q1. And then we saw people put the brakes on at the end of Q1 and we didn't waste the opportunity to continue to develop those new people. So I think we went from just over 10 reps at the end of last year to around 20 quota-bearing reps at the end of Q1, and we're right around that level now. So it was really getting those people up to speed, getting new, better messaging out, getting better training, working through all those things to build up a real solid total sales team.

And one of our key initiatives was to focus on the next 20. So a lot of our bookings revenue in the last couple years has come from our top 20 customers, as you know. And looking at that next level and seeing really good opportunity and getting some bookings from that, and seeing more opportunity going forward, and just kind of working through some of the short-term delays in purchasing. But we’re starting to see that free up somewhat, so making good progress there.

And I’ll say it was challenging but it seems to be loosening up somewhat, so looking more optimistic in that respect.

Alvaro, did you want to add to that?

**Alvaro Pombo**

No. I think the key word there is new versus existing. And look, I mean, the good part of the bookings for us come from existing. So yeah. We managed to focus more on those and keep on enhancing the way we deal with those existing customers.

And the news, as Dave said, it’s been opening up, actually, in a good way. So we managed to balance the loads, put it like that, for those two, three months.

**David Kwan**

And how are you finding, in terms of trying to find these new enterprise customers in particular, just the challenges obviously faced by COVID, not be able to jump on planes. Assume you guys aren’t travelling at this point and doing a lot more, I guess, virtually.

**Alvaro Pombo**

Yeah. That's an interesting question. I mean, look, definitely there has been an impact, so I'm not going to say that every single project moved ahead in a very fast way.

However, what's remarkable, being on the other side of those telephone conversations, is how everybody has figured this out. And we're talking about, I mean groups, I mean, buying in the enterprise involves nowadays 12, 14 people. I mean, those kind of numbers. And people are doing it.

I'm surprised, to be honest. I thought it was going to be—again, I preface it by saying it's not a slam dunk, it's not happening like every day, everywhere, oh, my God, it's just incredible. But it is the ones that are engaged, they do it. You go through legal approvals, you go through security approvals, you go through everything; virtually, no need to show up your face.

**David Kwan**

And one thing I guess that we've seen with COVID is an acceleration of the conversion to digital. So I was kind of curious. Obviously, you've got your outbound efforts, but have you seen much of a change in terms of inbound interest since COVID started?

**Alvaro Pombo**

Yeah. Yes. Yes. I mean, we've done a few different things so it's very hard to correlate things here, given the amount of change. So this quarter, as we said, we were verticalizing the message and those idea shares that I was referring to, and I think, I honestly believe that if you guys are following close this thing, come to Empower and you will see more of what I'm talking about. It's those vertical conversations we have reversed, the go-to market, from going broad to everybody who would listen to anything, to, hey, let's invite the 25 largest medical equipment manufacturers that have a pain, that are growing, let's talk about that pain as part of the idea share.

So we've done that in heavy equipment and in medical equipment, and both successful. And we're doing two more, two other verticals that are coming. And so, yeah. I mean, that conversation has changed. So, effectively, yes, and those new guys come in. So we've seen new things coming in.

Now these other use cases that we talk about, the pandemic and, I mean, go back to work safely, there is a lot of interest around that. We're not changing the message to be that. I believe that—I mean, hopefully, a short-lived use case; we all want it to be short-lived.

So we're only dealing with the companies that we believe have more than just that use case. Otherwise, those are use cases that you spend a lot of time, a lot of money, a lot of cycles. You get them going very quickly. That's our value proposition. It's very effective. But then getting into the corporation is not that easy. So we're being careful of not spinning our wheels on that.

**David Kwan**

Thanks, Alvaro. And I guess a lot of the focus has been on the direct sales where you've had some strong success. Can you maybe give an update on your partner channel, how it's been going there? How you've been able to manage the sales process through COVID here?

**Alvaro Pombo**

Yeah. I mean, we don't report on exact numbers. I'll give you on that, but it's up from where we thought. So we beat the quarterly forecast on partner revenue and we're seeing a stronger demand. I mean, what this pandemic has created as well is people are going after their base harder. So partners, I mean, they are looking for new things to sell to that base, and that's what we do for them as well. So it's been good, actually. It's been good partner-wise, it's been a good evolution.

**David Kwan**

Thanks. And I guess just one last question here—

**Alvaro Pombo**

Sure, Dave.

**David Kwan**

—on the cost side, for Dave here. So you talked about, I guess I'll say the benefit from the government funding this quarter that's expected to abate in subsequent quarters here. So should we be expecting your costs kind of return to what we'd seen in prior quarters?

**Dave Croucher**

Yeah. I think without that government funding, we're flat from Q1, and so that's the immediate effect. And then the approach, David, is, I mean, if you look at the last five quarters, I think, so since we got the warrant money in just over a year ago, we've held our cash pretty consistently around the mid-$5 million range, $5.5 million to $6 million. And that's been through phases of growth and through phases of no growth. So we were able to toggle our EBITDA to come down to be able to continue to manage that.

Now as the steam picks up again, we'll get back to—we will have some EBITDA loss, some increase in expense. But the expectation is that we would offset that with the incremental revenue—or sorry—cash that we get in from enterprise prepay contracts that would fund that, which is what was happening before we went into this economic environment.

**David Kwan**

No, that's helpful—

**Dave Croucher**

Sorry, go ahead.

**David Kwan**

No. That's helpful, Dave. And also, I guess it relates to the free cash flow this quarter. I think this is the quarter they typically, I guess, pay out like your bonuses and—

**Dave Croucher**

Yeah.

**David Kwan**

—I think your auditing fees. So that was a negative impact on the cash flow this quarter.

**Dave Croucher**

Yeah. It is. You're right. Seasonally, it's our toughest quarter from a cash flow standpoint because we do pay out all those annual accruals. But we also had one delay in collections. It was about $400K from one large customer that was really just a change internally in their function that increased our accounts receivable a little bit by about that much, by about $400K over Q1. So that affected the cash somewhat as well, so.

**David Kwan**

I guess one related question. Have you seen much of an impact on collections? I know there was some talk about it in the MD&A, but anything material that you've seen? I think there was—you'd increased your allowance on it, but I didn't know if you actually were seeing a material impact on your collections.

**Dave Croucher**

Not so far. Actually, it's been pretty—I guess when you first go into this thing, we were really concerned about that. But there are a few but more small-medium, which aren't really material on an individual basis. So a little bit of delay but no real major issues. So I think we mentioned in Q1 that we took some additional reserve there and that's adequate. I think we're not seeing anything over and above that.

**David Kwan**

Perfect. Thanks, guys.

**Alvaro Pombo**

Thanks. Bye, Dave.

**Dave Croucher**

Thanks again.

**Operator**

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

**Gabriel Leung** — Beacon Securities

Morning, guys. Thanks for taking my questions. Morning. A couple things. So with the benefit of I guess July and part of August under your belt, can you comment on whether the strength that you saw in June, has that continued into the current quarter? And have you also seen that reduced level of churn within the SMB segment of your customer base?

**Dave Croucher**

Well, I mean we don't really comment on next quarter, but the trends that we've seen I guess towards the end of the quarter are there and we don't see anything really different from that. So the churn has stabilized and come back to normal levels, certainly in June. And we'll just make that comment.

And then in terms of bookings, I mean, bookings tend to happen at different times throughout the quarter and enterprise deals can be lumpy anyways. But I guess what we can say is that our sense is that the demand is improving and it's come back from where it was in March, April, May.

**Gabriel Leung**

Thanks for that. And I guess my last question is, it sounds like the existing base has been quite a strong contributor for you during this difficult period and you're working on a couple of newer, larger enterprise accounts now. I'm curious. I guess two questions. One, where does your Mobile Form platform I guess rank within the new customers' IT priority spend, I guess, IT spend priority levels, I guess? Number one.

And number two is, are there any catalysts? Or what do you think is the event that would trigger some of these newer accounts to say, yes, let's move forward with an initial deployment. I was curious if you had any qualitative commentary around that.

**Alvaro Pombo**

Yeah. Gabriel, good morning. How are you? Look. The way I see it is in the following way. I mean, in terms of priorities for the enterprises is, we coming to the enterprises in a very, I think, interesting way, which is, there are people that are assessing kind of their stack of capabilities or their technical stack for something, field service management, et cetera. But we come—or not but—and we come with, hey, in those priorities of whatever you want to automate, you can do things very quickly with ProntoForms.

And so the reality is that we, as long as those projects are being actioned, we usually get a surprise once, I don't know, call it half of the times, where they say, hey, you know what, I just came across this thing, let's go faster. So the catalyst is our value proposition, to answer your question. Once people realize through a small demo, a small pilot, a small something, that they can do it, they go very quickly at it.

Now, we're starting to see right now a little bit as well of an interesting trend, which is, people that have done this before but the capability that they did it with doesn't work. So those are quite interesting because they come with a very large body of forms and things and processes that they just basically say, hey, we need to modernize the way we're doing these things, these guys are getting us nowhere. So that's an interesting catalyst as well.

So I really believe that people are starting to realize what this does and there is not a lot of explaining to be done to get things faster moving.

**Gabriel Leung**

Gotcha. No. That's really helpful feedback. And maybe just one last question for Dave, just from a modelling perspective. I think you mentioned earlier, but with assuming that the government assistance doesn't repeat in Q3 and with the IRAP funding now complete, I would presume your operating expenses for Q3, all else being equal, should be slightly above the Q1 levels. Is that correct?

**Dave Croucher**

Yeah. It should be because if you just adjust for—well, if you adjust for those two things, it would be above the Q1 levels.

**Gabriel Leung**

Gotcha.

**Dave Croucher**

That's kind of the right way to think about it. The things that we toggle here are, we had positive-$30K of bookings gross. That's MRR. Sorry. So that's about $90K of pickup that we have in the bank. And then as you're getting enterprise bookings, that provides cash as well. So those are the really the things that we want to toggle and line that up against the EBITDA loss, which we use non-GAAP op loss as our proxy for the EBITDA.

**Gabriel Leung**

Gotcha. That's helpful. Thank you, and congrats on the quarter.

**Dave Croucher**

Thanks.

**Alvaro Pombo**

Thanks, Gabriel.

**Operator**

Ladies and gentlemen, as a reminder, should you have any questions, please press *, 1.

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

**Alvaro Pombo**

Okay. Thank you, Pam.

So, in summary, we saw a jump in demand as field operations return in earnest in the second half of Q2, and we see continued demand. We plan to continue following that demand. We have increased investments in our enterprise product and sales team. We're excited about what's ahead for Field Service Management for the entire market and how our offer fits in that marketplace.

So despite the challenges in the world, we look forward to the next phase of growth for our customers and our company.

Thanks, everyone, for spending your time with us this morning. And as always, I would like to thank you for your continued support. Have a wonderful 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. Have a great day.