ProntoForms Corporation

Fourth Quarter 2020 Results Conference Call

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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

Gabriel Leung
Beacon Securities — Analyst

PRESENTATION

Operator

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

Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press *, 0 for the Operator.

This call is being recorded on Thursday, March 11, 2021.

I would now like to turn the conference over to Babak Pedram, Head of Investor Relations. Please go ahead.

Babak Pedram — Investor Relations, Virtus Advisory Group Inc.

Thanks 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 security laws, including, among others, statements concerning the Company's 2021 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 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, to go over our operational highlights for the quarter.

Alvaro Pombo — Chief Executive Officer, ProntoForms Corporation

Thank you, Babak. And thank you, Ernest (phon). Good morning, everyone, 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.

2020 was a challenging year for everyone, yet an interesting one for our company. Overall, we saw resilience in our customers adapting and continuing to provide high-quality, safe service delivery in the field.

In 2020, almost everyone was talking about first-line or frontline workers. I believe there is a new and profound appreciation in the world for these people who ensured food, goods, health care, and crucial services kept running uninterrupted.

Today, there is an even greater appreciation of the importance of equipping these workers with state-of-the-art tools to bolster their productivity and their safety. We are proud to say that we play a key role in this initiative with ProntoForms.

While we saw steady growth in annualized recurring revenue—ARR—base coming into 2020, our first quarter of 2020 showed roughly flat sequential growth due to increased churn, mainly SMBs, in the earliest stages of the pandemic. We saw improved growth in the second quarter and third quarters as enterprise bookings improved. We then saw continued improvement in bookings in the fourth quarter, but this was offset by a decrease in our base of approximately 6 percent caused by a mutually agreed discontinuation of our AT&T reseller agreement.

This isolated churn event meant our ARR base only increased by 1 percent in the fourth quarter, but left us with a much stronger base of direct customers with term contracts that we can continue to grow. We thank AT&T for their valued partnership.

We look forward to 2021, and we do so with clarity on our business strategy. We made great progress on our go-to-market framework by empowering frontline workers with powerful mobile solutions focusing on key verticals where ProntoForms demonstrates rapid adoption and tightening execution on new logo acquisitions and existing customer expansions, including sales with our strong partners.

So as we prepare for the next level of growth, we do so with a strengthened balance sheet, a proven resilience, a tighter go-to-market, and a stronger-than-ever base to grow upon.

Now let’s focus on our customers, a few notable enterprises. New and expansion examples include a global business consulting firm that expanded its ProntoForms users by 22,000 to help frontline workers collect rich data of over 500,000 energy audit inspections designed to improve energy efficiency amid government environmental impact targets.

Another example. Two medical device manufacturers, multibillion global mobile device manufacturers and global medical radiation device company, deployed ProntoForms to 850 and 400 field engineers respectively, with deep integrations to their back-end systems. A couple of global heavy manufacturer brands increased their deployments.

So these are just a few examples that I wanted to highlight, as they reinforce our progress in the go-to-market strategy, which is based on these target verticals.

As thought leaders in the space, we have been finding our groove of communicating to our target markets. Together with the Service Council, we hosted digital transformation Zoom events for field service leaders, featuring field operation executives from all devices and medical device manufacturers and heavy manufacturing organizations. These and other events are becoming a great mechanism to share our vision, connect with the prospects, and enable compelling conversations with our existing customers.

Now let's talk about our product. The innovation continues. We announced last quarter the introduction of a powerful feature named Teamwork, which increases collaboration between field technicians. This feature has generated significant interest, has enabled great conversations that have resulted already in subscriber expansions and new sales.

We have a terrific product. We are recognized as a leader of this segment. Because our products adapt so well to multiple business processes, we have witnessed significant expansion with large enterprises.

So I feel, I'm very proud to say our customers appreciate our product. They show it by expanding it more and more in field use cases. We have a good team with the conviction and the focus, and we have the financial resources to scale our growth.

I will now defer to Dave to discuss our financial results for the quarter. Dave?

Dave Croucher — Chief Financial Officer, ProntoForms Corporation

Thank you, Alvaro. Good morning, and nice 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 Q4 2020 was $4.7 million, a 4 percent increase from Q3 and a 16 percent increase from Q4 2019. Total revenue for the year 2020 was $17.7 million compared to $15.1 million in 2019, an increase of 17 percent.

Recurring revenue in Q4 2020 was $4.3 million, representing a 6 percent increase from Q3 2020 and a 14 percent increase from Q4 2019. Recurring revenue for the year 2020 was $16.2 million compared to $13.7 million, an increase of 18 percent year over year.

Our annualized recurring revenue base, or ARR, as at December 31, 2020, was $17.1 million, representing a 0.7 percent sequential increase and an 8.7 percent increase from December 31, 2019.

As Alvaro mentioned, and I just want to recap as well that our ARR in 2020, we saw a marked slowdown of bookings and increased churn, mostly in SMB early in the year, but were encouraged with increased enterprise bookings towards the end of the second quarter. Then in Q3, we saw a rebound in net ARR growth with a good mix of commercial and enterprise bookings, plus a noticeable drop in churn from the first half of the year.

Gross bookings continued to grow in Q4 2020 but were offset by significant churn as we discontinued the AT&T relationship. Despite this isolated churn event, we still ended up net positive for the quarter and managed to bring many good customers into direct relationships.

Our recurring revenue base is now the strongest it has been with respect to term commitment and customer usage and satisfaction metrics. Customers with greater than $100K of ARR was 39 percent of our base at the end of Q4, which was flat from Q3 and up from 36 percent a year ago.

Revenue from professional services was $405,000 in Q4 2020, a decrease of 18 percent from Q3 2020 and an increase of 37 percent from Q4 2019. Recall that PS revenue in Q3 2020 was higher due to a contract with a large customer for the delivery of certain enterprise features that was mostly completed in that period.

Revenue from professional services for the full year 2020 was $1.5 million compared to $1.4 million in 2019, an increase of 8 percent.

Gross margin on total revenue for the fourth quarter was 85 percent, an increase from 82 percent in Q3 2020 and from 84 percent in Q4 2019. The fluctuation in total gross margin percentage tends to be driven by the mix of revenue. When we have higher professional services, as in Q3, the overall gross margin may be higher, but the percentage will decrease due to the mix. The fourth quarter and annual gross margin of 85 percent is more reflective of our historical averages.

Also, recall that the second quarter gross margin percentage was higher due to the unusual roughly $150K of COVID-related funding that we recognized against these costs.

Gross margin on recurring revenue in Q4 2020 was 91 percent, flat from Q3 2020 and up from 90 percent in Q4 2019. Gross margin on recurring revenue for the 2020 year was 92 percent compared to 90 percent for prior year. Annual gross margins on recurring revenue for 2020 were higher than usual due to the COVID-related funding mentioned earlier.

Operating expenses in Q4 2020 were $4.6 million, an increase of 9 percent sequentially and up 15 percent from Q4 2019. Operating expenses in 2020 year totalled $16 million compared to $14.4 million in 2019, an increase of 11 percent.

Note that 2020 operating costs were reduced by approximately $490,000 for IRAP funding against R&D costs specifically, plus another $470,000 of COVID-related funding that was reduced against all of our operating expenses. Those programs were completed in 2020, but we will continue to pursue additional government funding programs going forward.

Loss from operations in Q4 2020 was $574,000 versus $492,000 in Q3 2020 and $583,000 in Q4 2019. Loss from operations for the 2020 year was $957,000 compared to $1.9 million in 2019, a decrease of 48 percent.

Net loss for Q4 2020 was $915,000 compared to $610,000 in Q3 2020 and $781,000 in Q4 2019. And net loss for the year was $1.5 million compared to $2.3 million in 2019.

Non-GAAP loss from operations for Q4 was $341,000, flat from $344,000 in Q3 2020 and down from $403,000 in Q4 2019. Non-GAAP loss from operations for 2020 year was $330,000, down from $1.4 million in 2019.

To summarize our bottom-line numbers in 2020, early in the year, we took a careful approach to spending to reduce our losses as our bookings slowed. And in Q2, we temporarily swung to profitability as we received that $650,000 in total COVID-related funding in that period.

As gross bookings improved in Q3 and Q4, we returned to the path of following bookings growth with additional investment in sales and marketing, with the intention of compounding that growth back into our ARR base. This growth mode results in moderate non-GAAP operating losses, but those have been mitigated on a cash flow basis by the prepayment amounts from new contracts.

Our cash balance at the end of 2020 was $7.7 million compared to $5.7 million at the end of 2019. Of note, in Q4, we received an influx of $1.5 million due to the exercise of warrants, and we refinanced our long-term debt by obtaining a revolving credit facility with the TD Bank for C$6 million.

In summary, we are pleased with the results we saw over the course of 2020. We were able to survive a difficult first half of the year, largely due to our sticky revenue base. Our flexibility with our OpEx spend, essentially being able to toggle profitability if we see reduced growth prospects, also proved to be valuable in the first half.

We continue to see a shift in our customer base to longer-term commitments, which adds cash from operations to offset non-GAAP operating losses. We also accessed over $1 million of government funding from various programs, and received $1.5 million from the exercise of warrants, and obtained the senior debt financing to strengthen our financial position.

We enter 2021 with a strong base that is increasingly enterprise. Despite the isolated churn that we saw from the sunsetting of AT&T, we see additional evidence that customer activity is increasing, and we are continuing our approach of investing in sales and marketing to achieve more growth. We have a solid financial position to handle variability that we may come across and ensure that we are able to continue performing at a high level.

That concludes the financial highlights.

With that, I will ask the Moderator to open the line for questions. Thanks.

Q&A

Operator

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

One moment for your first question. Your first question comes from Gabriel Leung with Beacon Securities. Gabriel, please go ahead.

Gabriel Leung — Beacon Securities

Hi. Good morning, and thanks for taking my questions. A couple of things that I want to ask on the quarter. So first off, just as it relates to the AT&T relationship, when during the quarter was that terminated? I'm just trying to get a sense of whether that contributed anything in the quarter at all. Or was it beginning of Q4?

Dave Croucher

Gabriel, I'll answer that question. No, first, it's kind of been brewing for a while, but really, we discussed it in earnest late Q3, I think, or as we were entering Q4, I guess is really when we first started learning that that was the intention. We had expected it and were actually bringing a few customers directly before that. But in terms of the finite deadline, it was set to be December 31st. And we did toy with moving it ahead into Q1, but anyways we both agreed that December 31st was the better cut-off and we just both worked towards that.

So Q4 was very busy talking to all those customers and bringing a large number of them over to direct.

Gabriel Leung

Gotcha. So the ARR number that you quoted, the $17.1 million or so, that would incorporate, I guess, the total net churn within that relationship?

Dave Croucher

That's right. Yeah.

Gabriel Leung

Gotcha. Gotcha. So as we look into, I guess, calendar '21, where do you still see your greatest opportunities for growth? Is it still within the existing base? Or do you think there's an opportunity to sort of get net-new enterprise customers to add to the portfolio?

Alvaro Pombo

Yeah. So, Gabe, Alvaro. How are you? Thanks for joining us. I'll answer the question on this. We've become very good at understanding the difference between new and existing, call it, revenue. Obviously, pipeline as well.

So we have focused some very key activity on new, aim at commercial, large commercial and enterprises. And it's working. It's working as we are putting, call it, lines out. Okay? And I described a little bit of that on our marketing activities. And that's working well.

Now, dotcoms and converts had a very different pace and a very different conversion rate than existing. So we've stood up as well stronger engagement with the customers for existing. The release of Teamwork, the release of new product features, that keeps new conversations and expansion conversations going. So I would expect throughout 2021, the balance will stay about the same that we have experienced before.

And to mention or to notice is that, as well, you will see more and more work with some key partners like salesforce.com, ServiceMax as well, where—and that's for new as well as existing. Because we have, I mean, already collected several, I mean, good amount of customers on both platforms.

So very pragmatic about dividing the effort, and the answer will be on both. Okay? But both consciously and very measured and in a predictable fashion.

Gabriel Leung

Gotcha. And so, as we think about milestones for the coming 12 months, how should we think about milestones as it relates to, one, your sales and marketing team? And maybe the best way to think about it is directionally, headcount-wise, how should we think about where that's trending this year.

And second, on the R&D front, are there any sort of technology milestones you'd like to hit this year?

Alvaro Pombo

Yeah. Great question. So let me go with the sales first. So on the sales side, we press released that we made a change in leadership. I want to address it directly. I mean, it's just I'm running right now that position.

I think Michael, he did a great job, but we are at a different stage in the Company. We are at a stage where we need more strategic—your question is about how are we scaling up. Okay? And as we scale up the go-to-market because, I mean, we have plenty of good evidence and good numbers and good product market feed. And scaling it means differentiating all these different motions and, as you were asking, exactly what are those milestones on that.

So I will summarize it in the following way. It's not only—I mean, we scaffold that organization. There is very strong management. We're bringing in a new CRO over the next, I'll call it three, four months. It's a very different organization to what it used to be in terms of strength.

So what we're focusing on is, in terms of milestones, continue to strengthen the team with a concept of groups, pods, squads, working on specific verticals, okay, as well throughout the new and the existing. So key point right now, it's going to be, and you're going to hear us talking more and more about verticals.

The second point on strengthening that team, CRO. Okay?

Third point on strengthening that team is increasing pipeline on both existing and new, and that will be a much better predictor to the growth that we see. The steady growth that we have is there, and I think it can be scaled much faster and bigger. And so as we look at the second half of the year, as we see some of these numbers coming through, we also want to potentially accelerate the investments in those areas.

On with the product is, the product story's coming along very well, and the product priorities are going to be extracting some of these key solutions. We call them vertical solutions towards the four verticals that we covered: medical equipment manufacturers, heavy equipment, oil and gas, natural resources, and utilities. So you will see a lot more coming from that product engine that is packaged towards those four verticals.

And on the core functionality, we announced Teamwork, so more on Teamwork. Teamwork is working and it's a very strong feature. And a couple of other things that you will see in the pipeline, in the roadmap, throughout the year.

So strong on both sides. I feel that's where the two pieces are coming together in a great way.

Gabriel Leung

Gotcha. Thanks for that. Maybe one last question for me. So based on the commentary you just provided on the sales and R&D front, how is that going to translate into operating expenditures, cash operating expenditures over the course of the next 12 months?

Alvaro Pombo

Dave, do you want to comment?

Dave Croucher

Yeah. Gabriel, it's as Alvaro mentioned, we do want to invest more and as we see the growth. We did it in 2019, and we started to do it again in the second half of 2020 where we do have non-GAAP op losses. The nice thing about our model is that we do get the cash flow coming in from the prepaid contracts.

So the idea is that we try to stay roughly cash neutral, and we get the benefit of options that get exercised and that add to it as well. But if we can invest in that but keep our cash reasonably level. We have US$7.7 million of cash in the bank now, and we might spend a little bit of that to push, to move the needle, but we're still going to be pretty solid, and we'll have that cash flow mitigation to offset the losses. So you will see a little uptick but not so much of an impact on cash.

Gabriel Leung

Gotcha. Thanks for the feedback, and good luck with the coming year.

Dave Croucher

Great Thank you, Gabriel.

Alvaro Pombo

Thanks, Gabe.

Operator

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

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

Alvaro Pombo

Okay. So, thanks, everyone, again. We plan, as we just described, to continue investing in our product and the go-to-market, specifically in the large commercial and the enterprise.

We're excited about what's ahead in the field service management market and how our offerings fit in that market. That's our sole focus, and we continue to see the next phase of growth of our customers and our company.

Thanks very much, everyone, for spending your time with us this morning. And as always, I would like to thank you for your continued support.

Operator

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