FINAL TRANSCRIPT

ProntoForms Corporation

First Quarter 2021 Results Conference Call

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CORPORATE PARTICIPANTS

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Alvaro Pombo
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David Croucher
ProntoForms Corporation — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Gabriel Leung
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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to ProntoForms Corporation First Quarter 2021 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, May 6, 2021.

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

Babak Pedram — Investor Relations, Virtus Advisory Group Inc.

Thanks very much, Pam. Good morning, everyone, and thanks for joining us this morning.

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 fact.

Such forward-looking statements reflect management's current beliefs and are based on information currently available to management and are 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 and Analysis, which is available on SEDAR 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, Pam. Good morning, everybody, and welcome to our company's conference call. Before I hand the call over to our CFO, David Croucher, to discuss this quarter financials, I would like to take some time to discuss the ProntoForms business.

Q1 2021 was a good quarter for us. Our ARR base increased by 4.7 percent but to a level that we're accustomed to. As we discussed last quarter, we ended our relationship with AT&T, which resulted in a strong direct customer base with multiyear contracts, but it did result in churn and lower net bookings in Q4.

Even though COVID's still affecting some of our customers, we are pleased to return towards our growth trajectory. In Q1, we started to see results from our clarity and our go-to-market strategy. Our efforts in our four target verticals have resulted in positive progress in new logo acquisition and in existing customer expansion motions. Execution in both has improved with this customer focus. Our pipeline generation motions are also more precise, and our passionate focus on the frontline worker is starting to create a stronger solution differentiation in the market.

Some of the customer highlights on this quarter include, a global oil and gas enterprise expanded their ProntoForms deployment for a three-year agreement with 400 subscriptions. The deployment of ProntoForms improved their safety and compliance workflows.

A global medical manufacturing organization expanded their deployment of ProntoForms to over 1,300 additional subscriptions on a 3-year agreement. They integrated ProntoForms with their leading field service management system.

A global enterprise customer deployed ProntoForms to over 100 technicians to remove paper from the field and to reduce risk in data collection during the propane inspections. Their technicians can now perform more efficient inspections and make informed decisions on site.

Last, a global medical brand that manufactures sophisticated health care equipment deployed ProntoForms in a staged rollout to over 800 field technicians. The organization uses ProntoForms for multiple use cases, including administering preventive maintenance, mandating FDA compliance, and completing inspections.

These are simply a few examples that I wanted to highlight as they reinforce our progress and go-to-market strategy in our four target verticals.

As thought leaders in the space, we have ongoing programs to communicate our vision to our target markets. Together with the Service Council, we hosted digital transformation Zoom events for field service leaders, featuring moderated panel discussions with field operation executives from mobile devices and carrier and (phon) manufacturing organizations. These advocacy programs help us form deeper connections with our customers, prospects, and partners.

By the way, next Wednesday at 2 p.m. EST, there is one entitled, a technician and executive sit-down, Fostering technician loyalty, retention, and satisfaction, and this is called with a panel that brings together executives and technicians on the call. The participants are from Schneider Electric, Trend Technologies, and Cummins. And they'll be talking on how to improve satisfaction across the board. I will invite you, and I will welcome you if you can join us.

Now, let's talk about our product. Our Teamwork feature has received further improvements, increasing more use case of field technician collaboration. Also, we have been improving our salesforce integration as well as the way we enable salesforce as admins to experience our product while their discovery phase via the app exchange.

Finally, after learning details regarding the US government infrastructure plan, we believe there are great opportunities for ProntoForms to empower the frontline workers who will be key in these large-scale projects.

In summary, as CEO, I am very proud to say that our customers truly appreciate our product. Evidence of this is how they expand multiple new use cases and subscribers. We have a good team with a strong conviction and focus, and we have the financial resources to scale our growth.

Last but not least, we also had a very important ProntoForms board addition. Scott Berg, former CEO of ServiceMax and current Managing Director at 10X CEO, has joined. Scott adds invaluable field automation go-to-market knowledge, and he strengthens our overall board.

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

David 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 refer to the MD&A on sedar.com for more details.

Total revenue in Q1 2021 was $4.6 million, a 2 percent decrease from Q4 2020 and a 9 percent increase compared to Q1 2020.

Recurring revenue in Q1 2021 was $4.3 million, which was flat sequentially and a 9 percent increase from Q1 2020. Recurring revenue in Q1 was flat, as it generally follows the previous-quarter bookings, which was roughly flat due to the churn from the sunsetting of the AT&T relationship that Alvaro mentioned earlier. Recall that we saw reduced bookings growth in early 2020 at the time of the original shutdowns and then in Q4 due to the churn from the discontinuation of the AT&T relationship.

Our annualized recurring revenue base, or ARR, as at March 31, 2021 was $17.9 million, representing an increase of 4.7 percent sequentially and an increase of 13.9 percent from March 31, 2020.

The net bookings growth in Q1 2021 was primarily on the back of enterprise growth in our key verticals. Customers with greater than 100K of ARR increased to 40 percent of our base compared to 39 percent in Q4 2020 and increased from 37 percent a year ago.

Revenue from professional services was $307,000 in Q1 2021, a decrease of 24 percent sequentially and an increase of 2 percent from Q1 2020. Recall that in Q3 and Q4 of 2020, we saw higher PS revenue related to a large feature-built project for one of our large customers.

Gross margin on total revenue for the first quarter was 85 percent, which is consistent with both sequentially and year over year. Gross margin on recurring revenue in Q1 2021 was 91 percent, flat from Q4 2020 and marginally down from 92 percent in Q1 2020.

Operating expenses in Q1 2021 were $5.0 million, an increase of 9 percent sequentially and up 30 percent from Q1 2020. The increase in bookings in our key verticals is reinforcing our resolve to invest more in product management and go-to-market activities around these key enterprise verticals.

Loss from operations in Q1 2021 was $1.1 million versus loss from operations of $574,000 in the fourth quarter of 2020 and a loss of $238,000 in Q1 2020.

Net loss for Q1 was $1.1 million compared to a net loss of $915,000 in the fourth quarter of 2020 and a net loss of $168,000 in Q1 2020.

Non-GAAP loss from operations for Q1 was $904,000, up from $341,000 in Q4 2020 and up from a $90,000 loss in Q1 2020.

Our cash balance at March 31, 2021 was $8.2 million compared to $7.7 million at December 31, 2020.

To conclude, Q1 is a contrast to the lower growth and the lower EBITDA losses we saw in 2020. We are fortunate in our SaaS business that we can toggle the rate of spend faster or slower to match our growth. We are encouraged by the uptick in net bookings and by the progress we are making in our key verticals. Accordingly, we are investing more to push our go-to-market activities to take advantage as more people get back into the field. We want to get back to the compounding nature of growth and reinvestment in sales and marketing to get even more growth.

We continue to get the benefit of mitigating our losses with cash flow from prepaid enterprise contracts. And in Q1, despite the non-GAAP operating losses, we still saw positive cash flow from operations. We finished Q1 with a strong cash position, and we feel that we have the resources to push for more growth.

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

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 Gabriel Leung with Beacon Securities. Please go ahead.

Gabriel Leung — Beacon Securities

Morning. Thanks for taking my questions. Couple of things. So first, Alvaro, you mentioned that COVID is still having some sort of an impact on the demand environment for you guys. I'm curious. Have you seen a greater appetite amongst new customers and within your key focus verticals to deploy, whether on a pilot basis or on a larger basis? And I'm talking about new customers in particular.

Alvaro Pombo

Yeah. Thanks, Gabriel, for joining and for the question. The answer is yes. I mean, the vertical, my commentary goes that we sell to quite a few verticals, and some of them still suffer from COVID. Our main verticals have actually been very resilient. And we've seen more logos and new logos adds, particularly in those four verticals, which we're very pleased with that.

Gabriel Leung

Curious. In terms of the year-over-year growth, I know you guys are impacted by the AT&T discontinuation in Q4. Either Alvaro or Dave, do you have the year-over-year recurring revenue growth if you sort of factor out the AT&T business? What it would have been?

David Croucher

Well, that's a difficult one because there was a fair bit that went on there. Churn was comprised of a few different buckets. We had some customers that were in there that were simply not using and a large number of customers but a small amount of MRR.

And then we had another one that was a large customer that just reduced the amount of users because they have two user groups, and one is more seasonal than the other. And it happened to be the time of year where there wasn't the season where they were using. So they scaled back, but we think that may come back. So it's, I think, Gabriel, it's not really measurable in terms of what would have happened if we didn't get the—I think it was—

Gabriel Leung

(unintelligible)

David Croucher

—when you go from a channel where it's month to month, it's easy for that customer to sign up. But when you switch them to direct and you have to go through the whole supplier process, so that probably triggered some events. But it's hard to say what that would have been without, so.

Alvaro Pombo

Yeah. Gabriel, if I provide you with some colour, it's we've been seeing the business steadily going for many quarters already. Okay? So it keeps going. Sure, we had some of these effects of the COVID at the beginning of the couple of quarters and some industries were gone and the AT&T effect, but the underlying strength has been there.

Gabriel Leung

Gotcha. And so with the investments you put in place, R&D and sales and marketing-wise, are you comfortable talking about sort of a normalized rate of growth that you would hope to achieve on the recurring revenue side, assuming more normalized environments? Are there targets or goal posts that we should be watching out for?

David Croucher

Yeah. I've got to be careful. We don't provide guidance so we're kind of getting into that territory. But I think, if you think about it, it's more of a—feel like it's more like 2019 than 2020 in terms of the pattern that we had where we were investing in go-to-market and getting more steady growth each quarter, right?

Gabriel Leung

Gotcha. And maybe one last thing for Dave. So we saw the sequential lift on the operating expenses, as expected, I guess. Should we expect another modest increase in Q2 from the levels that we saw in Q1?

David Croucher

Yeah. So yeah. That's the pattern, I guess, is as we get growth, then we reinvest that growth. And you're right. We got ahead of it in Q1, and we just felt it was the right time. We had a good vertical planned, and we saw the momentum there. So for us to get the growth, you have to lead with that investment to drive the growth.

So it's a situation where we came out of lower spend in 2020, and we took advantage of some government funding as well that helped us through that. And now, we feel more positive. So we wanted to get ahead of it, but we always kind of toggle that back and forth. So as we invest now, then we'll let that kind of run its course as well and bring the net down over time. You know what I mean?

Gabriel Leung

Gotcha. Okay. No. Appreciate it. Thanks for the feedback.

Alvaro Pombo

Thanks, Gabe.

Operator

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

There are no further questions at this time.

Alvaro Pombo

Okay. So, thanks, everybody. And just as a closing remark, we plan to continue investing in our products and go-to-market, as we just said, and specifically in the enterprise. We're excited about what lies ahead for the field service management market and our strategic fit in this market. We continue to see the next phase of growth of our customers and our company.

And as always, I want to thank you personally for spending your time with us this morning. And as always, we would like to thank you for your continued support investing in ProntoForms. 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.