FINAL TRANSCRIPT

ProntoForms Corporation

Third Quarter 2021 Results Conference Call

Event Date/Time: November 4, 2021 — 9:00 a.m. E.T.

Length: 33 minutes

CORPORATE PARTICIPANTS

Corey Cohen
Virtus Advisory Group Inc. — Associate Director of Investor Relations

Alvaro Pombo
ProntoForms Corporation — Chief Executive Officer

Dave Croucher
ProntoForms Corporation — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Gabriel Leung
Beacon Securities — Analyst

Chris Thompson
PI Financial — Analyst

PRESENTATION

Operator

Good day, and welcome to the ProntoForms Corporation Third Quarter 2021 Results Conference Call.

Today's conference is being recorded.

At this time, I would like to turn the conference over to Associate Director of Investor Relations, Corey Cohen. Please go ahead, sir.

Corey Cohen — Associate Director of Investor Relations, Virtus Advisory Group Inc.

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

Certain information to be discussed during this call contains forward-looking statements within the meaning of applicable security laws including, among others, statements concerning the Company's 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 and Analysis, which is available on sedar.com and our website.

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

On that note, I will pass the line over to our CEO, Alvaro Pombo. Alvaro, please go ahead.

Alvaro Pombo — Chief Executive Officer, ProntoForms Corporation

Hey. Thank you, Corey. And thank you, Bettina. 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.

We are pleased to report that our annual recurring revenues, ARR, increased by 3.2 percent in the 2021 third quarter, following 4.7 percent and 4.2 percent in the first and second quarters.

Q3 growth in bookings was reduced by a 1.1 percent churn caused by the discontinuation of our Mexico operator reseller agreement. This discontinuation is similar to what we saw in Q4 2020 with AT&T, but at a reduced scale, and it's almost the end of this legacy channel. This discontinuation has the benefits of improving the quality of our base and focusing on the right type of customers.

We continued on the journey of scaling our sales process primarily around enterprise expansions. The combination of Mike Kramer, our new CRO, who joined us in July; the deployment of more sophisticated playbooks for expansion; better use case description, including tangible evidence of hard ROI; much clear execution, good NPS, and closeness to our base are telltales of our evolution.

The Company has a steady growth curve as the enterprise base and has successfully done large expansions. We will accelerate growth to the next level when the evolve operates at scale. Those who attended Empower '21, our user conference, saw evidence of what I'm describing.

Speaking of customers, I want to reference a few great examples. A Fortune 500 oil and gas company did an initial deployment of ProntoForms in partnership with a leading EHS—environmental, health and safety—provider and quality solutions to 700 field technicians to support their asset compliance and leaking inspection workflows.

A Fortune 500 energy supplier deployed ProntoForms to their technicians to achieve a step-by-step delivery workflow, transparent customer service, and report generation capabilities.

Also, a Fortune 500 building materials supplier expanded their commitment to ProntoForms by over 150 subscriptions that use ProntoForms for quality and safety inspections with data collection that fuels operational analytics.

Last, a global leader in fuel storage deployed ProntoForms to support their QA inspections and asset management workflows. ProntoForms is connected to their field service management platform.

These are some of the examples of positive business outcomes that companies derive from our product, as well as the diversity and the continuum of solutions that people realize when deploying our product.

I'm very happy with how our product is evolving in support of our strategy. Over the last quarter, we saw the deployment of features that facilitate our integration with salesforce. We made further investments in that partnership, as well as with ServiceMax, and we are seeing great benefits of both new business and expansions with them.

We're also packaging better the use cases we thrive in, as well as improving our ability to tell these stories within and across verticals.

Everyone, rightfully so, is concerned about people these days. People and culture have been one of the key pillars of our company. We continue to amplify these great assets by investing more in people.

We are recruiting for experienced enterprise sellers, so we're raising our sights to attract top talent to work for a great and experienced sales leader.

Also, for technical resources, there is an increased demand for them. These people follow good teams with modern development stacks that deliver appreciated innovation. And guess what? We have those in place too.

I believe that environments with clear and segmented employee value propositions underpinned by genuine trust, transparent culture, shared sense of purpose, and growth with equitable pay will continue to attract and retain good talent.

As CEO, I'm proud of what we continue to achieve. We are going to accelerate our pace of capturing this great market. It is an exciting time to be in this industry, but even more exciting to be servicing those field technicians that serve us all the time.

I will now defer to Dave to discuss our financial results. 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 of the detail included in our MD&A.

Revenue in Q3 2021 was $4.9 million and a 1 percent increase from Q2 2021 and an 8 percent increase from Q3 2020. Recurring revenue in Q3 2021 was $4.7 million, an increase of 2 percent sequentially and an increase of 15 percent year over year.

Our annualized recurring revenue base, or ARR, as of September 30, 2021, was $19.3 million, representing an increase of 3.2 percent sequentially and 13.4 percent from September 30, 2020. The Q3 2021 growth of 3.2 percent followed 4.2 percent in Q2 and 4.7 percent in Q1. The Q3 growth was reduced by a 1.1 percent churn from the discontinuation of our operator reseller in Mexico, as Alvaro already mentioned. After that churn, we're left with—the operator reseller used to be the dominant part of our base, but after Mexico, we have 2.8 percent left of operator revenue in our base, and that's spread around four different operators.

Excluding the operator churn, we have seen relatively consistent bookings and retention that is an improvement over 2020, but not all the way back to pre-pandemic levels. Meanwhile, the base has been steadily shifting to more enterprise and more term commitments. Enterprise remains strong as customers with greater than $100,000 of ARR increased to 41 percent from 40 percent last quarter and a year ago. With room to grow within existing enterprise accounts, we believe we are well positioned to capitalize on this opportunity moving forward.

Revenue from professional services was $229,000 in Q3 2021, down from $291,000 in Q2 and $494,000 in Q3 2020. Gross margin on total revenue for the third quarter was 84 percent, which was slightly down from 85 percent last quarter, but an increase from 82 percent for the same period last year.

Gross margin on recurring revenue was 89 percent compared to 90 percent last quarter and 91 percent in Q3 2020.

Operating expenses in Q3 2021 were $5.1 million, a decrease of 1 percent sequentially and up 21 percent from Q3 2020. The increase in gross bookings in the second half of 2020 and into 2021, mainly in our key verticals, has reinforced our resolve to return to the pattern of investing more in product management and go-to-market activities around our key enterprise verticals.

Loss from operations in Q3 2021 was $1 million versus loss from operations of $1.1 million in the second quarter of 2021 and a loss of $493,000 in Q3 2020. Net loss for Q3 2021 was $1.1 million compared to a net loss of $1.1 million in the second quarter of 2021 and a net loss of $610,000 in Q3 2020. Non-

GAAP loss from operations for Q3 was $820,000, down from a loss of $950,000 in Q2 2021 and up from a loss of $344,000 in Q3 2020.

Our cash balance at the end of September 30, 2021, was $6.5 million compared to $7.7 million at December 31, 2020.

To conclude, 2021 so far is a contrast of lower growth and lower EBITDA losses we saw in 2020. We are fortunate in our growing SaaS business that we can toggle the rate of spend faster or slower to match our growth. We're encouraged by the steadiness of our net bookings and by the progress we are making in adding new enterprise logos with strong potential for expansion. We are investing more in product and sales to push our go-to-market activities to take advantage. 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 we finished Q3 with strong cash position, and we feel that we have the resources that we need to push for more growth.

That ends the financial section. I'll pass it back to the Operator for questions.

Q&A

Operator

Thank you, sir. Ladies and gentlemen, if you would like to ask a question over the telephone, please signal by pressing *, 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

Again, please press *, 1 to ask a question. We will pause for just a moment to allow everyone an opportunity to signal for questions.

Our first question today comes from Gabriel Leung of Beacon Securities. Please go ahead.

Gabriel Leung — Beacon Securities

Hey. Good morning, and thanks for taking my questions. Dave, I missed the part in your discussion where you talked about what percentage of revenues are still coming from some of the older operator reseller agreements. And just to confirm, I think you said they were spread across four operators?

Dave Croucher

That's right. Yeah. So after Mexico, which it's interesting because Mexico was the 1.1 percent churn, and the customer base within Mexico was 92 percent SMB. If you look at what's left, it's 2.8 percent of our base and it's spread amongst four operators, three of them in Canada and one in South America.

And if you look within that base, it's a different mix. There's some that are less SMB. You get more commercial and some enterprise. But I'd say that less than 50 percent of the remaining 2.8 percent is SMB. So that's always the highest risk, right, is SMB. It's not what we're focused on.

Gabriel Leung

So then is that less than what percent was SMB?

Dave Croucher

Less than 50 percent of the 2.8 percent.

Gabriel Leung

Okay. Gotcha. Gotcha. Okay. Perfect. And so just to confirm then, I guess as we look at the ARR, I guess, on a year-over-year basis, it's still going to be a tough compare with Q4 2020. But I guess as you go into Q1 of next year, the year-over-year comparables should be a lot easier in terms of what the growth rates would like. Right?

Dave Croucher

Yeah. I think this quarter, if you're comparing to Q3 last year, we had the Q4 AT&T churn, which made basically we did end up slightly positive. But that certainly had an impact on the overall growth. So the 13.4 percent reflects flat quarter in there basically, right? So once we report Q4, then that will be gone and the comparatives will—you won't have to worry about that major churn.

Gabriel Leung

Gotcha. And just on the sales rep side, do you have an update on where the numbers are at right now relative to last quarter? Last quarter I think it was 20 or so.

Dave Croucher

Yeah. We're roughly about the same. Might be down one—or I think we're just down one. But the sales team, Mike Kramer, our CRO, came on in July, and he's going through everything that he has in that group. And I think the one thing that he's identified is just adding a bit on the enterprise just at the higher end of the salespeople, so getting some new reps that are more seasoned from an enterprise standpoint. And we realize that it's a competitive market out there, and we have to make some compelling offers to go get the right people.

But all-in-all, I think the machine is producing at a reasonable pace. But for us to get to the higher growth levels, we really need to add some talent at that level. So that's the direction, or that's kind of the status and where we're heading with that.

Gabriel Leung

Gotcha. One last question for me. Alvaro, can you talk a little bit about what you're prioritizing, I guess, over the course of the remainder of calendar '21 and into '22 from a growth perspective? Maybe some of the initiatives you plan on undertaking to accelerate growth over the coming year?

Alvaro Pombo

Yeah. Gabe, thanks for the question. Look, you can see the Company for several quarters growing at the pace that we've been reporting. And that comes almost all from the natural sales motions of the Company. So how do we get to the next level of growth I believe is the enterprise expansion story. We've been investing on it, but the last leg of that investment came with the change in leadership and with attracting this new, I mean, another layer of enterprise sellers, not to replace; I mean, it's to augment and continue and accelerating those enterprise motions that they happen today. But we need to happen at scale because we have a wonderful base. I mean, it's 160 enterprise customers, large guys that they all are prone to expand in other use cases, et cetera.

So the investments have been consistent throughout the quarters. And the last piece of that is the sales. They've watched the sales leadership and the new sales guys. So we definitely have a—we haven't changed our mind with regards to that.

Another interesting fact is that the relationships with ServiceMax and salesforce. So the partner side, there is another partner. They are moving. They're delivering leads. They're delivering expansions. They're working for us better than what we've anticipated. So those two components, it will take a little bit of time. None of these things happen overnight, but they're definitely on the right track.

Gabriel Leung

Gotcha. That's really helpful. And sorry, just had one last question then for Dave. Just on the free cash flow side, are you able to provide any sort of guidance on expectations around free cash flow over the coming quarters? I noticed that they were slightly negative, or they were negative, I guess, over Q2 and Q3. I know a lot of it is due to timing of prepaids, but what sort of visibility do you have to, I guess, Q4 as it relates to how free cash flow is going to shape out?

Dave Croucher

It should improve. I think Q2 and Q3 are the tougher quarters just seasonally because, as you said, in Q2 we had more outflow from prepaids on the expense side. And that sometimes that falls into Q3 as well. But Q4 tends to be our enterprise renewal period, Q4, Q1, and that always helps the cash just on a seasonality basis.

Gabriel Leung

Gotcha. That's really helpful. Thanks a lot for your time, guys.

Dave Croucher

Pleasure. Thank you.

Alvaro Pombo

Thank you, Gabe.

Operator

We now have a question from Chris Thompson of PI Financial.

Mr. Thompson, your line is now open. You may now pose your question.

Chris Thompson — PI Financial

Good morning, guys. Sorry about that. Maybe just to talk a bit more about the indirect sales strategy with Mexico falling off. Can you disclose quantitatively the percentage of your total billings today that are indirect versus say a year ago? And what channels you're seeing success; your system integrators or the hardware vendors? And what areas of geography or regional focus are starting to work for you guys?

Dave Croucher

Sure. Maybe I'll start just with the numbers, and I can pass it over to Alvaro, but—

Chris Thompson

Yep.

Dave Croucher

—when you say indirect, I mean, there's many different flavours. And the operator piece is what we were talking about. That used to be, well, probably 60 percent or 70 percent of our base at one point, but predominantly small business. And over the years, that's melted away while our direct has really come through. And when we say direct, we also include other partners in there that are part of our staff, I guess our technology staff that we sell along with.

So the operator piece is down to 2.8 percent and that's spread amongst a few. And some of those actually have that SI flavour to them as well. So it's a different type of customer, different type of sale. So I feel like the risk is with AT&T going and Mexico now gone that it's really down to very small.

In terms of other channels, we kind of—we treat them a little differently. We treat them more as part of just lead sources. So we have really good strong channels like ServiceMax and salesforce and SIs that work with Microsoft and other SIs that are strong fits in the field service management area that provide leads or even start bringing us deals.

Now in terms of how much they contribute to our bookings, it'll depend. But it's really all part of that mix between marketing partners and outbound activity that are fairly new for us as well. So it's hard to, Chris, if you're trying to measure the risk or really the opportunity, it's two different things. But we kind of consider the opportunity as a whole balanced approach to go to market. But I can pass it over to Alvaro if he has any more to add on that.

Alvaro Pombo

Yeah. Chris, thanks for the question. Look, I mean, Dave described the past very well. And the future, as Dave said, I mean, on our new opportunities and these lead sources, we have three main ones. I mean, marketing or call it inbound, that accounts for about 50 percent of the new to 60 percent.

And then the remaining piece is partners in different degrees of relationships. The majority of them, the way I look at them is in our paper or in their paper. And the majorities are sources of leads and things like the OpEx change in salesforce and salesforce vendors, et cetera, when we build on our paper and when we build on someone else's paper, which is the case of some of the ServiceMax relationships.

So that 40 percent, I don't know, take 20 and 20, I'll say. Twenty goes in their paper, 20 in our paper, or 15 in their paper if that makes sense? Does that answer the question you think?

Chris Thompson

Yes. Yeah. No, that's really good colour. Thanks. And I mean internally, I mean, how are you supporting that paper channel? And I guess what I'm asking is what's the revenue share? How do you incentivize those guys to put you guys onto the docket?

Alvaro Pombo

Yeah. So look, the approach we take, again, it varies. Okay? But the majority of them, it's very much like the price of retailing to them. And then they imbed that into their deals in whichever way they want. So we are not—the advantage of those kind of relationships is that they own the customer. We support the customer and after it's launched we're very close to the customer, which is terrific for us. And because the relationship, our product is a product that expands very well and people continue to iterate with it.

However, the billing relationships in some cases they mark us up in a huge way. But basically, what we have to the transfer price, we have a clear approach for that and from then on we let them do whatever they want to do.

Chris Thompson

Okay. That's helpful. And I've been following you guys for a number of years now, and you've built a really special recurring revenue business. Just thinking a bit longer term, internally when you're around the table in the boardroom like what's a target range for an EBITDA margin longer term? Plus some of your incremental revenue starts to drop to the bottom line and into your cash.

Alvaro Pombo

Yeah. Yeah. You started the question in a way that I was going to answer, but I'm just glad you finished it in a way that I'm going to let Dave answer it. And then I'll take it back from him. Dave?

Dave Croucher

Yeah. Thanks, Chris. I mean, as we mentioned earlier on the call, the advantage of having this growing SaaS model is that you can toggle that. And last year, we were able to take a defensive posture. And we actually turned positive for a couple quarters right in the early stages of the pandemic, so that was nice.

But when we look at our model, we always look at a five-year model. And certainly, for the first couple years of that we want to be aggressive. And we feel that what's going to drive the value is increasing the base to get to the highest base amount and have the highest growth rate on that base amount. That's really what's going to drive the early value.

And then over time, as you get to those higher levels of base, then you toggle that back. And I think if you're looking at a nice mix of growth and EBITDA margins, we were always looking around that

40—the rule of 40. And once you establish that pattern of growth, then it's easier to let that critical mass take over and then get to that where you can toggle that back and have that nice mix of revenue growth and EBITDA margin.

So difficult to pinpoint. I mean, we don't provide guidance, but certainly around that rule of 40 with a close to half-and-half split between growth and EBITDA margin. We're probably more weighted on the growth than the EBITDA margin, but certainly everything's in play.

Does that make sense, Chris?

Alvaro Pombo

Yeah, Chris, I'll add my piece. Make sense?

Chris Thompson

I was going to ask when you're going to hit the rule of 40 but, Alvaro, I'll let you go.

Alvaro Pombo

No, I let Dave answer. Look, I think I mean as Dave was portrayed, we have a control on that lever. Okay? And the way I look at the market and we look at the market is that we've gone through kind of three different markets in the existence of the Company. And the market that we're in right now and the one—I mean, you heard about the Mexico stuff, the one that we've departed a long time ago, but there is still some of it that we're clearing, it's a very different market.

So this enterprise market, which is the one that we've been focused on for a while, is a market where we see humungous opportunity; the product expands extremely well. Now the expansion motions for any of you guys who've seen that they're not that easy, okay, and not with a product like ours that traverse so many use cases and so many geographies. You really have to orchestrate that motion extremely well to maximize the benefits of it, and that's what we're perfecting.

So based on what we see, the demand of it, the use cases that we have, we just want press ahead as hard as—as it makes sense to do. We don't want to go bananas at it, et cetera. But we're very confident in what we're seeing, and we're very confident of the opportunities.

Now field service is an interesting market. Okay? I'm not going to call it a weird market, but it's a market that behaves differently that I don't know if you're selling to the CMO something. These are people that have very rigorous operational processes and timings what they invest, et cetera, et cetera.

So that's what we read the tea leaves on basically with that way. We're in a place right now, let's go for it.

Chris Thompson

Okay. Understand. Just the last one for me, if you don't mind. I'm sorry if I missed this. I think your headcount was 150 at the end of last Q. What is it now? And like where should that—what are you thinking internally towards end of the year and into next year just so we can get a handle on building your OpEx?

Dave Croucher

Yeah. I think we're just a little above that right now. There has been some turnover, but we're still adding. And I think next year probably increasing the headcount by around 15 percent over the course of the year.

Chris Thompson

And the turnover, was that forced? Or were people just—is it competitive and tough to keep good talent?

Dave Croucher

Competitive market. And we've put in some measures to help with that and feel like we've got a good program. As Alvaro mentioned earlier on the people and culture side that there's programs and then there's some turnover. I think a lot of people are seeing it. Just people with short tenure that are out there in the market and these times when people are working from home it's there. And we're putting in programs to really get the right people and keep them—onboard them properly and keep them motivated and interested in their careers here at ProntoForms.

Chris Thompson

Okay. Yeah. Good to hear—

Alvaro Pombo

Chris—yeah. Go ahead, Chris. You were going to say something.

Chris Thompson

Oh, I was just going to say, I did participate in your recent user conference and the culture seemed really friendly, so for what it's worth.

Alvaro Pombo

Yeah. Look, I mean, we're big on that. It's not me because if it was me, it wasn't the culture. Okay? So it's we. And we have a strong belief on people. And as I said on my note and that's why I added it there on what I was sharing, these people stories, you have to look at it segmented, like any other market. And yes, there are some fluctuations in people that you onboarded during the pandemic with certain, I'll call it, years of experience in their career. There is a bracket there that has a higher propensity to churn. And I think we've identified and put in the measures in place.

Then the tenured people and the people that have been with us and the new grads, the value proposition for them is very compelling. And I also—but we're not sleeping at the helm here. It's costing more, it requires more investment, and the market is changing very quickly. So we're on it all the time. I'm not saying that we are perfect at it, but I think we're better than average by far in dealing with the issue. But it's costing more, without any question.

Chris Thompson

Understood. Thanks so much for taking my questions, guys. You have a great day.

Dave Croucher

No, thank you, Chris. Good talking to you.

Dave Croucher

Thanks, Chris.

Operator

As there are no further questions at this time, I would like to turn the call back over to Alvaro Pombo for closing remarks.

Alvaro Pombo

Hey, Bettina, thank you. You've done a great job. And thank you, all, for the questions and all the listeners. Here are my closing remarks.

We plan to continue investing in our product and go-to-market specifically in the enterprise. We are excited about what's ahead for the field service management market and how our offering fits in that market.

We continue to see a next phase of growth for our customers in their adjacent geographies or in their next use cases and our company.

I want to thank everybody for spending your time with us this morning. And as always, I would like to thank you for your continued support.

Thank you, everybody.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.