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FINAL TRANSCRIPT

ProntoForms Corporation

First Quarter 2022 Conference Call

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PRESENTATION

Operator

Good day and welcome to the ProntoForms Corporation's First Quarter 2022 Conference Call.

Today's conference is being recorded.

At this time, I would like to turn the conference over to Babak Pedram. Please go ahead.

Babak Pedram — Investor Relations, Virtus Advisory Group Inc.

Thanks very much, Samara (phon). 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 2022 objectives, the Company's strategy to achieve those objectives, as well as statements with respect to management's beliefs, plans, estimates and intensions, 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 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. Reconciliation 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 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

Hey. Good morning. Thank you, Babak. And thank you, Samara.

Good morning, everybody, and welcome to our company’s conference call.

Before I hand the call to our CFO, David Croucher, to discuss this quarter’s financials, I would like to take some time to discuss the ProntoForm’s business.

We achieved 14 percent growth in recurring revenue over the 2021 comparable quarter. Our annual recurring revenue, ARR, based at the end of the Q1 was $19.6 million, with 41 percent from customers with greater than $100K of ARR.

As reported, our base decreased slightly due partially to a 1.5 percent enterprise reduction in ARR from the completion of a one-year project and lower new enterprise bookings in the quarter. The enterprise go-to-market transition is continuing, but we saw the effect of the longer sales cycles typical of the larger enterprise sales on which we’re increasingly focused.

However, we are pleased to report that with our recent enterprise expansion of our $100,000 of ARR, bringing that customer to a total of approximately $870K ARR, this is the kind of deal we are targeting and expecting more of. We are scaling conversations with our customers and how our platform can help them addressing pressing business issues like inflation, labour markets. People need to rapidly automate today. Our improved go-to-market team’s uncovering more enterprise expansion opportunities.

Last week, I was a keynote speaker and moderated two panels at Field Service USA, the largest show in our industry, held in Palm Springs, California. The relevance of the industry is better than any year before. The need for automation is growing. Our rapid automation capabilities focused on the field, primarily with large enterprises, continue to be very well received, and the main large suite of software players acknowledge the reference and addressable market of our solutions.

The market remains strong and the opportunity for growth continues to be more real every day.

Recently, the connection between customer experience and technician experience has become more acknowledged, and the need to improve workflows and automation beyond the traditional work order management has become more relevant.

A good customer experience is made of multiple workflows that need to be iterated, coupled with the need to improve the field technician experience, combined to make the need of our product timely and relevant. Also, as field service organizations are finishing their field service management implementations, they now have more time to consider other workflows outside fix and repair, which plays very well into our abilities.

Let me give you some interesting and exciting examples of what I just mentioned.

A global heavy manufacturing organization increased its commitment to ProntoForms by $180K to approximately $870K. This is an organization with over 60,000 employees and billions of dollars in revenue. They use ProntoForms as the key technology driver for their full-asset life cycle business model, from new asset instillation, maintenance, and recommission to replacement.

Why did they select us? Our ability to scale to thousands of users with many use cases, open integration, security, reliability, and agility were key in their decision. And they continue to expand on that belief.

The second example. A Fortune 500 power and renewable energy global enterprise deployed us as the technology, starting with 450 subscriptions across two slot (phon) divisions. ProntoForms supports health and safety reporting, inspection process for wind and hydro turbines, and gathering performance metrics to enable their field engineers and salespeople.

Our agility to deploy multiple use cases, seamless and intelligent connection to their field service management platforms, ability to move contextual data from the field and to the office, as well as the capability to embed rich media and to automatically render and route custom-work documents were key factors in their choice or decision.

Third example. A Fortune 500 oil and gas enterprise has expanded their multiyear deployment of ProntoForms by 200 subscriptions for a total of 2,000, as part of a global service agreement and MSA with us, as their sole mobile forms solution provider. The platform also provides unique capabilities for this organization, including repeatable sections interactive multimedia sketch, high resolution photo capture, as well as seamless integration with Microsoft SharePoint.

As you can see, the diversity of workflows beyond fix and repair are very powerful. Installation, decommissions, compliance, and safety are some of the themes. And that’s why we are standing up clear set of solution templates. Through a stronger and more robust product marketing capabilities, we believe this is a key in our evolution this year: Enable our customers and our sellers to see where they can take the product next, given the global nature of their needs and these corporations, will accelerate expansions.

Working together as a squad, we have scaled customer success, community learning, and support, and focus more energy on our large enterprise accounts. We continue to receive very good NPS scores. And the churn of this segment is particularly low.

These squads are generating very good conversations and, ultimately, opportunities from these key accounts. Our customers are living very clear challenges. As one of the customers say, it is a lot easier to find on paper five attorneys than a good technician.

And that is just the beginning. Costs are going through the roof. So multiyear agreements, contracts, that they enter into are challenging. Rapid automation is a key lever they want to activate.

Which use case to deploy first? Eighty percent of the hundreds of use cases deployed with our product are implemented in less than eight weeks. Our sole task today is to make it easier for everyone to adopt.

This brings me to the last bastion of our improved go-to-market—sales. The team is in place. The transformation is underway. And the main thrust is customers' centricity, particularly around enterprise expansions. These changes take time, but they are well underway.

Finally, the pandemic has had an impact on meeting people in person. The world is opening up, and we're taking full advantage of that.

Our people and culture focus continues evolve. We're back at the office in hybrid mode, and we have been recruiting some great talent. Finding and recruiting is very difficult in certain functions these days. We have been improving our tactics to deal with the people challenges that we are all living. We are not out of the woods with that challenge. I would wonder who is out of the woods with that challenge but continue to have a company and culture that attracts some great people.

So as CEO, I'm very proud of our transition to enterprise and accelerating our pace of capturing these great markets. It is an exciting time to be in this industry, but even more exciting to be servicing those technicians that serve us all, all the time.

I now defer to Dave to discuss the 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 Q1 2022 was $5.04 million, a 1 percent increase from Q4 2021, and a 9 percent increase compared to Q1 2021.

Recurring revenue in Q1 2022 was $4.9 million, a 2 percent increase from Q4 2021 and a 14 percent increase from Q1 2021.

Our annualized recurring revenue base, or ARR, as of March 31, 2022, was $19.6 million, representing a decrease of 0.7 percent sequentially and an increase of 9.6 percent from March 31, 2021.

We are continuing with the transition of our sales force that we commenced in 2021 under new leadership to focus on enterprises. Those initiatives have caused variability in our bookings, but we are confident that they are creating a field sales organization that can deliver sustainable enterprise growth. The variability was compounded in Q1 by the end of one-year, a project-based subscription that resulted in a 1.5 percent reduction in ARR.

Customers with greater than $100K of ARR represented 41 percent, unchanged from Q4 2021 and up 1 percent from Q1 2021.

Revenue from professional services was $150,000 in Q1, a decrease of 29 percent sequentially and 51 percent from Q1 2021. Professional services revenue has been affected by our transition to enterprise sales focus, and we expect that these results will generally trend with ARR bookings growth.

Gross margin on total revenue for the first quarter was 84 percent, which is consistent sequentially and down from 85 percent in Q1 2021.

Gross margin on recurring revenue in Q1 2022 was 89 percent, down from 90 percent in Q4 2021 and 91 percent in Q1 2021.

Recurring revenue gross margin percentage for the last three years has remained in the range of 88 percent to 93 percent and is still in that range.

Operating expenses in Q1 2022 were $5.7 million, an increase of 9 percent sequentially and up 14 percent from Q1 2021. As mentioned, we are committed to investing in go-to-market product development and messaging to push for more enterprise growth.

Loss from operations in Q1 2022 was $1.5 million versus loss from operations of $1.0 million in the fourth quarter of 2021 and a loss of $1.1 million in Q1 2021. The increase in net loss in Q1 2022 compared to Q1 2021 is due mainly to continued spending on our enterprise go-to-market strategy and some stock-based compensation.

Non-GAAP loss from operations for Q1 2022 was $1.1 million, up from a loss of $618,000 in Q4 2021 and a loss of $904,000 in Q1 2021.

Our cash balance at the end of March was $7.4 million compared to $6.1 million on December 31st. Recall that we increased our line of credit from C$6 million to C$10 million, and in the first quarter, we drew $3 million against that line, C$3 million.

To conclude, we continue to be well positioned in 2022 to capture additional market share with existing and new customers. The recent Q2 enterprise deal is exactly the type of deal that we are targeting with our new enterprise go-to-market motions. We feel that this transition is supported by the investments that we are making, will provide sustainable growth in our ARR base. We want to get back to the compounding nature of growth and reinvestment in sales and marketing to get even more growth.

With that in mind, I'd like to open the floor for questions.

Q&A

Operator

Thank you. If you would like to ask a question, please signal by pressing *, 1 on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

Again, press *, 1 to ask a question, and we'll pause for just a moment to allow everyone an opportunity to signal for questions.

And we'll take our first question from Gabriel Leung with Beacon Securities. Please go ahead.

Gabriel Leung — Beacon Securities

Good morning and thanks for taking my questions.

Couple of things. First, just as it relates to longer decision cycles on the enterprise side, are you finding that's just a function of needing more approvals to get deals done now? Or is there some element some enterprises sort of delaying spending or hesitating on spending in the current environment?

Alvaro Pombo

Gabe, I'll give it a try, Gabe. Thanks for joining us and thanks for the question.

Look. We are seeing is that as we move more marketing and focus and I mean resources into the enterprise, your funnel becomes, obviously, a lot more spiky. I mean, there is more concentration in these deals. I wouldn't qualify it as any of the macro trends affecting it or changing, I mean, people changing positions on how they will do this, is that now there is a heavier concentration on bigger things.

So I think it's going to be a little bit lumpier as we transition and as we have more of those, obviously, in the funnel. That's the issue.

Now on the net side, basically, what we had is one very large project that it was a year project, and that coincided with the other thing, a few deals taking longer.

But we don't see any trend on either. Okay? Any negative trend or headwinds on either, on churn or on the deals becoming more sporadic, if you want to put it like that.

Gabriel Leung

Gotcha. And while we're on the question here, do you have any sort of large deals in your revenue base right now that similarly are sort of one year in nature? Or was that sort of a bit of a one-off in the quarter?

Alvaro Pombo

No. This was a very unique one. This was a company that had the contract with a government, foreign government, big contract. It was a spike. Very unusual. They're mainly like an integrator, like a consulting firm that has projects that come and go. Now, it was a big one, and they delayed the end of that project. But, anyway, it is one of those things. It wasn't a surprise or anything like that.

Gabriel Leung

Gotcha. Now you've been—the sales initiatives and the enterprise has been going on for little bit of time now. So I'm curious, based on the pipeline, based on what the feedback you're getting from your sales group and just given the demand environment, do you have sort of a better sense of when you might be able to get that ARR growth back to the target of 20 plus percent growth again?

Do you think this is a second half of this calendar year thing? Or do you think it'd be a bit more time into maybe next calendar year?

Alvaro Pombo

Look. I think we are having the conversations, as I said. We are seeing the engagement, and I'm starting to see a lot more deeper conversations at scale. And these deeper conversations, we used to have them, I don't know, one, two, three, four, five of them on an ongoing basis. That's how we got to 20 or 30 of these guys going at a high pace. Now we have many of them.

And those conversations are yielding good projects, some of them small. And that's I mean, we report some of them, and sometimes some people wonder. Okay. Two hundred subscribers extra on a very large account is very meaningful because that—and that's under an MSA that is global, that is we're talking monstrous companies. So you capture a little island.

And that's what's important as well to communicate to you, to all of the investors and analysts. Those little things, they add up in a great way because those are tractions with very large pieces with monsters that move geographically with multiple dimensions. So a little thing from a big guy is big—

Dave Croucher

Hey, Gabe. Just to add—

Alvaro Pombo

—connect with your large customers.

Yeah, Dave?

Dave Croucher

Sorry. Just to add to that. I don't think we're seeing any real trends with our enterprise. Historically, we would have a handful, a small portion of our enterprise team that would be closing good deals, and we're still seeing that. But we've added better people there, but it's just going to take time to ramp. We added five good enterprise people in Q1, and they really haven't had a chance to really get ramped. So we're feeling that that should start to happen soon and more in the second half of the year. But like Alvaro said, it just takes time.

I mean, historically, we were taking orders and working with our champions and not really doing the right enterprise sales motions to get deeper into the organization and into the executive level, and those are the things that are happening now that weren't happening before.

We still have very strong enterprise list of customers. And that churn that happened in Q1, like Alvaro said, was a blip. Our enterprise retention without that is still TTM 94 percent gross retention. So that's a strong number. And even with that, it's 91 percent. But that hasn't changed, and that was one unique one. We don't have others like that. Certainly, there might be some small ones but not of that size and not in our enterprise space.

But that's just part of the transition that we're going through. And so we have part of the sales team that is continuing on performing, and it's got good opportunities. And then the other just needs to get in and get more familiar and deeper with those customers to start building up the same level. And then we'll be more broad-based.

Gabriel Leung

Gotcha. No. Thanks for that.

While we're on the subject of the sales team, Dave, you mentioned you add five more reps in Q1. Just remind us where you're at now in terms of your rep count relative to the start of the year and expectations for the end of the calendar year.

Dave Croucher

Okay. We're the same, actually. So we added those five enterprise reps, mostly in the US. And we haven't lost—we moved one person over to a management role. So there's one open spot right now. It's more of a commercial rep.

And then we're looking to add some more in the UK. But that's not because of turnover. That's just because we want to build up a little bit more in the UK. But one or two people there.

So really, the team is there and haven't seen churnover this year. And it's just a matter of them building up their customer relationships and then pipeline from there.

Gabriel Leung

Gotcha. So we might see that sales and marketing expense line maybe creep up a little bit if you decide to, as you said, add some more to expand within the UK there?

Dave Croucher

Yeah. So there will be, for sure. It's expensive to build a proper enterprise sales team. And what you'll see also is more expense with higher commissions on more bookings. And the other thing would be I think connecting with the customers is really important. We want to get those people back out. So you'll see an increase in travel and expense.

But that's all part of that motion. And I think it's a good thing at the end of the day to connect more closely with those customers.

Gabriel Leung

So would some of these variables you talked about, sales team being out there again, adding to the group, with some wage inflation as well. Where do you foresee your quarterly operating expense creeping up to over the course of the year? I think it was $5.7 million for the quarter in Q1.

Dave Croucher

Yeah. It’s going to creep up, certainly more now. But then we’ll have most of the team in place. There’s always some additions here and there. But I see more of the increase similar to Q1 from Q4.

But then in the second half, it’ll slow down. And then we’ll start to see the effects of some return on that spending.

Gabriel Leung

Gotcha. Though I appreciate the feedback, everyone.

Alvaro Pombo

Thanks, Gabriel.

Dave Croucher

Thanks, Gabriel.

Operator

And we’ll take our next question from Chris Thompson with PI Financial. Please go ahead.

Chris Thompson — PI Financial

Great. Thanks. Morning, guys.

Hey, Alvaro, just on the partnership front. I didn’t hear you mention anything about that. Can you give us an update on your go-to-market strategy with the partners and progress with salesforce and Microsoft?

Alvaro Pombo

Yeah. Look. Good progress on those two. Plus, we announced some work on tighter, I mean, go-to-market as well on a portion of Microsoft. There is also some—I mean, the other gorilla in this space in ServiceNow. And we have some customers in common and looking into it.

Look. My take on the partner's side of those four big players, they acknowledge that they have a gap, a gap in their offering. With that gap in mind, they have different tactics to address the gap. One of them obviously being partnering. And we're, with all four, in a very good position.

So we continue to see a flow, but I believe that the flow will—I mean, should accelerate. We made some hires that are from those ecosystems. And we're bolstering the team on the go-to-market side to stay closely related to those ecosystems.

So I think that should be—I mean, it has been a good spot for us, but I think it's looking brighter.

Chris Thompson

Okay. Maybe, Dave, like can you give us an update on your total headcount at the end of December and the end of March?

And then I want to tie that into the partnership effort. I mean, how many people have you got on those efforts because it seems like some good, low-hanging fruit to get some operating leverage out of that partnership revenue base.

Dave Croucher

Sorry. Headcount on the partner side? The business development side?

Chris Thompson

The total company at December and then at March, so we can see the change. And then how much of that is dedicated to the partnership efforts?

Dave Croucher

Okay. At the end of December, we were right around 150, or we were right at 150 people. And in the end of Q1, we were mid—or like 155. And we're right around there right now.

The sales team, as I mentioned, is same—like in terms of the quarter-bearing reps is not changed. We do have some open headcount in junior, the sales development, the entry-level BDRs, FDRs.

In terms of the BD, that team is around—it's four. And we did have one person that moved from that department into product. And then we replaced that person with a more senior person who's closer to Salesforce, who has some better relations with the Salesforce. And maybe I'll pass it over to Alvaro to talk about that.

But so the headcount in BD hasn't changed, but it's gotten stronger.

Alvaro Pombo

Yeah. Chris, It's the mix has changed, stronger people, more connected into those circle systems on the sales side. As we've been recruiting, we've been able to attract sellers from those organizations, which is good. So you have people that know other people.

And then the last piece of investment that that's new, but I mean it's not huge has been one, two people more on the product marketing side, packaging for those big guys and for the market overall. But it has an effect on those.

Chris Thompson

Okay. That's helpful. And I guess looking—

Alvaro Pombo

—extra investment.

Chris Thompson

Got it. And then looking towards the end of 2022, it sounds like you're not hiring a ton of people. So you should probably end the year somewhere around 160. Is that fair?

Dave Croucher

Well, we're behind on a few headcounts right now, more on the product side. So a little higher than that, but it's probably around 170 or so.

Chris Thompson

Okay. That's very helpful.

Maybe just the last one for me addressing the TD credit facility, up to C$10 million. Can you just help us understand the covenants on that facility, given you had no EBITDA? I just want to get an understanding of your ability to continue to draw on that facility.

Dave Croucher

Okay. Yeah. There's no EBITDA covenant on that. It's an ARR loan. So it's really against our base.

And there is a growth covenant that, for the several quarters, it's protected by a cash balance. So as long as we have, I think it was C$6.2 million in the bank, then that doesn't kick in, the growth covenant. But then towards the end of the year, it's a year-over-year growth covenant set at 10 percent on the base and carries forward from there. And then there's a—

Chris Thompson

Okay. That's—

Dave Croucher

Then there's a cash-burn covenant for the trailing six months against the cash-plus-available line.

Chris Thompson

Okay. That's helpful. Thanks, David.

Maybe I'll just sneak one more in on you mentioned you added four or five senior kind of enterprise-focused account reps in Q1. I mean, how do you set their quotas?

Could you give us an understanding of like what would make you guys happy with their annual quota just so we can kind of zero in on that ARR towards the end of the year?

Dave Croucher

Sure. The enterprise reps have a pretty standard quota. We have in our minds that they should be hitting $1 million ARR a year once they're running. But we've set a quota a little below that. I think it was like 700.

And as they come on board, it's really nothing in the first quarter. But then in the second quarter, it's 50 percent of their quota or that quarterly amount, and then full-on 100 percent after that is usually how we ramp them.

Chris Thompson

Okay. Thanks so much for the colour, guys. I'll leave it there. Thanks.

Dave Croucher

Thank you, Chris.

Operator

And there are no additional questions at this time.

Alvaro Pombo

Okay. Thanks, Samara. So thank you, everyone.

Look. We plan to continue investing in our product and go-to-market focus in the enterprise. We are excited about the future. We clearly see growth opportunities from our customers, both geographically and in these new use cases. I mean, that's a whole dimension that we're mastering as we speak.

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

Operator

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