FINAL TRANSCRIPT

ProntoForms Corporation

Second Quarter 2022 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

Chris Thompson
PI Financial — Analyst

PRESENTATION

Operator

Good day and welcome to the ProntoForms Corporation Second Quarter 2022 Results 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, sir.

Babak Pedram — Investor Relations, Virtus Advisory Group Inc.

Thanks very much and 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 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 currents beliefs and are based on information currently available to management and are subject to a number of significant risks and uncertainty that could cause actual results to differ materially from those anticipated.

Also, our commentary today will include adjusted financial measures which are non-GAAP measures. These should be considered as a supplement to and not as a substitute for GAAP financial measures. Reconciliations between the two can be found in our Management Discussion & 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 operational highlights for the quarter. Please go ahead, sir.

Alvaro Pombo — Chief Executive Officer, ProntoForms Corporation

Hey. Good morning, Babak, and thank you, Sergei (phon). Good morning, everybody, and welcome to our company's conference call.

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

We started 2022 with a disappointing Q1. In the second half of 2021, we added new leadership, followed by large changes to the sales organization. Q2 2022 showed improvement but didn't reflect the volume that we expected. We finished Q2 with 9 percent annual growth in recurring revenue and 2 percent over Q1.

We had an important enterprise expansion in Q2 with growth that is expected to continue. After the lag in bookings in the first half, we are seeing value building up. We are seeing more new and expansion activities, and we're confident that we have a capable enterprise go-to-market structure that is scaling as our enterprise salespeople ramp.

We recently passed a $20 million ARR milestone; 51 percent of the base now comes from enterprise-size higher-than-2,500-employees customers; and 41 percent of the base comes from customers with greater than 100K of ARR each.

This is a crucial ARR milestone for SaaS companies. Compared to other SaaS businesses of our size, we have a strong foundation, excellent logos, very good retention, high gross margin, and good capital efficiency.

I recently had a meeting with a large enterprise customer that is looking to expand their footprint. They are concluding the retuning of two core back-office systems, and we're seeing that the demand for more workflows in the field is increasing substantially. Their new systems offered some difficult ways to do that, but as they progressed, the cost and complexity made them reassess their approach. They're exploring instead scaling ProntoForms to be their prime tool to help them accelerate their field automation to scale their business.

This week, I was invited to give an opening keynote at Field Services, one of the largest shows in our industry, held this year in Hilton Head. I shared with the audience our vision of how agile automation can unite their field teams.

The model basically enables a graded level of collaboration around workflow improvement between the field sales leaders, the field service analysts, and the technicians or engineers, resulting in turbo (phon) customer value. I shared with the audience some of the key results of our annual customer survey that clearly shows powerful business ROI and major impacts in the technician productivity and job satisfaction.

I also shared the incredible stat that 80 percent of the workflows built with ProntoForms are up and running in less than 8 weeks. The message resonated very well with the audience. And we had the opportunity to demo diverse use case examples at the booth, which are becoming templates to help simplify and speed the implementation even further.

The increased demand of enterprise automation in response to a challenge of technicians' enablement is not going away any time soon. People identify with our proposition and message.

As you may imagine, we did secure many opportunities from this show. A great show.

This year, we have Empower 2022 in Austin at the end of September. We will be in intimate meetings with key customers who will learn and be inspired by their peers on how ProntoForms is using multiple industries of hundreds of diverse use cases. It will also provide a formal and informal setting for establishing deeper connections between our customers and our go-to-market teams.

I wanted to share just a small sampling of connection (phon) sharing and advocacy that attendees will experience.

A global brand in the medical industry will be sharing how ProntoForms is the key mobile technician enablement strategy they have developed and grown, fully integrated into Salesforce, and has facilitated them to rapidly grow their business to meet a booming demand. They also leverage our solution to more rapidly onboard and ramp technicians to full productivity in a fraction of the time that it took them in the past.

Another example is, a leading utility service provider will be doing a deep dive into how rapid and agile deployment of ProntoForms has enabled them to reach and drive incredible ROI and has utilized ProntoForms' capabilities as a strategic differentiator for earning business and contracts throughout multiple divisions—seven divisions.

One of the largest elevator and escalator brands in the world will be sharing their stories of how ProntoForms is quickly becoming their prime solution for tracking installations, maintenance, and service compliance, in addition to being a powerful solution, enabling technicians to handle complex service reliability.

The focus of product development for much of this year has been on improving technician experience and productivity.

In Q2, we introduced a number of features that enable app users to review, capture, and revise datasets more rapidly and accurately. This means better and more comprehensive data and analysis for our customers, but it also means technicians that are more content to adopt the solutions and contributes to their overall satisfaction with their work.

Q2 also saw improvements to integration features, with online services from Microsoft and Google Workspace, and with more e-progress (phon) for all their leading CRMs and Field Service Management systems.

With these, we continue to push to enable the business technologies, or citizen developers, with our customers and minimizing the need to have pro IT admins and developers.

Our people-and-culture focus continues to evolve. We’re back at the office in hybrid mode. We have been improving our tactics to deal with the people challenges that we’re all living through. Our strength is our culture, so we continue to focus on growing a company culture that is attracting the best talent.

As CEO, it’s an exciting time to be in this industry, lead a team of talented professionals, and most importantly, provide a solution that improves the lives of those field technicians that keep our world running.

I will now pass the call 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 will now go through the financial highlights for the quarter.

Total revenue in Q2 2022 was $5.2 million, a 3 percent increase from Q1 2022 and an 8 percent increase from Q2 2021. Total revenue for the first half of 2022 was $10.3 million, representing an increase of 8 percent over the first half of 2021.

Recurring revenue in Q2 2022 was $4.97 million, a 2 percent increase from Q1 2022 and a 9 percent increase from Q2 2021. Recurring revenue for the first half of 2022 was $9.9 million, representing an increase of a 11 percent over the first half of 2021.

Our annualized recurring revenue base, or ARR, as of June 30, 2022, was just over $20 million, representing an increase of 1.9 percent sequentially and an increase of 7.1 percent from June 30, 2021.

Customers with greater than 100K of ARR represented 41 percent of the base, unchanged from Q1 2022 and up 1 percent from Q2 2021.

During 2021, we began the restructuring of our salesforce under new leadership to focus on sales to major enterprises. While those initiatives have caused volatility in our bookings through the first half of 2022, we are confident that we have the field organization in place that can deliver sustainable enterprise revenue growth.

Revenue from professional services was $243,000 in Q2 2022, an increase of 61 percent compared to Q1 2022 and a decrease of 17 percent from Q2 2021. Revenue from professional services for the first half of 2022 was $393,000, down 34 percent compared to the same period in 2021.

Professional services revenue has been affected by our transition to enterprise sales focus, and we expect that these results will generally trend back with ARR growth.

Gross margin on total revenue for the second quarter of 2022 was 84 percent, which is consistent sequentially and down 1 percent compared to Q2 2021. Gross margin on total revenue for the first six months in 2022 was 84 percent compared to 85 percent in the same period in 2021.

Gross margin on recurring revenue in Q2 2022 was 89 percent, unchanged from Q1 2022 and down 1 percent from Q2 2021. Gross margin on recurring revenue for the first six months was 89 percent compared to 90 percent in the same period in 2021.

Operating expenses in Q2 2022 were $5.7 million, in line with Q1 2022 and up 11 percent from Q2 2021. Operating expenses for the first six months of 2022 were $11.4 million compared to $10.2 million in the same period for 2021.

We increased the spend as we rebuilt the sales organization in the second half of 2021 and the first half of 2022. With this investment, we have the team in place now, and we see progress as the enterprise team has been ramping. We don't expect to add significant costs in the second half but rather optimize the go-to-market spend and allow the team in place to deliver.

Loss from operations in Q2 2022 was $1.3 million versus $1.5 million in the first quarter of 2022 and $1.1 million in Q2 2021. Loss from operations for the first half of 2022 was $2.8 million compared to $2.1 million loss in the first half of 2022 (sic) [2021].

Non-GAAP loss from operations for Q2 2022 was $1.02 million, down from a loss of $1.12 million in Q1 2022 and roughly in line with Q2 2021 at $1 million even. Non-GAAP loss from operations for the first half of 2022 was $2.1 million compared to $1.9 million in the first half of 2021.

Our cash balance at June 30, 2022, was $7.5 million compared to $7.4 million at March and $6.1 million at December 31, 2021.

We also have C$1.8 million still available on our C$10 million credit facility.

In closing, we have made the investment in the enterprise team. We will hold costs steady in the short term and allow the revenue growth to go to the bottom line. With that, we will continue to optimize sales and allow the reps to deliver results. Our cash plus available line is sufficient for the foreseeable future and provides the capacity for us to deliver enterprise growth.

With that in mind, I'll open the floor to questions.

Q&A

Operator

Thank you. Ladies and gentlemen, if you wish to ask a question at this time, please signal by pressing *, 1 on your telephone keypad. Please make sure the mute function on your phone is switched off to allow your signal to reach our equipment. If you wish to cancel your request, please press *, 2.

Again, please press *, 1 to ask a question. I will pause for just a moment to assemble the queue.

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

Gabriel Leung — Beacon Securities

Hey. Good morning, guys, and thanks for taking my questions. First off, Alvaro, just I know it's early into the second half. But are you able to give us some qualitative comments around what you're seeing in terms of sort of pipeline generation and, if you can, also close rates for what you've seen so far in the quarter vis-à-vis sort of the first half of this year?

Alvaro Pombo

Gabriel, thank you for the question and thanks for joining us.

Look. I'm very optimistic about what I'm seeing. These things take a while to get sales reps ramped. It takes about six months to get them up and running. The activity that we're seeing is very strong.

And I mean, look. We look at the large base of customers that we have; about 175 of them are large enterprises. And we segmented them into top 45 is what we call them. Two-thirds of them have open opportunities going on.

So there is a lot of activity happening. And we're seeing a very different scenario than the first half.

Gabriel Leung

Would you anticipate your sort of second half growth on a year-over-year basis to exceed what was generated in the first half, just given what you're seeing pipeline-wise?

Alvaro Pombo

Yes. Absolutely.

Gabriel Leung

Gotcha. Second, Dave, during your commentary, I noticed you mentioned that you're expecting, I guess, minimal increases in operating expenses. I just want to confirm that with you that that sort of $5.4 million of operating expenses that you reported in the quarter, do you expect much—should we expect that to sort of stay within that range over the second half of this year in where you just sort of optimize what you have in place right now?

Dave Croucher

Yeah. That's right. So 5.7, I think it was. But yeah. We're generally going to hold it steady. Hopefully, there's some increase with higher commissions than that as we deliver stronger results, but really, keeping that steady and letting the organization catch up.

We've gone through some really big changes and some maybe overly aggressive changes on the sales side. So those guys have to catch up. And as Alvaro mentioned, they've been ramping. And so we'll let the growth go to the bottom line, and then we can get back to a pace where we're matching the growth with the growth in the team.

Gabriel Leung

Would you say that there's maybe a change within the narrative internally within ProntoForms that there maybe is a greater urgency to get to break-even EBITDA?

Or are you still of the view that you're happy to burn a little bit of cash to try to accelerate your recurring revenue growth?

Dave Croucher

Yeah. Good question. So, we're holding it steady where it is and then that will start to decrease the losses as we grow. So, we're not going to—we've always had the levers where we can slow the spend down and let the—not necessarily cut but just slow it down and then let the revenue pass it.

We're in one of those stages where we just want to hold it for a little while and get on that track. I think if you roll it out, then we would get to breakeven end of 2023 roughly. So that is a different trajectory than what we were describing in the first half of the year and really just a reaction to the markets and just to the pace and let the pace of the business catch up.

Does that answer your question?

Gabriel Leung

Yeah. No. That's—

Alvaro Pombo

Yeah. Gabriel, I wanted to add something. I mean, you asked a question about sentiment or something like that; I mean, how are we feeling inside the organization?

So yes. We're controlling the cost side. But, look. Nobody is under-resourced whatsoever. I mean, we're tweaking and moving the resources where we're seeing that the majority of the impact is happening. And that's expansions of enterprise. I mean, no surprise there.

We're definitely—I mean, sense of urgency, I mean, it's an understatement. I mean, we're disappointed with Q1; felt a much better Q2. And we're at it like a lion's at it.

Gabriel Leung

That's really helpful.

Alvaro Pombo

And we're seeing it—

Gabriel Leung

Yeah. No. That's great feedback.

Just one last question for you, Dave. Can you just give us an update on where headcount currently stands? And just the number of quota-carrying reps as of the end of Q2?

Dave Croucher

As a company, we're just under 160 people. And then, on the quota-bearing, just under 20. We've been at around 20 for the year but really shifting the mix.

And the one thing that's happened behind the scenes is we've been shifting to the US more and to Europe more. And we've added some good managers—and maybe Alvaro can add to this—but some good managers in—or one in the US and one in Europe under Kramer. So the team has shifted probably a little more away from the inside sales team in Ottawa to some more field presence in the US and in Europe.

Alvaro Pombo

Gabriel—

Gabriel Leung

Yep?

Alvaro Pombo

Yeah. I'll add one piece to it. I mean in terms of, you know when you have those kinds of sales managers that nothing is impossible. And we have now that kind of mentality.

Gabriel Leung

I appreciate that feedback. And congrats on progress.

Alvaro Pombo

Thank you, Gabe.

Operator

Our next question comes from Chris Thompson from PI Financial. Please go ahead.

Dave Croucher

Hello?

Operator

Chris, please go ahead. Your line is open. Please unmute your line.

Chris Thompson, please go ahead. Your line is open.

Please check if you have mute function disabled.

Chris Thompson — PI Financial

Can you guys hear me?

Operator

Yes. We can hear you.

Dave Croucher

Yeah. We can hear you.

Chris Thompson

I don't know what happened. I'm not on mute. Anyway, sorry about that.

Just listening to the conversation here about dialling back on OpEx in the near term and trying to get to breakeven by the end of 2023. The revenue growth's been, I'll call it lackluster over the last four quarters, less than 10 percent.

Just help us understand, I mean how do you get back to that 20 percent year-over-year kind of revenue growth mode?

And is it something that requires more investment in yourselves? Or do you think you can get there the way you're kind of managing your OpEx in this environment?

Dave Croucher

So two parts to that, Chris.

In the short term, we have enough resources to add significantly more volume than what we've been doing. And as the reps have been ramping, the pipeline certainly supports that so, on pace, are able to achieve that easily.

So it's resourced certainly through the end of this year. And then to sustain that, we do have it in the plan to reallocate resources into that group, some of it coming from within sales, some of it coming from other areas of the Company. But shifting just some of the costs and more of the enterprise reps really focusing on enterprise expansion and enterprise expansion in the US office or US market and in Europe. And we definitely have the capacity to do that with the resources that we have.

Chris Thompson

Okay. I guess that's, Dave, what you meant by optimizing spend in H2? You're just kind of shifting it around?

Dave Croucher

Yeah.

Alvaro Pombo

Chris—

Dave Croucher

We've really built—if you look at it, we've really built a lot of infrastructure. We have five managers in place. We have a lot of sales engineering. We have BDRs in place. We have everything we need for demand gen and infrastructure. And really now it's adding those quota-bearing enterprise reps to get more leverage out of them, right? And they're more capable of closing bigger deals as well. And that's really what a successful quarter comes down to is closing more than one, which, we had one in Q2 that was a very good one. More of those in a quarter is really going to get you your growth rates.

Chris Thompson

Okay. Thanks.

Alvaro Pombo

Chris, if I may comment—if I may comment on Dave's statement.

The key word here—and it is horrible to hear it as investors, as people running this this thing (phon)—it's timing, okay? Time of the change we made. I mean, 2019, we've donned (phon) these numbers and this growth, particularly he's referring to before.

Now doing it at scale, when I say two-thirds of top 45s, that's at scale. And that's the piece where we've been investing in it. And that's the piece that we're seeing engagement now with the customers.

And we're confident that it's translating into—I mean, to buy (unintelligible) the first indication for sure—but into numbers, into real revenue.

And I think the size of—the amount of customers that we have, I think, as they start landing, it's going to be a very different story.

Chris Thompson

Okay. That's helpful, Alvaro.

And just maybe, I mean, what's Kramer done internally? I mean what kind of tools are you using to track your pipeline? And how confident are you that the close rates are going to accelerate in half two?

And is the pipeline mostly new business? Or is it mostly upselling to your existing enterprise base?

Alvaro Pombo

Chris, the key tool is called focus. It's all in Salesforce. Seriously, I mean it's all very well tracked. Great analytics. We have more numbers than what anybody needs.

And I mentioned this. I mean, you know what I'm talking about when I say sales guys that can—I don't know—they eat glass. They go through things that it's impossible. Oh, don't worry; I can metabolize that. Not from an overly optimistic piece, giving you the la-la-la, and, but just asking the customer at a time of renewal for, hey, what else can—why don't we do this? Didn't you know this? I mean, you know what I'm talking about. It is basically ultimately taking that relationship with the customer, which, again, we've done it before, but we need to do that at scale with multiple guys doing that at the same time. That is the key tool.

He's very focused. He's very methodical. He's not going to, I don't know, tell you every day that he's going to, I don't know, get it out of the park every conversation that you have with him. He's a very realistic guy, a guy with a lot of experience that has delivered before.

So I'm anxious, as all of everybody on the call is. I have the advantage of seeing it closer, and I think it's in a different place.

Chris Thompson

Okay. And just on the pipeline, the confidence that you have, Alvaro, is it direct sales? Or I mean, there's some—

Alvaro Pombo

Oh, sorry. Expansion. Yeah. Yeah. I mean, there is some deals through partners.

Chris Thompson

Okay.

Alvaro Pombo

Just to give you an idea, 23 percent of our base is partner-driven. Partners are very good for new because you get through very quickly. Then the customer is owned by—I mean, shared ownership—but it's owned by us. I mean, we're the guys who get those guys through a finish line and get them to adopt faster.

However, the majority of the numbers are coming through direct expansions. Some of them are with partners because the paperwork is with the partner. But it's direct. It's our squad team. Our customers assist (phon) people. Our reps are training people. Everybody together hugging and loving those customers and getting them to the next place.

Chris Thompson

Okay. That's helpful. And just last one for me—

Alvaro Pombo

At scale. Yeah.

Chris Thompson

Dave, just last one for me, Dave. Maybe on the OpEx in Q3, the Empower User Conference. Is that like something we should be thinking about in our model? Is that a significant cost?

Dave Croucher

No. I mean it's another event, right? So, Alvaro is at an event right now. So we have those things spread throughout the year.

Chris Thompson

Okay.

Dave Croucher

So that won't have a big impact on OpEx. It's already in there. But really, it's going to be in a fairly fair tight range. But if the volume of business picks up, the commissions will pick up for sure. And so that's kind of how that should work in the model.

Chris Thompson

All right. Well, that's positive, if we see OpEx grow from more commissions. Thanks, guys. Have a great day.

Alvaro Pombo

Thank you, Chris.

Operator

Thank you. And as a final reminder, to ask a question, please signal by pressing *, 1. I will pause for just a moment to allow you to signal.

As there no further questions in the queue, I'd like to hand the call back over to our speakers for any additional or closing remarks.

Alvaro Pombo

Yes. That's me. Look. We've invested to build our enterprise go-to-market team, and we feel confident that we have the right team, and we feel that this team can deliver the strong results in the second half.

We continue to be fine-tuned, but roughly, our current spend levels, okay, so you heard from Dave and from me where the focus is.

I remain very excited about the future. We clearly see growth opportunities for our customers, both geographically and with new use cases.

And I want to thank everybody for spending your time with us. And as always, I would like to thank you for your continued support. I understand the first half has been like, oh, my God. But seriously, I appreciate that support. And we're seeing a very different future.

Operator

Thank you. This concludes today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.