ProntoForms Corporation

Third Quarter 2022 Results Conference Call

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CONFERENCE CALL PARTICIPANTS

Gabriel Leung
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Chris Thompson
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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the ProntoForms Corporation Third Quarter 2022 Results Conference Call.

For your information, today's call is being recorded.

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

Babak Pedram — Investor Relations, Virtus Advisory Group Inc.

Thanks very much, Elaine. 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 meanings 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 reflects 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, 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.

Please go ahead, Alvaro.

Alvaro Pombo — Chief Executive Officer, ProntoForms Corporation

Hey. Thank you, Babak, and thank you, Elaine. Good morning, everybody, and welcome to the ProntoForm's third quarter earnings conference call.

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

Although we had a difficult start to 2022, I'm pleased to report that our focus and drive of our enterprise expansion strategy has started to realize ARR growth in both absolute and proportion of total ARR as the enterprise account managers hired last year are becoming increasingly productive. We continue to allocate our resources to expanding the number of large enterprise customers as well as expanding their use of our products as they show increasing acceptance of the high ROI that we can drive in their field service activities.

We also achieved declining overall churn, led by the Enterprise segment, where we typically enter long-term contracts and enjoy superior renewal performance. We continue to execute our plan, holding overall costs steady while shifting investments towards the Enterprise sales.

Gross margin remains high, and, when combined with the ARR growth, it's a great sign that we're reducing losses and maintaining a good cash position.

As the world finally started opening its economy this year, we've been very active in meeting face-to-face with our existing and prospect customers. We hosted our EMPOWER 2022 customer conference in Austin, Texas and brought together field service leaders to discuss the impact of rapid automation and the future of the ProntoForms platform.

It was remarkable to see how our customer champions, which belong to very large enterprises, sharing diverse use cases and positive business impacts. It was inspiring the audience to do more with our products.

We provided our customers an early view of the product roadmap, which was very well received with great excitement and anticipation around all the features we revealed. Our product constantly evolves, influenced by our customer needs. Expect to see in the coming weeks a press release outlining these very powerful enterprise capabilities being released.

We were also present at the Service Council Symposium in Chicago this fall, a very important event for service leaders. We were the proud recipients of the Best Overall Solution Award.

I'm currently in Europe visiting customers. Yesterday, I saw how a world-renowned logistics company uses our product in both warehouse and field environments. I was very proud to see that every box that is shipped out of a warehouse is assisted by robots, plus inspected by humans using ProntoForms.

This quality control step has reduced quality complaints by 94 percent, and this is just one of the many processes where ProntoForms is deployed. There are a few hundred more warehouses left to adopt these processes. This is a significant expansion potential for this account that we are actively pursuing.

Also, as you all know, the energy sector is in an upswing. A top-five global oil and gas enterprise expanded its deployment from $100K ARR to over $300K to ensure optimal production on worksites and safety and environmental compliance. Two other multibillion-dollar oil and gas enterprises expanded their ProntoForms deployments to improve drill operations and compliance reporting.

In our operational highlights, there are some other sizable examples of manufacturing, construction and facility management, and other industries all with the same challenges.

Mobility has been proven. Now it’s time to scale its use throughout organizations rapidly and efficiently. That can only be achieved with an agile enterprise solution with capabilities like ProntoForms.

The speed of our product innovation is increasing, and business owners, citizen developers, and field technicians are constantly providing us with great feedback that we incorporate into our product. It is a powerful enterprise product, rich in features and capabilities but, above all, with a consistent level of simplicity that accelerates adoption and demonstrates clear ROI, earning us a passionate response from customers and lots of expansion potential within our base.

We recognize that we will see challenging markets ahead, and we’re making sure that we are maximizing productivity in all parts of our organization, especially in our go to market. The uncertain labour and economic conditions provide us with a unique opportunity, as field leaders need to automate faster than ever before. Eighty percent of our customer deployments are achieved in less than eight weeks, delivering reliable workflows, measurable ROI, and, most importantly, a great technician experience.

We are not seeing a slowdown in the opportunities, and we have ensured that we have the financial capability and capacity to deliver results. As CEO, it’s an exciting time to be in this industry leading a team of talented professionals and, most importantly, providing a solution that improves the lives of those field technicians that keep our world running.

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

Dave Croucher — Chief Financial Officer, ProntoForms Corporation

Thank you, Alvaro, and good morning and nice to have everyone on the call. I'll go through the financial highlights for the quarter now.

Total revenue in Q3 2022 was $5.5 million, a 5 percent sequential increase from Q2 2022 and an increase of 12 percent compared to Q3 2021.

Total revenue for the nine months ended September 30, 2022, was $15.7 million compared to $14.4 million for the same period in 2021, representing an increase of 10 percent.

Recurring revenue in Q3 2022 was $5.2 million, a 5 percent increase from Q2 2022 and a 12 percent increase from Q3 2021.

Recurring revenue for the nine months ended September 30, 2022, was $15.1 million compared to $13.5 million in 2021, representing an increase of 10 percent.

Note that in the Q3 recurring revenue, we had approximately $100,000 of revenue for over usage in prior quarters that was agreed to and recorded in the third quarter. This is the same customer that increased its ARR from approximately $100K to over $300K in the quarter.

Our annualized recurring revenue base, or ARR, as of September 30, 2022, was $20.9 million, representing an increase of 4.5 sequentially and an increase of 8.4 percent from September 30, 2021.

Customers with greater than $100K of ARR represented 41 percent of the base, unchanged from Q2 2022 or from Q3 2021.

Recall that we began restructuring our sales force under new leadership in 2021 to focus on sales to major enterprises. While those initiatives have caused volatility in our bookings through the first half of 2022, we achieved stronger growth in our third quarter, and we are confident that we have a field organization that can deliver sustainable enterprise revenue growth.

Revenue from professional services was $238,000 in Q3 2022, a decrease of 2 percent compared to Q2 2022 and an increase of 4 percent from Q3 2021.

Revenue from professional services for the nine months ended September 30, 2022, was $631,000, down 24 percent compared to the same period in 2021.

Revenue from professional services generally trends with ARR gross bookings but can also vary with new versus expansion sales, and the low-code nature allows do-it-yourself deployments with non-technical form builders.

Gross margins on total revenue for the third quarter of 2022 was 85 percent, which is up 1 percent sequentially and up 1 percent compared to Q3 2021.

Gross margin on total revenue for the first nine months in 2022 was 85 percent, unchanged from the same period in 2021.

Gross margin on recurring revenue in Q3 2022 was 90 percent, up 1 percent from Q2 2022 and Q3 2021.

Gross margin on recurring revenue for the first nine months was 89 percent compared to 90 percent for the same period in 2021.

Operating expenses in Q3 2022 were $5.7 million, in line with Q2 2022 and up 12 percent from Q3 2021.

Operating expenses for the first nine months of 2022 were $17.2 million compared to $15.3 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 aren't adding significant costs in the second half, but rather optimizing the go-to-market spend and allowing the team in place to deliver.

Loss from operations in Q3 2022 was $1.1 million, versus a loss from operations of $1.3 million in Q2 2022 and a loss of $1 million in Q3 2021.

Loss from operations for the first nine months of 2022 was $3.9 million compared to a loss of $3.1 million for the same period in 2021.

The decrease in net loss from Q2 was due to operating expenses remaining flat while the increase in revenue had the effect of reducing the losses.

Non-GAAP loss from operations for Q3 2022 was $850,000, down from a loss of $1 million in Q2 2022 and up slightly from a loss of $820,000 in Q3 2021.

Non-GAAP loss from operations for the first nine months of 2022 was $2.9 million compared to a loss of $2.7 million in the same period for 2021.

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

We also have approximately C$1.8 million still available on our C$10 million committed bank line, and we also recently extended the commitment on the bank line through October 2024.

In closing, we are pleased with the trend that we are seeing both operationally and financially within our business. We have made the investment in the enterprise team, and we will continue to optimize sales and allow our reps to continue to ramp and deliver results.

At the same time, we are holding costs steady and allowing revenue growth to go to the bottom line. This is reducing our EBITDA or non-GAAP op losses and cash flows from operations quickly.

With the $6 million in cash plus available line, we have more than sufficient cash and liquidity for the foreseeable future and the capacity to deliver enterprise growth.

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

Q&A

Operator

Thank you.

Ladies and gentlemen, if you'd 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. Once again, please press *, 1 to ask a question. We will pause for just a moment to allow everyone the opportunity to signal.

Thank you. We take our first question today from Gabriel Leung of Beacon Securities. Please go ahead.

Gabriel Leung — Beacon Securities

Hi. Good morning and thanks for taking my questions. I guess, Alvaro or Dave, you guys noted during the call that the plan is to sort of maintain this current operating expense base and to optimize what you have to drive higher levels of growth.

Do you think you have the pipeline in place right now and the personnel and even the demand environment to see that recurring revenue line sort of return back to the mid-to-high 20 percent year-over-year growth range? Do you think that's possible right now?

Alvaro Pombo

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

Exactly in the sequence you asked it. Okay? Yes. We have the pipeline. We see the activity We have the resources to execute on it. And the last piece, we have not seen any indication yet of a slowdown in the customers' activity, in the commitment to their projects. So, yes to all of the above.

Gabriel Leung

And just on your sales rep base right now, are you pretty content with the team you have in place? Or do you foresee sort of adding or replacing or high-grading? Or what's the plan there in terms of the quota-carrying sales reps?

Alvaro Pombo

Yeah. Quite happy with what we have. We added a couple of managers, that I mentioned one last time. We're talking about a very different level of people that have ever been part of our sales leadership, and they're making a mark. They're making a change.

We are going to continue to add, not radically. But as I mentioned in my part, we are reallocating, looking for other places where we can feed the sales organization with more resources because we have some wonderful opportunities in front of us, and we're seeing some good traction. So it's the time to go at it. And yeah. The objective continues to be the 20s. And, again, it was five this quarter. We're happy with it, but I think there is a good outlook and good things in front of us.

Dave Croucher

Actually, I just want to add to that, Gabriel—

Gabriel Leung

Oh, sorry. Go ahead.

Dave Croucher

—no, just to add to that. We went through the process, as we talked before, of adding a fair number of new people, and we're getting to ramp going into Q3. So that was really good. We had a good ratio there, and that's continued to improve. So we've got an even better number of ramped reps going into Q4. So that's continuing.

And then we had in our plan enough room to move costs around to be able to continue to add in that group, in a fashion that will give us pretty good capacity to grow faster and just moving costs around into more of those direct enterprise reps.

Gabriel Leung

Sorry. I might have missed it. But did the sales rep count change materially from the 20 I think that you were last quarter?

Dave Croucher

No. The overall number is the same, but we've changed out some of the more commercial small business into more enterprise. So, the mix now is roughly 12 enterprise, between people we have and one or two open headcount. But around nine or so that are ramped, which is more important, right? So.

And we were going from very low numbers earlier this year to decent numbers going into Q3, so around six or seven, seven that were ramped I think, and now we're up to nine. So that's the piece that's more important is having the ramped reps being able to have the tenure and the time to work through those enterprise accounts and then knock down the deals.

Gabriel Leung

Gotcha. Just one last thing for you, Dave. I saw the receivables were up a couple of million bucks, or I guess more than half quarter over quarter. That sort of hurt the operating cash flow in the quarter. What was behind that?

Dave Croucher

That was Q2, AR was lower. It's usually our best quarter because our billings are more seasonal. So, Q2 we bill the least. So the amount that's outstanding at the end of that quarter is always the lowest in the year.

There's nothing unusual in AR. It's just the good news is we picked up on the bookings and had more billings in Q3 than we did in Q2.

Gabriel Leung

Gotcha. Okay. No. I saw that. Okay. Appreciate it, guys. Thank you very much.

Alvaro Pombo

Thanks, Gabriel.

Operator

Thank you. We next move to Chris Thompson of PI Financial. Please go ahead. Your line is open.

Chris Thompson — PI Financial

Morning. Thanks. Dave, just a housekeeping question. I missed what you said about the incremental billing for the period. How much is that?

Dave Croucher

The incremental billing for Q3?

Chris Thompson

Yeah. Your recurring revenue.

Dave Croucher

I think it was around $1 million more than Q2.

Chris Thompson

The prior-period excess usage amount is what I'm referring to.

Dave Croucher

Oh, sorry. That piece. Yeah. That was about $100K.

Chris Thompson

$100K. Got it. Thank you.

Dave Croucher

That was a usage contract, and they pay penalties if they go beyond the number of transactions that they're allowed under the contract. And that accumulated for a couple quarters, and we agreed on an amount per transaction and billed that in Q3.

So it's odd that it's in recurring revenue, but that is the correct treatment. We've reviewed that or discussed that with our auditors. And because it's part of that subscription contract—

Chris Thompson

Got it.

Dave Croucher

—so it's included in the recurring revenue. But it is a bit unusual. It does have an unusual effect on the growth rate, but it's the correct approach.

Chris Thompson

Okay. Understood.

Now, just going back into the quota-carrying sales team. I mean, do you have an idea of what percentage of their full target the team is operating at, like on the blended basis? Like are they 50 percent, 100 percent ramped?

Dave Croucher

Less than 50 percent.

Chris Thompson

Less than 50 percent. Okay, so—

Dave Croucher

In Q3. In Q3. Yeah.

Chris Thompson

Got it. So when they hit 100 percent of the target, do you think that will get you to the 20 percent year-over-year revenue growth? Or are you still going to have to add, you know, you said one or two more positions are open?

Dave Croucher

100 percent of the target will get you to very high growth, right? So I mean, I don't think you're ever going to get all of them at 100 percent. I think the idea is that because you have a decent number in there, you're going to have some people who, you know, these deals are lumpy, so the idea is that you get some of them hitting home runs and others picking up the slack. But in any particular quarter, not all of them are going to hit home runs, right? So, but—

Chris Thompson

Yeah. I understand.

Dave Croucher

Yeah. With the capacity that we have, though, no. We have potential for much, much higher growth. So the capacity is there, certainly for many, many, many, many—I don't want to say an exact number of growth, a percentage of growth, but it's double what we're doing now, right? Because we were at 50 percent.

Chris Thompson

Okay. Fair enough. Maybe just on the pipeline. Alvaro, you mentioned it was looking pretty strong. What sectors are you seeing the largest tailwinds? And maybe the sectors that you're seeing headwinds out of your four kind of focus areas?

Alvaro Pombo

Yeah. It's a great question. Definitely energy. And I'm not going to call it oil and gas. It's the renewable guys, the entire sector is definitely going through an incredible, incredible search in interest and meetings and adding and all sorts of things. So that's definitely way up there.

The next one that is quite interesting is around facility management and construction. These are people that have, I'm talking big construction companies. And we have some very good, I mean, contracts in place and some good prospects as well. They're going through a big automation push. And so those two will be, I mean, I would say are the biggest one from last quarter.

And we continue to get other people. I mean as the airline industry got back, we used to have some airline guys; they're back. There are different other areas. I mean, it's surprising how many other people are continuing with their automation things.

But those two that I mentioned, there is enough in there to achieve the growth objectives.

Chris Thompson

Okay. Great. Good to hear.

And also, you mentioned lower churn. Maybe can you give us an update of your total customer count? And how many of those customers have over 100,000 employees? I think that's data you sometimes provide in your slide deck.

Alvaro Pombo

Dave?

Dave Croucher

So overall customers is quite a lot, right? So around 1,400. But the small business numbers, number of customers has been coming down, which is expected, and it just kind of cleans up some of those old accounts and products.

The greater than 100 went up a little bit. There was some expansion, about the same size as the overall base on a revenue basis, and I think we increased by one in that group. And just general expansion and the rest of them that are already there.

And then, commercial, the ones in between, I think it was pretty steady. I think we added about the same number as what came out. That's around 500.

Alvaro Pombo

Yeah. And the churn profile, Dave, on the enterprise, I mean it's very strong. It's very good.

Dave Croucher

Yeah. When we talk about churn, we're really more focused on the revenue. And yeah. Out of our churn, the enterprise piece was the smallest, which is very good when you consider that enterprise customers make up more than 50 or—so I think it's around 52 percent of our base right now. So in absolute dollars, it was still the lowest segment for churn. So that was very strong.

Chris Thompson

Okay. And just to make sure I'm looking at the right numbers, last quarter you had 1,762 customers. And you're saying that's dropped to the 1,400 range?

Dave Croucher

No. It’s going to be pretty similar to that. I think 14 was off the top of my head. But we have so many of those. Yeah. So I think you’re right. So it’s 1,200 small business, about 500 enterprise, and then about another 175 enterprise.

Alvaro Pombo

So the second one that you gave is commercial. The third one is enterprise.

Dave Croucher

Oh, sorry—

Alvaro Pombo

One seventy-five, Chris. Yeah. Yeah.

Chris Thompson

Okay. I’ll—

Alvaro Pombo

So similar—

Dave Croucher

The one that’s dropping is small business, but you’re right. Sorry. It didn’t drop by that much. Dropped by about 70 customers, I think.

Chris Thompson

Okay. That’s helpful. And then, just the proportion of your customer base with over 100,000 ARR, that 41 percent. I mean what—do you have an internal target? Where do you think you can take that?

Alvaro Pombo

Chris, we have—

Dave Croucher

As a proportion of the base? As a proportion of the base, Chris?

Chris Thompson

Yeah.

Dave Croucher

Yeah. No. It definitely can increase it. When you increase that, you increase the total base as well. So it's not as dramatic. And then you have growth in other areas as well.

So if you can get, let's just pick a range, like 60 percent to 80 percent growth in that, it's going to take a little time for that to grow from 41 percent to, say, 50 percent. But that's definitely the area of focus. And that should be our strongest area of growth.

But it's a little tricky when you're measuring that as a percent of the total base because both are growing at the same time, right, if you're doing well in that area.

Chris Thompson

Okay.

Alvaro Pombo

Yeah. Chris, the good news is we had, call it, one, two that moved to a second tier of 100K within a quarter. But what's important is the other ones. I mean, we still have a lot of headroom on the ones that are already over 100K. So that's why that's very important.

Chris Thompson

Okay.

Alvaro Pombo

Got it?

Chris Thompson

Yeah. Thank you very much. That's great for me. I'll leave it there. Thanks.

Alvaro Pombo

Well, thank you, Chris.

Operator

Thank you. As we have no further questions, I would now like to turn the call back over to Mr. Alvaro Pombo for any additional or closing remarks.

Alvaro Pombo

Thank you, Elaine, and thank you, everybody.

Hey, look. We have invested to build our enterprise go-to-market team, and we feel confident that we have the right team in place.

We also feel that we'll be able to continue to deliver strong results over the next quarters, backed by the balanced approach that we've been taking to expenses, which position us in a strong way for 2023.

Myself and the team, we're very excited about the future. We clearly see the growth opportunities from our customers, both geographically and with new-use cases.

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

Thanks, everybody. Have a great day.

Operator

Thank you. Ladies and gentlemen, that will conclude today's conference call. Thank you for your participation. You may now disconnect.