ProntoForms Corporation

Fourth Quarter 2022 Earnings Conference Call

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CORPORATE PARTICIPANTS

Alvaro Pombo
ProntoForms Corporation — Founder and CEO

Dave Croucher
ProntoForms Corporation — Chief Financial Officer

Philip Deck
ProntoForms Corporation — Co-CEO

CONFERENCE CALL PARTICIPANTS

Gabriel Leung
Beacon Securities — Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to this ProntoForms Corporation Fourth Quarter 2022 Earnings Conference Call.

Today's conference is being recorded, and all participants are in a listen-only mode, but later, you will have the opportunity to ask questions.

To get us started with opening remarks and introductions, I am pleased to turn the floor over to our host, Mr. Alvaro Pombo. Please go ahead, sir.

Alvaro Pombo — Founder and CEO, ProntoForms Corporation

Thank you, Jim. Thanks, everybody. Good morning, and welcome to our company's Conference Call. First, David Croucher will summarize our financial results. Dave?

Dave Croucher — Chief Financial Officer, ProntoForms Corporation

Thank you, Alvaro. 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 securities laws, including, among others, statements concerning the Company's 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 are subject to a number of significant risks and uncertainties that could cause actual results to differ materially from those anticipated. Also, our commentary today will include adjusted financial measures, which are non-GAAP measures. These should be considered as a supplement to, and not as a substitute for, GAAP financial measures. Reconciliations between the two can be found in our MD&A, 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.

We will now go through the financial highlights for the fourth quarter and fiscal 2022.

Total revenue in Q4 2022 was $5.6 million, a 3 percent sequential increase from Q3 2022 and an increase of 12 percent compared to Q4 2021. Total revenue for the full 2022 year was $21.3 million compared to $19.4 million in 2021, an increase of 10 percent.

Recurring revenue in Q4 2022 was $5.3 million, a 1 percent increase from Q3 2022, and a 10 percent increase from Q4 2021. Recurring revenue for the full 2022 year was $20.4 million compared to $18.3 million in 2021, representing an increase of 11 percent.

Our annualized recurring revenue base, or ARR, as at December 31, 2022, is $21.6 million, representing an increase of 3.3 percent sequentially and an increase of 9.1 percent from December 31, 2021.

Customers with greater than $100,000 of ARR represented 43 percent of our Q4-ending ARR base, up from 41 percent at the end of Q3 2022.

Revenue from professional services was $321,000 in Q4, an increase of 35 percent compared to Q3 2022 and an increase of 52 percent from Q4 2021. The Q4 increase in professional services revenue related to an increase in sales and delivery of larger engagements with enterprise customers.

Revenue from professional services for the 12 months ended December 31, 2022, was $952,000, down 8 percent compared to the same period in 2021. Professional services revenue has been affected by our transition to enterprise sales, and we expect this to generally trend with ARR growth going forward.

Gross margin on total revenue for the fourth quarter 2022 was 87 percent, which is up 2 percent sequentially and up 3 percent compared to Q4 2021. Gross margin on total revenue for the 12 months in 2022 was 85 percent, unchanged from the same period in 2021. Gross margin on recurring revenue in Q4 2022 was 91 percent, up from 90 percent in both Q3 2022 and Q4 2021.

Operating expenses in Q4 2022 were $5.3 million, a 7 percent decrease from Q3 2022 and up 1 percent from Q4 2021. Operating expenses for the 2022 year were $22.5 million compared to $20.6 million in the same period for 2021, representing an increase of 10 percent.

Non-GAAP loss from operations for Q4 2022 was $180,000, down from a loss of $850,000 in Q3 2022 and down from a loss of $620,000 in Q4 of 2021. Non-GAAP loss from operations for the 2022 year was $3.1 million, down from $3.3 million for 2021.

The decrease in Q4 loss was due to higher revenue and lower operating expenses caused by lower variable compensation and commissions, and the foreign exchange effect on our Canadian-denominated expenses.

As we mentioned in the MD&A, we expect an increase in our 2023 first quarter losses with additional costs related to organizational changes. But we expect this will be followed by decreased losses for the remainder of 2023 as we continue to invest in product and sales in a controlled manner relative to our revenue growth.

Our cash balance at the end of December 31, 2022, was $6.1 million, which was flat from a year ago and up slightly from $6 million even at the end of Q3. We also have $1.4 million still available on our bank line, and we recently extended the commitment on the bank line through October 2024.

In summary, our Q4 showed strong progress for loss reduction and produced a small increase in cash for the quarter. We are pleased with the trend that we're seeing both operationally and financially within our business, and we have sufficient cash and liquidity for the foreseeable future and the capacity to deliver enterprise growth.

With that said, I'll pass it back to Alvaro.

Alvaro Pombo

Thank you, Dave.

Last month, we announced that Philip Deck, a long-time shareholder, board member, and advisor, will work together as co-CEOs to accelerate our growth. We have very complementary skills, and our partnership would allow me to focus more heavily on our product vision for industry leadership, while Phil works to building up our organization capabilities to drive our enterprise go-to-market capability more quickly.

Things are progressing well, and we have made good progress in a short period of time. It is an exciting time to be accelerating our vision for managing the workflow and data collection needs of the world's field service technicians. And with the growing need to drive efficiency and compliance in their field organizations, the owners of major equipment are paying attention to the value that we can bring.

Customers have a set of technologies in place that are contributing to better performance in the field. They include digital twinning, AI, AR, and a collection of very sophisticated back offices like CRMs, FSMs, ERPs, and EAMs. Out of all these systems, the one that can affect technician productivity the most is intelligence apps, which is what we are. These intelligent apps manage and instantiate the workflows for the field technicians. And by providing more context to their execution, they increase productivity, safety, and customer satisfaction.

Great workflows require a high degree of connectivity to other systems, context, and ability to iterate them based on desired outcomes. Finally, when complex assets are involved and high degree of compliance are required, their sophistication increases exponentially, and that is where we shine.

More focus on customers, industry, and products are key contributors to the value that we can bring to our customers over the long term. Global organizations in the energy and oil and gas operations, heavy equipment manufacturers, medical equipment OEMs, and service providers as well as utilities have been our main targets and focus.

And in Q4, we saw more examples of them, like three very relevant deals in the energy sector. A global Top 20 oil and gas enterprise expanded their deployment of ProntoForms with a five-year, $2.5 million agreement to support their asset compliance, EHS, work standardization, and leak inspection workflows.

A Global 500 oil and gas company expanded their deployment of ProntoForms to support inspections. And in addition, an energy company expanded their deployment of ProntoForms for existing solutions in both sales and service business groups.

Another vertical, one very relevant to enterprise utilities, expanded their deployment for digital pre-work briefings for risk identification, safety audits, incident reporting, and equipment tracking.

Last but not least, a Fortune 500 medical device manufacturer deployed us to support their end customer workflows.

We have delighted customers and an enterprise-class product that enables fast and powerful automation. But there is much more we can do. Our existing platform has enabled us to drive very high customer value, but more capabilities can be added to bring a new perspective on how workflows in the field organization of the future will be managed.

I will ask Phil to comment on the change that he's driving to make our organization more effective and efficient. Phil.

Philip Deck — Co-CEO, ProntoForms Corporation

Thanks, Alvaro. Let me first say how pleased I am to be part of the ProntoForms team, and I'm delighted to be working with Alvaro to drive the Company forward.

As he mentioned, I've known ProntoForms for a long time. He said I was a shareholder. He forgot that I was a shareholder.

Alvaro Pombo

Minor points, huh?

Philip Deck

Over time, I've bought 7 million shares, and I'm very committed to building long-term sustainable value here.

There are two massively exciting things about ProntoForms to me: The product and the market. Our product is just amazing. We have very happy customers, and they want more software. The market is huge, $3 billion now, growing to $5 billion. Half of the large companies in the world need to manage their approximately 20 million technicians worldwide. And we have, already, 40 major enterprise customers with very high, very tangible ROI, proving our ability to compete in the most demanding organizations.

And as Alvaro mentioned, who do we serve best? Organizations that are large, they're managing expensive field assets, they have complex service requirements, they employ expensive technicians, they're in high-risk environments, and they have complex compliance needs. They're managing assets like elevators, MRI machines, oil rigs, windmills, utility substations. We have an advanced platform. We can compete, and so we can compete best in the most demanding environments.

But while the product has made an incredible transition to enterprise class, our go-to-market capability has lagged behind. And this will be the focus for major growth and transformation.

We can do a lot more with our platform to make it greater, but the more urgent task ahead is to build a go-to-market organization that can match our product capabilities. We have strong leadership, but the process and maturity are not complete.

Let me talk a little bit about the marketing transition that ProntoForms has been making over the past couple of years. And it's similar to many companies that start as a SMB or small organization business. They're following leads, they're chasing customers in whatever industry they find. And that process has to transition to a much more focused, value-driven marketing approach.

We started doing this a few years ago, but the transition is not complete. And we have to finish that pivot to focus on value selling, vertical market focus, and account targeting. This is a difficult transition. It's a difficult transition for any company. We're at about the size where that difficulty happens, and we need to finish the job.

We've appointed a very capable executive to lead our marketing efforts. Last month we named Lise Snelgrove. She's already transformed our marketing approach with new content and account targeting deployed to frontline reps.

We're making many changes to our sales organization to make sure our salespeople are selling to the right customers in the right way with the right tools. When we sell to the wrong customers, it takes us longer, it costs us more, and we set up future churn. We're making a large investment in sales right now and believe we can drive much higher productivity over the medium term as the organization matures.

The employees at ProntoForms have responded enthusiastically to the higher pace of change that we're driving right now. I'm delighted with the way the team is responding to the challenges of growth and renewal. And I'm having lots of fun learning this incredible space and the opportunities that abound in it.

On the financial side, we have adequate resources to fund our growth agenda. We have $6 million in cash, as Dave mentioned, and additional bank line is available. Whatever negative EBITDA we generate this year will be covered by cash from deferred revenue. We don't expect to continue EBITDA losses for too many quarters. We're already funding our go-to-market strategy well enough, and we can work within that envelope to accelerate sales productivity.

While we may have slightly higher costs in Q1 for various one-time expenses, we don't expect to increase the overall level of expenses relative to revenue. At the same time, we'll prioritize growth investments for all others as our growing revenue creates space in the quarters and years ahead.

It's been 12 years since the sale of MKS, my last public project, and I look forward to reconnecting with the investment community, with whom I enjoyed working with so much in the past. I look forward to meeting with investors to share the vision that Alvaro and I share for the business and my enthusiasm for the road ahead at ProntoForms. I believe we have a rare opportunity at ProntoForms to build a major global SaaS company with high levels of sustainable growth and increasing levels of profitability.

And Alvaro, Dave, and I would now be happy to take questions.

Q&A

Operator

And to our audience joining today, if you would like to ask a question or need clarification on anything covered in today's update, please press * and 1 on your telephone keypad. Pressing * and 1 will place your line into a queue. And if you're joining us today on a speakerphone, please return to your handset prior to pressing * and 1 to be certain that your signal does reach our equipment. Again, ladies and gentlemen, that is * and 1.

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

Gabriel Leung — Beacon Securities

Good morning, and thanks for taking my questions. First one, actually, for Dave. Are you able to disclose what sort of one-off restructuring or transition charges we might expect to see in Q1? And whether or not some of these changes have already been implemented in the quarter?

Dave Croucher

Yeah. I can. First of all, I'll put the progression in perspective, Gabe. If you look at early 2022, we had quarterly non-GAAP op losses just north of $1 million. And then in Q3, that came down to $850,000. And then in Q4, it was sub-$200,000, which that was more than expected. We had a nice trend going. And then Q4, it looked like it was really strong that way. But there were some things in there that were not unusual, but just seasonal-type. And we had some adjustments to variable pop because we didn't hit (phon) targets in that.

But Q1 is going to be not on that same trajectory. It's going to be a little higher loss compared to Q4. We had a marketing exec that we had to pay exit costs to, and we did have some more legal costs in Q1. But really no significant changes to the overall cost structure. And so that pattern should continue. And the underlying costs should show that trend, but we just have those extra costs in Q1.

Philip Deck

We'll have a little bit of a tailwind with currency as well.

Gabriel Leung

Gotcha. No, that's helpful. And I guess, Phil, and you talked briefly about it, but maybe you can expand a little bit more on what sort of tweaks do you think you have to do to the operations, whether it's personnel or sort of marketing message, to really help to accelerate revenue growth with the Company here?

Philip Deck

Well, right now, as you can tell from the financials, we do spend lots on sales marketing. So it's not lack of investment we're making. But it's the transition in how we sell our product, how we target, how we provide collateral, how we make sure that salespeople are not wasting their time. If they are, it's our fault.

But the most expensive and important asset we have in the field is those account reps. And if they're chasing deals that are going to take longer to close because the product market fit is not right, if they don't have the materials, if they're not pitching it the right way, then it just lengthens the sales cycle, makes it unlikely that we're going to close, or less likely that we're going to close, and then sets up future churn.

So we’ve already done a lot of work to make sure that all of our salespeople are spending their valuable time in accounts where they can be successful. That’s probably the number one kind of productivity enhancer that we can make. A lot of our salespeople are relatively new, and so we’re training and retraining them to make sure they’re pitching the business in the right way.

And it’s a very normal transition that companies go through. When you have kind of an exciting, innovative technology like ProntoForms, you at first push it out to the world and say, look what we have. And you ask, who wants to buy it? And you may be selling it in all kinds of industries. Over time, you develop really important verticals. You see where that product has very high ROI, you see where your customer satisfaction really makes sense, and that allows you to target better. And that’s what we’re doing a lot more of now. We’ve really analyzed the entire customer base for where the high ROI, high customer satisfaction is.

And when we have extremely happy, satisfied customers as we do, we always find that the pattern is that they have complex workflows in the field, they have expensive field assets, they have expensive technicians, they’re in often high-liability environments, they have big compliance concerns. And when all those factors come to play, we do extremely well.

And so we just want to make sure that our salespeople are spending time in accounts where those factors are in place. And that hasn’t been the case. In the past, we’ve generally generated a lot of leads and chased them. But just because someone shows up on your website, it doesn’t mean that’s a customer you should really be spending a lot of time on. So that’s the immediate productivity gain that I think we can get.

And then it’s just general maturity. There’s a lot of sensitive and delicate parts of a sales organization where from group to group the handoffs have to be right, the workflows have to be right, people have to get to know each other. And that's what we're really working hard on in the quarters and years ahead. Because it is a long-term campaign to create a go-to-market organization that can consistently deliver growth.

Right now, when we look at our pipeline, we have a lot of business, but it's lumpy. We're not chasing it the way we should be. We probably don't have as much control over the timing of deals as we should. And what we want to have is pipelines where we have lots of opportunities to make our quarters in different ways and lots of ability to plan out our kind of quarterly account progression the way we'd like.

And so we do have lots of business ahead of us. We have a lot of customers that are only partially deployed and we have a big opportunity to deploy them worldwide. But that's a lot of work. It's the labour of sales. It's moving up higher in customer organizations. It's getting to know them better. It's doing the things that we need for global deployment. And that's a time-consuming, laborious thing. We have to make sure we're directing those efforts in the right way.

Does that answer your question, Gabe?

Gabriel Leung

Yeah. No. That's super helpful. So aside from optimizing the sales team you have in place right now, are there plans to sort of expand the number of reps you have? I think the last count you were about 20 or so direct quota. Is there any plans to expand that, number one? And number two is, are there any plans to sort of expand the channel relationships? I know historically in the past, you've had some partnerships there. I think now it's the more direct-sales driven. Just wondering how you think indirect channels play a part of the growth going forward.

Philip Deck

On indirect channels, I don't believe that other people are really going to sell their software for us. And while we have some great relationships and we'll continue to work with partners in the field, if you expect other people to do your selling for you, you'll largely be disappointed.

And we don't immediately need a ton more reps. We need the reps that we have to be more productive. And that's mainly through making sure they're selling to the right kind of prospects.

So no. I don't think—I love to hire reps. If we ever have some extra money, I always know where I want to put it, which is hiring more salespeople. But right now, we have a good cohort of reps. It's big enough for now. We need to make them productive. And so I don't really expect the overall level of spending in sales and marketing to go up. I think we can just make it more effective.

Gabriel Leung

Gotcha. Maybe one last question for me, for either Phil or Alvaro. The growth trajectory you see going forward, do you think this is an organic initiative? Or do you think there's an opportunity to expand the current platform with M&A? How do you guys think about that?

Philip Deck

We want to first expand the platform through time-honoured R&D. We have a great product. There's lots of scope for expansion of the vision that Alvaro's talked about, but bolting on someone else's software is not the easiest way to get there. We have an awesome R&D team and great product vision. So organic growth creates the most value, for sure. And that's the biggest opportunity ahead of us.

Alvaro Pombo

Yeah. We have enough of a roadmap on the product to do it here. And that's the best solution for everything. So yeah. We're going to continue accelerating our development path through internal buildup.

Gabriel Leung

Gotcha. Thanks for your time. And good luck, Phil, going forward.

Alvaro Pombo

Thanks, Gabe.

Philip Deck

Thank you. Thank you.

Operator

And we presently have no signals from our audience. But I would like to invite everyone another opportunity to press * and 1 if you would like to ask a question today. We'll give just another moment.

And, Mr. Pombo, we have no signals from our audience, sir. I'll turn it back to you for any additional or closing remarks that you have.

Alvaro Pombo

Yeah. Jim, thank you very much, and thanks, everybody. We're excited about the future. We clearly see growth opportunities for our customers, both geographically and within the different use cases that our product serves. Thank you once again for spending the time with us this morning. And as always, we would like to thank you for your continued support. Have a great day.

Philip Deck

Thanks, everyone.

Operator

Ladies and gentlemen, this does conclude today's teleconference, and we thank you all for your participation. You may now disconnect your lines.