ProntoForms Corporation

First Quarter 2023 Results Conference Call

Event Date/Time: May 10, 2023 — 9:00 a.m. E.T.

Length: 30 minutes

CORPORATE PARTICIPANTS

Dave Croucher
ProntoForms Corporation — Chief Financial Officer

Phil Deck
ProntoForms Corporation — Co-CEO

Alvaro Pombo
ProntoForms Corporation — Founder and CEO

CONFERENCE CALL PARTICIPANTS

Gabriel Leung
Beacon Securities — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to ProntoForms Corporation First Quarter 2023 Results Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session.

If at any time during this call you need assistance, please press *, 0 for the Operator.

This call is being recorded on Wednesday, May 10, 2023.

I would now like to turn the conference over to Dave Croucher. Please go ahead.

Dave Croucher — Chief Financial Officer, ProntoForms Corporation

Thank you, Joanna. 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 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 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.

I'll now go through the financial highlights for the first quarter of 2023.

Total revenue in Q1 2023 was $5.8 million, a 3 percent sequential increase from Q4 and an increase of 14 percent compared to Q1 2022.

Recurring revenue in Q1 2023 was $5.4 million, a 3 percent increase from Q4 and an 11 percent increase from Q1 2022. Our annualized recurring revenue base, or ARR, as at March 31, 2023, was $22.1 million, representing an increase of 2.4 percent sequentially and an increase of 12.6 percent from March 31, 2022. Customers with greater than $100K of ARR represented 43 percent of our Q1 2023-ending ARR base, up from 41 percent a year ago.

Revenue from professional services was $343,000 in Q1, an increase of 7 percent compared to Q4 and an increase of 128 percent from Q1 2022. The Q1 increase in professional service revenue relates to increased sales and delivery of larger engagements with enterprise customers.

Gross margin on total revenue for the first quarter of 2023 was 86 percent, which is down 1 percent sequentially and up 2 percent compared to Q1 2022. Gross margin on recurring revenue in Q1 2023 was 90 percent, down slightly from 91 percent in Q4 and up from 89 percent in Q1 2022.

Operating expenses in Q1 were $6 million even, a 13 percent increase from Q4 2022 and up 5 percent from Q1 2022.

Non-GAAP loss from operations for Q1 2023 was $790,000, up from $180,000 in Q4 2022 and down from a loss of $1.1 million in Q1 2022.

As we mentioned last quarter, we expected an increase in our first quarter loss compared to Q4 with additional costs related to organizational changes and seasonality around vacation and other payroll items. We still expect steady improvement in our profitability for the remainder of 2023 as we optimize our investment in product and sales in a controlled manner relative to our revenue growth.

Our cash balance at the end of March 31, 2023, was $7 million even, up from $6.1 million at December 31, 2022, and down from $7.4 million a year ago. We did not draw anything from our line of credit, and we still have $1.4 million available and committed through October 2024.

In summary, the recent Q2 deal that we reported is the kind of deal that can get us to new growth levels. We continue to optimize our go-to-market investment with the objective of replicating similar enterprise deals to provide sustainable growth, higher growth in our ARR base. We continue to have a strong cash position to enable us to reach our growth and profitability objectives on our own.

With that said, I'll pass it over to Phil.

Phil Deck — Co-CEO, ProntoForms Corporation

Thanks, Dave. As Dave mentioned, we announced an increase in our ARR of about $0.5 million in Q1. This was infinitely better than the negative number we booked last year, but still light due to the lack of any large deals. The quarter was driven by strong performance from our commercial sales group and a normal level of small enterprise add-on transactions. Nevertheless, the growth rate of our trailing 12-month ARR and the growth rate of subscription revenue and total revenue all accelerated to 13 percent, 10.6 percent, 11.5 percent, respectively. Both gross bookings and churn were much better than last year.

And as shareholders are aware, we announced a large transaction totalling $880,000 per year over three-and-a-half years after the end of the quarter booked at the beginning of Q2. This will help extend the acceleration in growth as we work to mature our go-to-market organization.

As Dave summarized, profitability was affected by the many changes we've made in personnel and one-time legal costs. Through the first and second quarters of this year, we've been making extensive changes to our sales organization, marketing strategy, brand and product positioning, and related personnel as we retool our go-to-market strategy to complete the transition to vertically oriented enterprise sales.

At the same time we've made difficult reductions in personnel, we've also made new investments and added new personnel in our field organization to develop that critical capability. While we have a strong commitment to achieving near-term profitability, the investments we make in growth are critical in setting the stage for multiyear accelerating growth.

We added two new strategic account managers in the last few weeks and strengthened our field engineering capability. We've added new systems for account targeting and SEO, all focused on making sure we're investing our sales resources in the customers where we can prove the highest ROI and create long-term contract relationships.

The SaaS industry is undergoing significant retrenchment as growth rates for many companies slow and companies are all working to reach high levels of profitability. At the same time, investors are rightly demanding higher levels of profitability, and I believe very strongly that ProntoForms is well positioned to weather this storm and, indeed, to prosper.

Our strength is based on the growing demand for companies that operate large field services organizations for increased efficiency, greater ability to meet their regulatory demands, and the need to integrate many more data sources in their field service operations, the strong ROI that our platform can deliver, and the amazing foundation of referenceable global enterprises that rely on ProntoForms every day.

We're also well positioned with respect to our existing book of business. Over the past few years, we've reported elevated churn in our small business ARR as we've been working hard to develop our enterprise business where retention is significantly higher, and contracts are much longer.

We now receive a majority of our ARR from enterprise customers, and as the mix continues to shift, we expect to see lower overall churn and much more large expansion opportunities. Our four key verticals also exhibit low cyclicality that should provide good customer stability in the event that we experience a downturn in the US economy. We will also see improvements in our sales and marketing economics as new reps reach quota and overall quotas rise. Finally, we'll see additional savings as long-term contracts for software and services that we can do without expire.

As we told you on the last call, we're committed to driving higher rates of revenue growth and improving levels of profitability. We can achieve this by intense focus on making the right investments in customer relationships with high ROI within the verticals where we have the experience and reputation to succeed. We're excited about the kinds of global enterprises that we're engaging with and are confident of our ability to secure significant new wins.

For some time, we've been making steady progress towards the repositioning our company from a horizontally oriented, no-code/low-code application platform to an enterprise field service platform in four distinct vertical markets.

Our medical device platform win that we announced this quarter is a great example of the business we're working hard to build. The customer is a global leader, has very expensive and complex product, requires very sophisticated field technicians to install, maintain, and repair. The efficiencies of proper workflow and data collection, our reporting can provide very high ROI for this customer, and they were willing to make a long-term commitment to its use.

Medical devices is joined by heavy-manufactured products, oil and gas, and utilities as the key verticals that all require sophisticated workflows oriented around complex and expensive field assets.

In the last few months, we've accelerated that transition with sweeping changes to the way we market and target new accounts to make sure that all the business we're doing with customers can drive the most value.

With the completion of our market repositioning, it's become clear that our company name no longer supports the expansive vision of enterprise field service. While the automation of forms drove our entry into key markets, we long ago eclipsed that capability. Using the word form to describe our business has become a limitation. For this reason, we'll be asking shareholders to approve a change in our name to TrueContext with the effect in June.

Some shareholders may recall that TrueContext was the founding name of the Company many years ago. We've now come full circle to the vision that Alvaro founded the Company on, whether he remembers that or not.

The change will not be abrupt as we intend to retain the brand value we've earned as a leading enterprise SaaS company as we transition to the new name. We also intend to ensure that the change in name will also mark an inflection point in our transition to strong profitable growth.

I'd like to ask Alvaro to make some comments on our product vision and industry engagement.

Alvaro Pombo — Founder and CEO, ProntoForms Corporation

Thank you, Phil. Of course, I gracefully remember it, Phil.

Our customers are facing many challenges as we’ve been describing, including the need to increase technician productivity to meet increasing reporting and compliance demands and to integrate multiple sources of enterprise data into their field activities.

We have always delivered the world’s premier workflow platform for field technician productivity. Our customers are constantly challenged by the difficulty of finding, training, and retaining skilled technicians, especially as assets become more sophisticated and complex.

Customers want to operate these assets while maintaining the cost of that in spite of incredible complexity and high level of asset availability. Customers often enjoy a margin of field services of around 40 percent compared to the single digits for selling the asset. So technician productivity improvements are crucial for the economics of success. I had the opportunity to chair Field Service USA in Palm Springs last month, and this topic was present in every conversation.

Now, let’s discuss the way our technology solves customer challenges and what we’re doing with our product. There are three key sets of technologies that can help technicians become more productive.

First, customer needs to ingest new data streams, including data from sensors, IoT, and twinning technologies, that provide more information about problems with field assets.

Secondly, using this data, complemented with AI, to enable more informed decision-making at the edge.

Lastly, providing remote help and AR/VR to assist technicians in the field. These technologies are powerful separately, but embedding them in the context of workflows is what intelligent apps need to do. Orchestrating these technologies around installation, repairs, modernization, and regulatory compliance is essential to enable technicians to perform their jobs effectively without increasing complexity or administrative burden.

We have been known as being a very good app, and becoming the best intelligent app is where we're focusing. Our product continues to evolve on multiple vectors.

One vector is making the product more capable of handling global organizational demands. For example, we released a multilingual feature that has already deployed by some key global leaders. We're already making money with it.

The second vector is improving the technician experience, providing ingestion of sensor data in the field and other powerful helpers like ChatGPT. Adding contextual help to technicians based on unstructured manuals and collected data is a prime benefit that we will leverage.

The third vector is around work and workflow collaboration in the field. Work in the field is often performed in squads or teams, and we are enhancing our product to reflect that.

Lastly, we are enhancing our data capabilities by leveraging all the new approaches to modelling and visualization. Our product is very modern, and we utilize the data approach to make us adaptable to a multitude of workflows. That modern capability puts us in a great spot to continue our product evolution into more intelligence and learning. All these capabilities will add more value to our customers and help them accelerate their automation of their field forces to realize their need for field productivity.

As Phil mentioned, we recently announced a great win for a medical device vendor that needs to improve and modernize some aspects of their field automation. We have seen and satisfied the same need before and proving that our product excels at handling complex asset installation maintenance and compliance.

All manufacturers of complex assets face similar challenges and dynamics between OEMs, owners, and regulators. Among the four key verticals of which we focus, we find a great deal of commonality in patterns of use between them. We will continue to replicate use cases across the three large verticals, oil and gas, large equipment manufacturers, including medical.

Our conference, EMPOWER'23 in Ottawa, will bring together many of these customers where we will continue to open sharing engagement process that characterizes to elevate all our customers to higher level of adoption.

To conclude, our product has the ability to generate tangible benefits for the enterprises that use it. These benefits are not just soft ROI, but measurable improvements in resource allocation around processes and people executing them.

It also improves the accuracy of execution and provides a system of record when and how the job is performed with all contextual information integrated, complying with regulations and improving operational excellence.

The use cases are many and replicable, and the technology risk associated with implementing them is very low. In other words, it is an ideal set of conditions to accelerate adoption.

I will now open the floor for questions.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have any questions, please press the *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request. If you are using a speakerphone, please lift the handset before pressing any keys.

First question comes from Gabriel Leung at Beacon Securities. Please go ahead.

Gabriel Leung — Beacon Securities

Hi. Good morning, and thanks for taking my questions. I guess for either Phil or Alvaro, maybe you can talk a little bit about some of the, I guess, changes in the sales execution strategy, some of the changes in the sales and marketing message that you're offering now and maybe provide some evidence, some tangible evidence, of some potentially early success from some of these changes. If you can offer some insight to that, that'd be great.

Phil Deck

Sure, Gabe. The biggest overall change is that we're moving from what I would call a lead-chasing organization where we stimulate demand from SEO, web-based activities, our website, from just about anyone that a kind of horizontally oriented platform would do, and we chase the leads.

And the problem with that approach is that those leads come from everywhere. We chase a lot of deals that are not necessarily the highest ROI, and then we end up with higher churn and the wrong customers.

And so we've shifted very much to a account-targeting approach where we make sure that our salespeople are focused on accounts that really have high ROI and that lowers overall churn. You just can't establish long-term high growth if you've got 15 percent churn, which is what you can get if you're focusing on small accounts in the wrong spaces without the right use cases. So it's a very significant change from being reactive to the market to very proactive.

In addition, in order to do that, you have to have extremely capable, experienced reps. You have to have the right tools to go and target accounts and get into them. And so we've made significant changes that way, both to the experience of our reps that are much more now located in our key markets, that have experience in our key verticals. We've upgraded, significantly, our SE force so that we have much better technical selling capability, and we're in the process of reinventing all of our marketing collateral to make sure it's focused on the key verticals we're in. So it's really a stem-to-stern retooling of the sales and marketing process from reactive to proactive.

And in terms of early success, we're just looking at the development of our pipeline to make sure that the kind of deals that people are working on are the deals we should be working on.

And I'd say that the transaction we announced this quarter is a good example, partly in the kind of business it is because it's very high-end medical equipment manufacturer, but also a good example of the scale of the kind of deals we can bring in. Deals that are $1 million or more out of the gate are very rare in our history. This was the biggest deal ever in terms of a customer that hadn't been one in the past. So it's a brand-new customer.

And we have an increasing number of those in our pipeline. So while I would say our pipeline is still immature in the sense of the maturity of our organization and forecasting the pipelining, the lumps are very large. And so the kind of transactions we're pursuing now are much different in scale than we've typically had in the past. It'll take some time to mature the organization and bring in that pipeline, but the kind of deals we're going after are very different than we have in the past.

Gabriel Leung

Gotcha. And just talking about—

Phil Deck

Does that answer your question, Gabe?

Gabriel Leung

Yeah. No. That's super helpful. And just following up, I guess, on the pipeline of opportunities, I think one of the one of the compelling investment issues for ProntoForms has always been the existing enterprise customer base and the ability to sort of to drill more business into there. So where is that right now in terms of your ability to sign some larger deals with existing customers? Is there a reason why some of these guys have delayed committing to a larger deployment? And do you see that accelerating with the changes within the sales organization?

Phil Deck

I would say of the top dozen accounts that we're pursuing for million-plus deals, at least half of them are existing customers; probably a little more than half. So expansion through existing accounts is still a very, very big opportunity. I think a lot of accounts are at a very low level of penetration.

One of the things that we've been doing that causes some delay in getting those is that we're moving from kind of regional contracting to, in many cases, global contracting, and it does take some time and work to move relationships with customers up into senior management where we can look at mandates that are more global and contracting that's global.

As we've moved from a kind of horizontal no-code/low-code platform to enterprise, we're also having to engage enterprise IT departments to make sure that we can show compliance with SOC 2, security architecture, all the kind of things that you need to do to prove yourself as an enterprise vendor. As we move up in these organizations, we have to meet those challenges and show what we can do. We're very well set up from a technology point of view to meet those challenges, but it does take time in the selling cycle to move that. So we have wonderful deployments in a lot of enterprise customers, and now it's a question of making some of them much more global.

But we're also able to engage a lot of new customers. We have great referencing in the ones we have. So that's still a major vector for pipeline development as well.

Alvaro Pombo

Phil, if I add one thing, Gabriel. I mean, the pipeline of innovation supporting those existing customers has something that we've done well throughout the years, but we're accelerating it. And that acceleration and that focus that Phil was mentioning as we are picking the customers with more intelligence, it enables that to be faster and more, I mean, more cohesive, more coordinated because the target is a lot clearer. And that's enabling, as well, our ability to innovate, having technical conversations and product and enhancement conversations, more rapidly and more impactfully.

Gabriel Leung

(unintelligible) Thanks to both for that feedback. And just one last question, maybe more for Dave.

I guess there were a couple of nonoperational items in the operating expenses this quarter. I saw that you guys called out the $200,000 in the legal fees. Was there also a severance-related charge in sales and marketing that's worth pointing out as well from a dollar perspective?

Dave Croucher

That's right, Gabe. It's about $300,000 total. So yeah. $200,000 and another just over $100,000.

Gabriel Leung

And would you expect the sales and marketing expense to go down by $100,000? Or would the new hires that you've made sort of offset that?

Dave Croucher

Yeah. It should go, I mean as Phil mentioned in the press release, there's still a bit more of those types of costs that we're going through. But for the most part, it'll come down but not by an enormous amount.

We are reducing our head count, or we have reduced it a little bit, but we've also shifted to more expensive resources, the sales engineers and the sales folks in the US that are closer to the customers and more experienced enterprise people. So you'll see a little bit, but the cost structure, we're still holding it pretty steady.

If you back out stock-based comp, you'll see a bit of an improvement.

Gabriel Leung

Gotcha. No, it's helpful.

Phil Deck

Gabe, let me just make the comment that we're really working, we're making a lot of changes within the cost envelope that gets us to productivity in the near term. So it's a very important objective to us. And while we have to make lots of important investments, we need to find that we need to find the money to do it without increasing loss and without changing our course to profitability.

So we're working within the existing envelope of our investments. But I think the quality of those investments and the focus in those investments is improving dramatically.

Gabriel Leung

Gotcha. No, thanks for that. And maybe just one last question. Based on the changes that you're making today, based on your current pipe and your current existing customer base, is there a growth range that you'd like the Company to return to over the midterm in terms of recurring revenues? I think this quarter was about 11 percent year over year. Is there an optimal growth range that you would be thinking the Company should strive to reach?

Dave Croucher

We don't have that objective for this year. I think long term, we're a company that should be able to grow at 30 percent a year. We've accelerated into the low teens. We think we can continue accelerating our growth. When we could get to 30 percent, we don't know, but all of our investments in the field are being made to sustain that kind of growth rate long term.

We're not trying to create magic. This year, we're trying to create the foundation for sustained long-term growth that's profitable.

Gabriel Leung

Great. Thanks for all the feedback. And good luck in the coming year.

Dave Croucher

Thanks, Gabe.

Alvaro Pombo

Thanks, Gabe.

Phil Deck

Thanks, Gabe.

Operator

Thank you. And as a reminder, should you have any questions, please press *, 1 now.

I'm showing no further questions. You may proceed.

Alvaro Pombo

Yeah. So thank you all for joining. We're excited about the future. We clearly see the growth opportunities for our customers, both geographically and expansions as well as new use cases.

Thanks, everyone for spending your time with us. And, as always, I would like to thank for your continued support, and have a wonderful day.

Dave Croucher

Thanks, everyone.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating, and we ask that you please disconnect your lines.