FINAL TRANSCRIPT

ProntoForms Corporation

Second Quarter 2023 Results Conference Call

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CORPORATE PARTICIPANTS

Dave Croucher
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Alvaro Pombo
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CONFERENCE CALL PARTICIPANTS

Gabriel Leung
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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the ProntoForms Corporation Second 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 require immediate assistance, please press *, 0 for the Operator.

This call is being recorded on Wednesday, July 26, 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, Yani (phon). Good morning, everyone. Before we begin, I will read our cautionary note regarding forward-looking information.

Certain information to be discussed during this call contains forward-looking statements within the meaning of applicable 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 & 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 will now go through the financial highlights for the second quarter of 2023.

Total revenue in Q2 2023 was $6.1 million, a 6 percent sequential increase from Q1 2023, and an increase of 17 percent compared to Q2 2022. Total revenue for the first half of 2023 was $11.9 million, representing an increase of 16 percent over the first half of 2022.

Recurring revenue in Q2 2023 was $5.8 million, a 7 percent increase from Q1, and a 16 percent increase from Q2 2022. Recurring revenue for the first half of 2023 was $11.2 million, representing an increase of 14 percent over the first half of 2022.

Our annual recurring revenue base, or ARR, as at June 30th was $23.7 million, representing an increase of 7.4 percent sequentially and an increase of 18.7 percent from a year ago.

Customers with greater than $100K of ARR represented 44 percent of our Q2 2023 ending ARR base, up from 43 percent at the end of last quarter and up from 41 percent a year ago.

Revenue from professional services was $335,000 in Q2 2023, down slightly from Q1 2023, and up 38 percent from the second quarter of 2022. Revenue from professional services for the first half of 2023 was $678,000, up 73 percent compared to the first half of 2022. The 2023 first half increase in professional services revenue relates to increased sales and delivery of larger engagements with enterprise customers.

Gross margin on total revenue for the second quarter was 86 percent, which is flat sequentially and up 2 percent compared to Q2 2022. Gross margin on total revenue for the first six months in 2023 was 86 percent compared to 84 percent for the same period in 2022.

Gross margin on recurring revenue in Q2 2023 was 91 percent, up from 90 percent in Q1 2023 and up from 89 percent in Q2 2022. Gross margin on recurring revenue for the first six months of 2023 was 91 percent compared to 89 percent in the same period in 2022.

Operating expenses in Q2 2023 were $6.3 million, a 4 percent increase from Q1 2023 and up 9 percent from Q2 2022. Operating expenses for the first six months of 2023 were $12.3 million compared to $11.4 million for the same period of 2022.

Loss from operations in Q2 2023 was $970,000 versus just over $1 million in the first quarter of 2023 and $1.3 million in Q2 2022. Loss from operations for the first half of 2023 was $2 million compared to $2.8 million loss for the first half of 2022.

Non-GAAP loss from operations for Q2 2023 was $684,000, down from $790,000 in Q1 2023 and down from roughly $1 million in Q2 2022. Non-GAAP loss from operations for the first half of 2023 was $1.5 million compared to $2.1 million for the first half of 2022.

We saw improvement in our Q2 2023 non-GAAP operating loss despite incurring severance-related costs related to org changes. We still expect steady improvement in our profitability for the remainder of 2023 with the improved bookings and adjusted cost structure.

Our cash balance at June 30, 2023, was $6.3 million, up from $6.1 million at December 31, 2022. We did not draw anything from our line of credit, and we still have $1.4 million available and committed through October 2024.

In addition to the steady results in commercial sales, enterprise expansion, and retention, the large Q2 deal that we reported is the kind of deal that can get us to new growth levels. Within our profitability targets, we continue to optimize our go-to-market investment with the objective of replicating similar deals to provide sustainable higher growth in our ARR base. We continue to have a strong cash position to enable us to reach our growth and profitability objectives.

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

Philip Deck — Co-CEO, ProntoForms Corporation

Thanks, Dave. The last time we communicated with shareholders, we set out goals for the acceleration of our revenue growth and steady progress towards profitability. We also highlighted that some of the costs of reconfiguring our go-to-market activities that would continue through the second quarter before moderating.

The quarter played out largely as planned. On the ARR growth front, we started strongly with our largest deal ever, announced in the first week of the quarter, with a major medical device manufacturing company.

But we also saw strong results from our commercial sales group from other small enterprise expansion deals and from improving levels of contract retention. This added up to an increase in ARR of $1.6 million, our best quarterly result ever, and in turn, continued the acceleration of our ARR growth to over 19 percent on a trailing 12-month basis.

We won't do very large deals in every quarter, but the pipeline for enterprise expansions and new logo deals continues to improve.

During Q2, we completed a major overhaul of our marketing strategy by moving to a completely targeted enterprise approach, bolstered by an AI-fueled intention tracking capability. We will bolster that by redirecting lead generation costs to focus search engine investments in a very precisely targeted manner.

The focusing of our account strategy has already had the effect of redirecting our enterprise sales executives into the most promising accounts. The new technology platform we've rolled out will now help focus them on the individuals within those accounts that are engaged in field service productivity initiatives.

Our new marketing and sales strategy has required changes to a myriad of ways in which we market, sell, and support, and build our products for customers, and many of those changes required changes to our organization that increased our costs in the second quarter. Most of the expensive part of those changes are now behind us, and from the third quarter on, our overhead will more closely track our ongoing spend.

Our sales and marketing costs relative to new ARR, also known as customer acquisition costs, declined from 2.5 at the end of Q1 to just over 2 on a trailing 12-month basis.

The go-to-market changes are focused on the number-one priority of our management team, to support higher sustainable growth rates in the long term. The key parts of that priority are making sure that we're focused on the most promising customers, mentoring and training our sales executives to bring them to maturity, rolling out new collateral under our new TrueContext name, leading with value-based messaging, promoting a more expansive vision of our capabilities to match our product capabilities, and evolving our platform to deepen our competitive advantage in the enterprise field intelligence space. My partner, Alvaro, will have more to say about that part of the plan.

The work is far from complete and will take several more quarters to achieve a more reliable pace of enterprise deals, but we've made tremendous progress in the past six months and the pace of change continues to be high.

At the same time as making those critical investments, we're operating within a very disciplined cost envelope that will ensure that we achieve the improvements in profitability that need to accompany our higher levels of growth.

Our overall headcount declined 5 percent from the end of Q1, improving our revenue per head from $158,000 to $176,000.

We continue to optimize the way we work together within the Company to collaborate better and align the new processes between departments.

Part of collaborating better is seeing each other in person more. During Q2, our workforce returned to our two major offices in Kanata and Toronto for three days a week. This is part of our efforts to improve the engagement of our employees with each other, particularly important during this period of rapid change, but the only way to create a fully engaged and collaborative workforce.

We continue to enjoy improving relationships with major IT vendors like ServiceNow and Salesforce, where the teams deploying those platforms see increasing benefits of using ProntoForms as a complement to their platforms, handling the difficult and complex task of automating field processes that their desktop-centric user bases do not face. While we don't expect or intend to develop resale agreements with these partners, we are collaborating to deliver great combined solutions for our customers.

In Q2, we also had an outstanding quarter from the standpoint of customer retention, as Dave highlighted. As we've said in the past, our customer retention is largely proportional to customer size. As we shift our customer mix steadily towards larger enterprise transactions, where we're more intimately connected to major enterprise systems, and where the mandate we fulfill relates to the installation, maintenance, and repair of complex field-deployed equipment, we expect to see continuing improvements in retention.

At the end of Q2, the segment of our revenue base that has churn higher than 10 percent, the SMB segment, now represents only 18 percent of our total ARR base.

With the strong ARR results that we've posted in Q2, we've made significant progress towards our profitability mandate. The increased revenue will combine with modest declines in operating expenses through the balance of the year that will push us towards our important breakeven milestone. It is a milestone, however, not just a goal.

Our long-term strategy remains, as we outlined last quarter, to accelerate our growth to higher sustainable levels, to make steady long-term improvements in profitability, and to strengthen the product advantage that we are using to create leadership in the field intelligence market.

I'll now ask Alvaro Pombo to make some comments on the way we're expanding our thought and product leadership in the field intelligence space. Alvaro?

Alvaro Pombo — Founder and CEO, ProntoForms Corporation

Thank you, Phil. Over the last quarter, we've had the opportunity to spend a lot of time with customers through our Empower events in Ottawa and London, Field Service USA, and Kopparberg in Europe.

We had a chance to present our company's direction and roadmap and engage in understanding our customer priorities and how their businesses are evolving and working through challenges in their marketplaces.

Some companies are very technician-centric, and others are very asset-centric. The reality is that they are not mutually exclusive. However, they have a different set of complementary operational priorities today.

Technician-centric pain points revolve around changes in the labour force and how satisfied technicians are. According to a Service Council's latest technician survey, 51 percent of respondents continue to state that paperwork and administrative tasks are their least favourable part of their day-to-day job. This is a major issue for service organizations that derive higher margins for services than for products in a P&L that is primarily made up of people or technician costs.

Technicians are hard to find, and those who are properly onboarded use tools and workflows that contextually help them and are included in continuous improvement initiatives where their feedback matters. These technicians not only reach higher degrees of productivity and safety, but also stay longer and feel happier.

Asset-centric organizations are looking for the best way to install, maintain, repair, extend, and sometimes renew the assets. For those organizations with complex assets, product sophistication has increased, plus IoT sensors yield an incredible amount of data requiring contextual analysis to drive better decisions over the assets.

Product managers require installation, calibration, and testing workflows across multiple jurisdictions and languages to ensure compliance. Service managers need evidence of everything done, and customers require asset logs and precise communications for their own compliant purposes.

Asset managers need constant updates on the location and state of those continuously evolving assets.

Finally, augmenting twinning capabilities of their assets, staging, and compliance procedures in installation, quoting, and surveying for renewal are must-haves in asset service economics.

Finally, safety, environmental concerns, and compliance are paramount for everyone.

These are all large organizational groups with regulations around them where accurate documentation and evidence are critical to meeting their compliance obligations.

Making technicians more efficient, more productive, and more satisfied with their work, plus optimizing asset lifecycle management, drives significant savings for our customers and represents the major foundation of return on investment that they enjoy from using our platform. And meeting the growing compliance and regulatory requirements that they face adds to the enterprise value that we drive.

Sounds like a lot, doesn't it? Yes. That is the challenge and the opportunity. We have created a product around the field services-specific workflows that enable many of these use cases I mentioned, and much more.

And doubling down on technician and asset-focused workflows, we are extending our leadership in a space where major IT platforms have not made the same investments. Our smaller electronic forms competitors cannot reach either.

The product and communication continues to evolve, supporting our targeted go-to-market efforts, responding both to the global nature of our large customers, their sophisticated operational requirements, the role of advanced IT involvement, the detailed requirements of technician interactivity, et cetera.

In our conversations with our customers, the roadmap has been very well received, and their engagement in helping us shaping it is active. I believe all this keeps on opening the gap between us and the alternatives in this space.

We're very proud of the product and customer focus we have—two more levers helping us accelerate our go-to-market efforts.

Last, contextual information is the key to winning the game to improve technician experience and the automation of field asset workflows. And that has been the core of the DNA of the Company we have built for many years. That is why reverting back to the name, TrueContext, is not only personally rewarding in the validation of our founding vision, but because it allows us to describe a larger vision of what we do for our customers, so much bigger than just electronic forms.

We are bringing the Company to a new place where we will meet more service leaders that understand how an agile mobile platform, with a set of proven workflow solutions centred in field operational excellence, will enormously benefit their organization in a very short time.

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

We enter now the question period. Yes? The questions period.

Dave Croucher

Yes. Operator, can we hand it over for questions?

Q&A

Operator

Thank you. We will now begin the question-and-answer session. Should you have a question, please press the *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request. Questions will be taken in the order received. If you wish to withdraw from the question, press the *, followed by the 2. If you are using a speakerphone, please lift the handset before pressing any keys.

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

Gabriel Leung — Beacon Securities

Good morning and thanks for taking my questions. I have a couple of things.

First, maybe for Phil, I mean obviously, you guys have done a good job I guess overhauling the go-to-market strategy over the last couple of months. We're starting to see some positive data points here. So maybe you can talk about as well just the overall spending environment and just a willingness for some of your existing or new customers to actually spend some meaningful amounts with you guys right now.

Philip Deck

Sure, Gabe. I mean, overall, the people who use our products use it to maintain, generally, existing assets in the field, and that doesn't really change with the economic cycle. So if you need to maintain elevators or HVAC equipment or medical equipment, that never changes. You have compliance requirements. You have health and safety requirements. So the need for our products never changes.

The importance of driving efficiency improves because every dollar is more important in times of difficult economics. And in fact, in some of our customers, the profits, as Alvaro mentioned I think in his comments, the profits from field service activities and maintenance become a really important part of people's cash flow. So in general, I think the need for our product never goes away. The importance of being able to handle these things efficiently doesn't change.

What we are seeing in some customers is just organizational restructuring. So there are some customers that are mainly in the capital equipment sector where spending is down, so their new installations are down, and sometimes that causes reorganizations, which disrupt the process of selling software. But the ultimate need doesn't change and probably increases in times of turmoil.

So I would say that it's not a significant concern for us. In some ways, there have been some deals that have moved around a bit just as organizations restructure.

And I'll also comment that a big sector in our existing customer base and in our pipeline going forward is medical device. It's probably our best single vertical because of the extreme complexity of the devices that they're managing in the field and the importance of regulatory compliance and human safety. And the medical device industry doesn't seem to have cycles. So they continue to be a very healthy vertical for us to go in.

So in general, it's not a big concern for us. Of course, we're always aware of what's happening in the economy, but in general, we think the environment is good.

Gabriel Leung

Great. Thanks for that. Maybe I'll follow up with talking points around the medical device manufacturing vertical that you just talked about.

Can you give us an update on how the contract is progressing in terms of deployments and usage and whatnot?

And also, how big of an opportunity could that be for you? What is the level of adoption right now of ProntoForms' type of solution within the industry today?

Philip Deck

Well, we have over a dozen major medical device customers. So the one we signed this quarter is right now in the implementation phase. So they're using professional services to deploy their platform.

Where we're being used in that customer at first is in a very, very complex installation process, which are processes that span over a month as they install their very complicated machine. So it's quite an involved process to roll it out. It's going very well. We're getting great collaboration with the customer, and they're a real leader in doing this. So it's a pleasure to work with them.

I think in general in the med device sector, it represents a big chunk of our future pipeline, and it's where we're getting great traction because we have great reference accounts, and the business problem we solve is very complex. And whenever we're in the more difficult implementations, we tend to shine.

Gabriel Leung

Gotcha. Maybe a question for Alvaro on the product side of things. You talked quite a bit about some of the things you're working on from an R&D product-focus perspective.

With all the data you're collecting now, is there a lot of demand from your customers around getting some analysis analytics AI if you will, around some of the data that you're collecting for your customers? Do you see that evolving to maybe on the asset side? Maybe some future preventive-maintenance-type software solutions for the Company down the road as well?

Alvaro Pombo

Yeah. Great question, Gabe. And look. The customers are at different stages of understanding and using data. Everybody believes that the world is already AI-ing everything, et cetera, et cetera.

The truth is that there are different degrees of usage. So we have evolved our data strategy, and it's a very robust set of new skills and new capabilities that we will be able to upsell and cross-sell that would satisfy the spectrum of requirements that are out there.

Our workflows are getting richer in collecting data. The data is getting, I mean, bigger and bigger. And we're taking the opportunity to the next level, which is, I mean, we envision that ProntoForms is the place, TrueContext is the place where people are going to be looking at what happens in the field. In the same way they look at an FSM system to, A, was the work order completed and did we get paid, they're going to turn around their eyes and say and what happened in the field. And that's where we will deliver the visibility of it.

Now we have customers that are having deployed all those workflows that I went through. There are many more, and they've done most of them with ProntoForms, or all of them. So that's incredible as technician experiences because it just starts to create a little bit of a network effect. The more they put, the more visibility they gain, and the easier it is for the technicians to execute on what they do.

So yes. Core to our evolution, and we're well underway on that.

Philip Deck

Gabe, I'll just add that, in many instances, we act as a data collection platform for other vendors, whether it's Salesforce or ServiceNow or a Microsoft platform or SharePoint, and so our data is being added to a data lake or some other data structure that our customers have, and that's how they're using it.

But we're focused on also improving our ability to get data out of our platform in the way you describe with better analytics, using all sorts of ways of extracting business value out of our platform from the data side. So it's a subject of a lot of activity in our company right now.

Gabriel Leung

Yeah. Thanks for that. And then just I've got two more questions for Dave on the financial side.

First can you confirm the total amount of I guess reorg-related charges was incurred in the second quarter first?

And then second, can you confirm whether the full impact of the medical device contract was felt in Q2? Or is there more of that to be realized in Q3?

Dave Croucher

Well, okay. So the first question on the restructuring. There was about $150,000 in sales and marketing that happened in the quarter. There was also some in Q1, about $100,000 in sales and marketing.

On the second question, yeah. The contract was signed early in the quarter. So it was reflected—it's a $3 million contract, basically evenly spread over three-and-a-half years.

Gabriel Leung

Okay. That's perfect. And just one last thing for you, Phil.

Obviously, on the financial side, the next financial milestone seems to be the achieving operating profitability sort of by the end of this year. But then on the top line, with a profitable business, how do you think about where'd you like recurring revenue growth to sort of fall into with a profitable business?

Philip Deck

Well, I think that the thing you have to look at with our business is, what is the level of growth that is possible to sustain with this kind of business. And a lot of the—the answer to that is partly based on the size of the relationships that we're winning compared to our existing size. So if you're US$23 million of recurring revenue and you're only doing deals that are going to be a $100,000, you have to do a lot of deals to grow at high rates.

But as we've shown, there are customers that have the capability to do many millions of annual revenue. And compared to our existing revenue, those are big deals. And those are the kind of relationships we're working towards. We already have a few customers that are in the high-single-digit percentage of our business, and many of those are at prices that we would never ever consider today because they're their legacy pricing that that those customers have.

So I think the size of customer opportunities we're looking at compared to our existing recurring revenue base suggests that we can grow at much higher levels. And that's the business plan that we put together to accelerate our growth to levels significantly higher than we have today.

There's no real conflict, however, in growing profitability as we do that. We're making significant investments in the field. And we've largely redirected a lot of the costs that we were kind of making in our previous strategy to a different one. We've changed the nature of our spending. It's reduced and it will continue to reduce a bit more in the quarters to come.

But what we would plan is to improve the level of profitability you have every quarter, in fact every year, for the foreseeable future as we accelerate the growth. So we still think there's higher growth levels achievable, and what we're trying to make sure of is that whatever growth rate we get to is sustainable so that we've built an organization that can continue to deliver high growth in a very consistent way.

And I'm very, very comfortable that the kind of customer relationships were winning and the kind of product scope we have and the kind of expansion of existing accounts, I would say 70 to 80 percent of our recurring revenue base is in customers that could expand significantly. And so between that and new accounts, yeah, I think we have the capability to achieve much higher growth rates.

Gabriel Leung

Gotcha. Thanks to everyone for all the feedback, and congrats on all the progress.

Philip Deck

Thanks, Gabe.

Dave Croucher

Thank you, Gabe.

Operator

As a reminder, if you have a question please press the *, followed by the 1.

There are no further questions at this time. Please proceed with closing remarks.

Alvaro Pombo

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

Philip Deck

Thanks, everyone.

Operator

Thank you, ladies and gentlemen. This concludes your conference. Please disconnect your lines.