FINAL TRANSCRIPT

ProntoForms Corporation

Third Quarter 2023 Results Conference Call

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Gabriel Leung
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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Ponto Forms Corporation Third Quarter 2023 Results Conference Call. At this time, all lines are in 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, November 1, 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, Sintu (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 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, except otherwise indicated.

I will now go through the financial highlights for the third quarter of 2023.

Total revenue in Q3 2023 was $6.2 million, a 1 percent sequential increase from Q2 2023 and an increase of 13 percent compared to Q3 2022.

Total revenue for the first nine months of 2023 was $18.1 million, representing an increase of 15 percent over the same period in 2022.

Recurring revenue in Q3 2023 was $6.0 million, a 3 percent increase from Q2 2023 and a 14 percent increase from Q3 2022.

Recurring revenue for the first nine months of 2023 was $17.2 million, representing an increase of 14 percent over the same period in 2022.

Our annual recurring revenue base, or ARR, as at September 30, 2023, was $24.7 million, representing an increase of 4.2 percent sequentially and an increase of 18.4 percent from September 30, 2022.

Customers with greater than 100K of ARR represented 47 percent of our Q3 2023 ending ARR base, up from 44 percent at the end of last quarter and up from 41 percent a year ago.

Revenue from professional services was $203,000 in Q3, down 40 percent from Q2 2023 and 15 percent from the third quarter of 2022.

Revenue from professional services for the first nine months of 2023 was $881,000, up 40 percent compared to the same period in 2022.

The 2023 increase in professional services relates to increased sales and delivery of larger engagements with enterprise customers weighted to the first two quarters of the year.

Professional services continues to be lumpy with a lower third quarter services revenue, reflecting lower services bookings for that particular quarter.

Gross margin on total revenue for the third quarter of 2023 was 87 percent, up from 86 percent in Q2 2023 and 85 percent in Q3 2022. Gross margin on total revenue for the first nine months of 2023 was 87 percent compared to 85 percent for the same period in 2022.

Gross margin on recurring revenue in Q3 2023 was 91 percent, which was flat from Q2 and up from 90 percent in Q3 2022. Gross margin on recurring revenue for the first nine months for 2023 was 91 percent compared to 89 percent for the same period in 2022.

Operating expenses in Q3 were $5.6 million, an 11 percent decrease from Q2 2023 and a decrease of 3 percent from Q3 2022. Operating expenses for the first nine months of 2023 were $17.9 million compared to $17.2 million for the same period of 2022.

Operating loss in Q3 2023 was $221,000 versus $970,000 in the second quarter of 2023 and $1.1 million in Q3 2022. Operating loss for the first nine months of 2023 was $2.2 million compared to a $3.9 million loss for the same period in 2022.

Non-GAAP operating income for Q3 2023 was slightly breakeven at $6,500 compared to a loss of $684,000 in Q2 2023 and a loss of $850,000 in Q3 2022. Non-GAAP operating loss from operations for the first nine months of 2023 was $1.5 million compared to $2.9 million in the same period of 2022. We have seen steady improvement with non-GAAP operating results over the course of 2023 and reach breakeven in the third quarter.

Also, we manage this while keeping strong investment in our go-to-market motions. We still expect steady improvement in our profitability with the cost structure that we adjusted earlier this year and continued growth in ARR net bookings.

Our cash balance at September 30, 2023, was $5.4 million, down from $6.1 million at December 31, 2022.

We did not draw anything on our line of credit and we still have $1.4 million available and committed through October 2025.

In summary, in addition to the steady results in commercial sales; enterprise expansion and retention; large enterprise deals, such as the very large deal we announced in Q2 and the good-sized deal that we followed up with in Q3, are the key to strong growth quarters.

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 have a strong cash position that should continue to improve in breakeven territory and enable us to reach our growth and profitability objectives in the long term.

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

Phil Deck — Co-Chief Executive Officer, ProntoForms Corporation

Thanks, Dave. As Dave outlined, we had a strong Q3, maintaining the ARR growth rate of the previous quarter, which continued to increase our trailing 12-month revenue growth rate.

We were very pleased to achieve breakeven non-GAAP operating profitability, an improvement of almost $700,000 from the quarter immediately preceding.

While we continue to make essential investments needed to accelerate growth, we're keeping a very strong focus on making steady and sustainable improvements to profitability.

Our revenue per head increased from $176,000 to $184,000 sequentially, and our cash operating costs declined over $600,000 compared to the previous quarter.

As we plan for 2024, this focus will continue as we balance additional growth investments with expansions in operating margins.

A significant contributor to the ARR performance was the completion of several significant transactions to add multi-language capability to some of our major enterprise customers. We launched multi-language capability last spring.

We've made several new releases expanding its use, adding to the technology advantage that we enjoy in large, multinational accounts.

As we've said in the past, we have tremendous expansion potential within our enterprise customer base, including expanded user opportunities and licensing of additional capabilities. We have focused on these opportunities this year while we target and pursue new logos, which we believe will largely materialize in 2024.

In our commercial sales group, we enjoyed consistent ARR contribution. In that Kanata-based sales team, we no longer pursue SMB transactions, which combined with the high churn rate on them, is reducing the proportion of SMB in our ARR base. We're steadily redirecting the efforts of these account executives to larger, targeted accounts, and we're seeing steady increases in deal size and average contract length.

One of the effects of COVID, the COVID-induced trend towards work from home, is that it's now possible to close much larger transactions than would have been possible without significant on-site sales activity. We are now seeing transactions regularly in excess of $50,000 a year, with reasonably rapid sales cycles in our commercial sales group.

Within our enterprise sales team, the sharpened focus on our large, existing customers and targeted new ones is allowing us to close business at a higher rate and build pipeline more effectively.

There remains significant capacity within the enterprise team to support higher rates of ARR growth, and we're pleased with the progress in building pipelines for 2024.

In our marketing department, we continue to make significant improvements in our ability to target new accounts, monitor engagement, and articulate the value that we deliver. We've made good progress on the rewriting of content on our website, and we'll be launching a new website later this month with a substantially refocused enterprise field intelligence message.

We'll also be rolling out our name change after many months of planning. And already the messaging around the TrueContext name has given us many opportunities to build awareness around the capabilities that the inclusion of the word form has made obsolete. We've created a radically different capability from the eForms vendors, and our enterprise contract base is evidence of that difference.

We had lower professional service deliveries than expected during the quarter, mainly from lower bookings throughout the summer. We expect service deliveries to rebound as new and existing customers engage our services to get the most out of our platform.

The ProntoForms platform was created as a no-code, low-code platform to allow customers to configure workflows with ease. It retains that ease of configuration, and the flexibility to easily modify and optimize workflows continues to be a source of significant advantage. Many enterprise customers have deployed hundreds of distinct workflows configured for a myriad of complex equipment, repair, maintenance, and decommissioning mandates.

At the same time, the capabilities of our platform continue to expand rapidly, as does its ability to solve increasingly complex and sophisticated field service mandates. We can integrate with a myriad of enterprise FSM and IT platforms and support extremely complex assignments. These are best deployed by using our professional services team, and many of our customers could benefit from our help to drive even higher ROI. We have the ability to create far more robust and capable workflows that can still be easily modified by customers afterwards. Our customers are always best served by the engagement of our services teams to create the best starting point after which they can continue to iterate.

Our professional services have typically represented only about 5 percent of revenue, a fraction of the amount to deploy many enterprise-grade platforms. But it’s an important part of delivering the best customer satisfaction. Professional services will continue to be an important part of our strategy, not for the revenue it generates, but because it drives higher customer satisfaction and, ultimately, better customer retention. We’re seeing increased bookings, and expect that professional services revenue will return to normal levels and we will be able to deliver positive gross margin.

The macro environment for software sales is challenging. Sales cycles are somewhat extended, and the focus on data security and privacy continues to increase. We are well positioned to grow in this environment, as the investments we have made in security and privacy continue to pay dividends, and our ability to roll out our platform quickly to drive tangible savings in field technician costs is one of our biggest strengths.

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

On the product leadership front, the pace of change is also very high.

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 Co-Chief Executive Officer, ProntoForms Corporation

Thank you, Phil. Over the past three months, we've actively engaged with customers in our industry ecosystem. I've been a keynote speaker at industry events, chairing panels with esteemed practitioners, and ultimately having multiple interactions that keep refining our perspective and establish a set of views about the future of our industry. I'm seeing four accelerating forces that upon converging will further amplify our market opportunity.

The first one, the evolving technician role. The labour force is facing demographic and macroeconomic challenges. It's increasingly difficult to find, train, and retain technicians, especially as their required skill set evolves.

So this leads up to the second force, advanced equipment. New products are predominantly software driven, a significant shift from the past. Traditional tools are giving way to software solutions.

Cybersecurity is as crucial as physical security, and software updates are becoming more important than hardware repairs. Finding individuals skilled in such a broad set of areas is challenging. This is leading to a redefinition and segmentation of the technician role at the same time that a third force is standing up, shifting customer expectations.

Today’s younger customers are evolving their expectations. They prefer self-serve and instant feedback mechanisms. These changing consumer behaviours is requiring industry to adapt and reconsider the formats, the types, and economics of the interactions with their customers.

And last, but not least, there is a rising demand for automation. The automation deficit of every organization is huge. There is an increasing need for automation. Workflows, the building blocks of automation, are in high demand and there are not enough people to execute them. Imagine how many people are there to build them? Even less.

So what does the future look like when these forces collide? How can you allocate a third of a technician that requires different types of training and knowledge to perform a secure-site procedure in the morning, which will be 80 percent different in the afternoon?

There is one way forward: flexible technology that is modern and adaptable to a multitude of circumstances, operational models, and approaches to build and deploy them.

Let me give you a bit of background on the big word workflow, which I’ve been using quite a bit.

There are back office and work-order management workflows. Some of them extend to the field technician, but they’re ultimately a different kind of workflows than the ones I am going to refer to. I’m referring to field workflows. They take place in the field. They take place within squads of workers completing a task. They are connected, but they’re fundamentally different.

What we envision are tools that enhance workflow creation for the second type, offering flexibility in managing technician tasks. These tools will connect to sensors and sophisticated AI services for contextual assistance. They will provide work instructions, adapt workflows based on real-time data, and guide technicians on the next best actions. Additionally, these workflows will gather data to fuel machine-learning engines, AI initiatives, and ad hoc analysis. This creates an open platform where customers, third parties, and organizations can securely and flexibly evolve their operations.

Workflow creators will learn from ongoing processes, build better workflows faster and more efficiently with less skill required than ever before. We already possess most of these building blocks and are rapidly evolving progressing towards this envisioned future. Our shared views and roadmap have been received very positively from our customers.

Companies recognize technology as a crucial enabler. They have sophisticated initiatives to improve management of people, dynamic training, remote assistance, plus most have modernized their back office and FSM systems. Their next frontier is how to orchestrate all these pieces in intelligent apps for their technicians, customers, and third parties that allows them to iterate and automate faster orchestrated workflows.

As a company, we have been evolving through an incredible journey, evolving growth and operational discipline, reaching today that next summit where profitability meets enterprise adoption and retention, combined with a culture of customer centricity underpinned by an incredible product that continues to evolve in response to clear market needs experienced by our customers.

There is a lot more in store for forms in ProntoForms as they become contexts within TrueContext.

Phil Deck

Thanks, Alvaro.

I think we're going to turn the call over to questions now.

Q&A

Operator

Thank you. Ladies and gentlemen, 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. If you would like to withdraw your request, please press the *, followed by the 2.

One moment for the first question.

As a reminder to register for a question, please press *, followed by the 1 on your telephone keypad.

Our first question comes from Gabriel Leung from Beacon Securities. Please go ahead. Your line is now open.

Gabriel Leung — Beacon Securities

Hey. Good morning, and thanks for taking my questions and congrats on all the progress this year.

Phil Deck

Hey, Gabe.

Gabriel Leung

Phil, in your preamble you provided a lot of bullish commentary around the pipeline across the business. I'm curious if you can talk about how you think that's going to translate into your ARR growth as we're in Q4 and into calendar '24? And as a follow-up as well, how should we think about margin expansion as you pursue that growth next year?

Phil Deck

Well, I'll take those separately, first on ARR and then on margin. As I indicated, we have a tremendous amount of opportunity in the base. So we have 40 or 50 significant enterprise customers there. There are very few that are rolled out really extensively through the organization.

So there's a lot of capacity to expand through those organizations and also sell additional capabilities like multi-language. And those can typically convert a little bit faster because we have existing relationships. Some of them require negotiation of global agreements, which takes some time. Some of them require doing marketing in different parts of their organizations geographically, and that takes some time. But we have very, very happy customers with high ROI. So it's a little bit quicker to market through those existing customers than new ones.

On the new front, we've been rolling out a significantly new kind of marketing capability and identifying and monitoring activity with new customers. And those sales cycles are two to four quarters. So the new logo expansion we expect should start in the next quarter or two or three, and that will supplement the growth that we're getting from our base.

So as we said early in the year, through most of 2023, we expect the majority of our new business to come from the base. There are some new customers, and we had a very large one in Q2. And in our commercial group, we have significant new customers all the time in the kind of $50,000 to $100,000 area. But the really major new enterprises take a little bit longer than that and they're still developing in the pipeline. So it's important for us to be able to maintain the existing growth rate and we expect it to accelerate as some of those new logos start to start to mature.

In terms of margin expansion, we're really trying to balance. So as our revenue increases, as it does, part of it has to go to profitability and part of it has to go to growth.

And managing that balance is very important to us. We're not going to get ahead of ourselves on spending. And I have to say that within the culture of our company, I think there's always been a huge amount of pride around our product. There's been a huge amount of pride around the kind of customer experiences we can generate and the feedback we get from our customers that's really satisfying.

But ultimately, if we're not making money, we can't be proud of our own financial performance. It's not enough just to grow. And successful companies are profitable companies. And I think as we get to profitability, within the Company there's a lot of enthusiasm at that kind of success. And we're getting a lot of enthusiasm over just a tight control over the way we run our business. There's a discipline around spending and allocating funds towards growth investments that we know we have to make investments. We know we have to spend money to grow. But I think everyone's really embracing a culture that's a little bit tighter. And we're going to develop a great deal of pride in our profitability in the quarters ahead.

Does that answer your question?

Gabriel Leung

No, that's perfect. I appreciate that feedback. And just as a follow-up question for the group, obviously there's been a lot of organizational changes in the Company over the past year. I'm curious if there's any additional fine-tuning or additional changes the group feels this still needs to be made and what areas you might want to prioritize on those changes?

Phil Deck

We're not anticipating any significant reconfigurations to the workforce. But I would say that we've, both Alvaro and I, have continued to message within the Company that we want to maintain a high state of … a high pace of change. If we're not changing, then we're not going to grow. And so people will come and go. I think we're attracting—I think our ability to attract fantastic new employees is better; that the market is a bit softer. So to the extent that we need to find people to join our team, there's lots of great opportunities and people willing to come.

We have, as we've talked about in the past, brought people back to the office three days a week. We have, I think, growing enthusiasm around that. And the people that we add to our workforce are all people that are committed to that way of working.

We don't think there's only one way of working as a company, but you have to choose one and you have to stick to it and you have to make sure that it's a uniform culture. And so I think that that back-to-work initiative has gone well.

And I think having a high pace of change is exciting for everyone. And I think we feel that within the Company.

Alvaro, maybe you could also comment on that.

Alvaro Pombo

Yeah, yeah, yeah. I can comment on that. I mean, Gabe, look, it has been an incredible year in terms of evolution. I mean, many, many things. But when they come together, and for people—I mean, we have great tenure in the Company—when they come together, people feel good. I mean, we're back together in the office three days a week. I mean, others are even five days a week. So there is energy, number one.

Number two, achieving profitability is a big thing. I mean, it's small profitability, but hey, we can see our way through. We earn our right to live is the way I put it. Okay? And all that in the context, as I was concluding in my paragraph, I mean, of large enterprises, discovering new ways of selling them better, I think it's an exciting time. And from a product perspective, I think we are very proud of what we've been doing, but the vision of what we have, the market is opening up in an incredible way, so the Company overall sees it. And I think it's a great moment to, I mean, continue harder in a responsible way.

We've always been very responsible on the expense side and we will continue to be even more now that we're very proud of the profitability aspect of the equation.

Gabriel Leung

Alvaro, thanks for that. Just one last question then maybe for Dave. Just given the renewal schedule, did you anticipate a more meaningful contribution to free cash flow from deferred revenues in maybe Q1, Dave? Or should we expect some in Q4?

Dave Croucher

You'll see some in Q4 for sure. Our billing cycle tends to be Q4-Q1 more than the Q2-Q3. So you saw cash dip a little bit, and that's really that timing. It's not really a trend, it's just seasonality. So you'll see it improve even this quarter.

Gabriel Leung

Got you. No, I appreciate that. That's it for me, and congrats again on all the progress.

Phil Deck

Thanks, Gabe.

Alvaro Pombo

Thanks, Gabe.

Operator

Thank you. There are no further questions.

At this time, I'll return the conference back to the speakers.

Phil Deck

Okay. So—go ahead, Alvaro.

Alvaro Pombo

You go ahead, Phil. We're excited about the future. We clearly see growth opportunities for our customers, both geographically and with new use cases.

Thanks, everyone, for spending your time with us this morning. And as always, I would like to thank you for your continued support.

Phil Deck

Thanks, everyone.

Operator

Thank you, ladies and gentlemen. This concludes your conference call for today.

We thank you for your participation and ask you to please disconnect your lines.