

ProntoForms Corporation

Third Quarter 2020 Results Conference Call

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CORPORATE PARTICIPANTS

Babak Pedram

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Alvaro Pombo

ProntoForms Corporation — Chief Executive Officer

Dave Croucher

ProntoForms Corporation — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

David Kwan

PI Financial — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the ProntoForms Corporation Third Quarter 2020 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 assistance, please press *, 0 for the Operator.

This call is being recorded on Thursday, November 5, 2020.

I'd now like to turn the conference over to Babak Pedram, Director of Investor Relations. Please go ahead.

Babak Pedram — Investor Relations, Virtus Advisory Group Inc.

Thanks very much. 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 security laws, including, among others, statements concerning the Company's 2020 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 is subject to a number of significant risks and uncertainties that could cause actual results to differ materially from those anticipated.

Also, our commentary today will include adjusted financial measures which are non-GAAP measures. These should be considered as a supplement to and not as a substitute for GAAP financial

measures. Reconciliations between the two can be found in our Management Discussion and Analysis, which is available on [sedar.com](https://www.sedar.com) and our website.

And finally, note that because we report in US dollars, all amounts discussed today are in US dollars unless otherwise indicated.

With that, I will hand over the call to our CEO, Mr. Alvaro Pombo, to go over our operational highlights for the quarter.

Alvaro Pombo — Chief Executive Officer, ProntoForms Corporation

Thank you, Babak. And thank you, Pam. Good morning, everybody, and welcome to our company conference call.

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

Since the last earnings call, I continue to hear the question, how are you guys doing during COVID? We definitely saw an effect from March through May. From June on, things have been rebounding with good momentum. There is definitely an impact on some sales but we're back on a good trajectory.

From an operational perspective, the business continues to operate incredibly well. We have improved our operational framework with consistent cadence, tighter objectives, and metrics to track results.

And finally, from an employee perspective, we have been exercising our corporate value of care with an incredible response from our employees, and we continue to attract and recruit very good talent.

Now, let's focus on our customers. We hosted our Empower event last month. It was a great success. We had over 640 people register. Almost half were there live, and many have replayed sessions afterwards. Definitely a highlight of customer advocacy and education for all of our platforms.

Also, throughout the quarter, we have some notable contract expansions from enterprise and commercial customers. One of the United States' largest utility companies expanded their ARR to \$1.25 million. The utility company uses the solution to improve heavy asset installation, maintenance, and service, as well as improve adherence to stringent work and environmental guidelines.

Another one, a global manufacturer of solar-powered products, expanded their ARR commitment to \$98,000. Their manufacturer uses the solution to improve asset installation and maintenance processes to improve product uptime and customer satisfaction.

I have a few others. Next one. A leading utility services product expanded their commitment to \$139,000. And what we're doing with them is we're enabling 200 of their technicians to handle complex large asset installations and maintenance within compliance.

Next one. A leading cable service provider in the United States expanded their commitment to over \$200,000 of ARR. The ProntoForms platform is used to create custom apps supporting field technicians and reliably handle the installation and maintenance of assets deployed in customer locations.

Another one to mention. An oil and gas exploration company, which is a division of a Fortune 20 company, expanded its ARR commitment too by \$96,000. The company creates custom apps with ProntoForms to improve site operations, as well as ensure technicians meet strict requirements for health and safety and environmental compliance.

Next, let's talk about our product. This year, we have been again recognized by G2 Crowd as the leader in the Forms Automation category, and by Gartner with their Magic Quadrant for low-code application platforms, with another 17 vendors out of a field of 300 that they have considered.

I'm also very excited about the release of our Teamwork product feature. It is an exciting capability that increases collaboration between field technicians. Forms can now be submitted as

incomplete and reassigned or continued by other technicians, without data aggregated into one data record. This feature is highly sought after by organizations with sophisticated asset processes that involve multiple technicians and a squad of technicians to perform the task.

Finally, you probably saw last Friday's press release about the credit facility that we have established with TD, paying out our BDC debt and finally receiving C\$1.9 million of cash for the exercise of their warrants. I believe those three transactions put us in a much stronger financial position to continue to invest in scaling our growth.

We have a terrific product that is recognized as a leader of a segment. The product expands in a great way, particularly in large enterprises. We have the customers that understand what we do. And above all, we have the team with the conviction, focus, and financial resources to scale our growth.

I would now defer to Dave to discuss our financial results for the quarter. Dave?

Dave Croucher — Chief Financial Officer, ProntoForms Corporation

Thank you, Alvaro. Good to have everyone on the call. I'll go through the financial highlights, but I won't repeat all of the detail included in our MD&A.

Total revenue for the third quarter of 2020 was \$4.6 million, representing a 9 percent increase from Q2 2020 and a 19 percent increase over the comparative Q3 2019. Of this total revenue, 89 percent was recurring.

Recurring revenue for the third quarter of 2020 was \$4.1 million, representing a 4 percent increase from Q2 2020 and a 16 percent increase over the comparative Q3 2019.

Our annualized recurring revenue base, or ARR, as at September 30, 2020, totalled \$17 million, representing an increase of 5.3 percent from June 30, 2020, and an increase of 13 percent from September 30, 2019.

We saw a continuation of the rebound in net ARR growth with a good mix of commercial and enterprise bookings in Q3, plus a noticeable drop in churn from the previous quarters in 2020.

Customers with greater than \$100,000 of ARR has grown to be 39 percent of our base, up from 38 percent at the end of Q2 2020 and up from 35 percent a year ago.

Revenue from professional services was \$494,000 for Q3 2020 compared to \$271,000 in Q2 2020 and \$338,000 in Q3 2019. The uptick in PF's revenue mainly relates to a large contract with a large customer for the delivery of select enterprise features.

Gross margin on total revenue for the second quarter was 82 percent compared to 88 percent in Q2 and 84 percent in Q3 2019. The fluctuation in total gross margin percentage tends to be driven by the mix of revenue. When we have higher professional services, the overall gross margin will be higher, but the percentage will decrease due to the mix.

Also, recall that the second quarter margin percentage was higher than usual due to roughly \$150,000 of COVID-related funding that was recognized against these costs in Q2 only.

Gross margin on recurring revenue in Q3 2020 was 91 percent versus 93 percent in Q2 2020 and 90 percent in Q3 2019. Once again, Q2 margin on recurring revenue was unusually high due to the COVID-related funding in that period.

Operating expenses for the third quarter were \$4.2 million, up 27 percent from last quarter and up 15 percent from Q3 2019. Twenty-seven percent sounds like a large uptick, but remember that Q2 operating expenses were also reduced by \$480,000 of COVID-related funding, plus another \$270,000 of IRAP funding that was reduced against R&D. Funding from these two programs was completed in Q2. And if you compare the gross cost only, then OpEx would have increased by 3.6 percent from Q2 to Q3.

Loss from operations for Q3 2020 was \$492,000 versus income from operations of \$348,000 in the second quarter of 2020 and a loss of \$460,000 in Q3 2019.

Net loss for Q3 2020 was \$610,000 compared to a net income of \$208,000 for the second quarter of 2020 and a net loss of \$421,000 in Q3 2019.

Non-GAAP loss from operations for Q3 was \$345,000, a decrease from \$446,000 of income from the second quarter of 2020 and a decrease in loss from \$378,000 in Q3 2019.

To summarize our bottom line numbers in 2020 to date, early in the year, we took a careful approach to spending to reduce our losses as our bookings slowed, and in Q2, we temporarily swung to profitability due to the \$650,000 of COVID-related funding already discussed.

We are rebounding now and are back on the path of following bookings growth with additional investment in sales and marketing, with the intention of compounding that growth back into our ARR base. This growth mode results in moderate non-GAAP operating losses, but those are mitigated on a cash flow basis by the prepayment amounts from new contracts.

Our cash balance at the end of September was \$5.7 million and has remained reasonably steady at above \$5.5 million for the last six quarters now. Also, since quarter-end, we received, as Alvaro mentioned, C\$1.96 million upon the exercise of 4.35 million warrants.

We also recently entered the revolving credit, as Alvaro discussed, with TD for up to C\$6 million. The facility bears interest at a rate of prime-plus-1 percent per annum with a two-year commitment, renewable annually. We used a portion of that new credit facility to settle out all of our obligations to BDC.

In summary, we are pleased with the rebound in bookings growth that we saw in the third quarter. With additional evidence that customer and sales activity are increasing, we are ramping up our

approach of investing in sales and marketing to achieve more growth. We have also solidified our financial position so that we are better able to handle any variability that we may come across and ensure that we are able to continue performing at a high level.

That concludes the financial highlights.

With that, I will ask the moderator to open the line for questions. Thanks.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press *, followed by 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request, and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press *, followed by 2. If you're using a speakerphone, please lift your handset before pressing any keys. One moment for your first question.

Your first question comes from David Kwan with PI Financial. Please go ahead.

David Kwan — PI Financial

Morning guys.

Dave Croucher

Morning, Dave.

Alvaro Pombo

Morning, Dave.

David Kwan

Great work managing the Company, obviously, through some pretty challenging times. It seems like the business, I guess, is getting back to kind of pre-pandemic levels, just kind of looking at the sequential growth in the ARR, which is nice to see. I was kind of curious to get some colour from you. It seems like since June, I guess, that the business is kind of getting a little bit back to normal. Did you see any changes in the linearity of that bookings trend since that time?

Alvaro Pombo

Dave, do you want to?

Dave Croucher

Alvaro, you want me to handle it?

Alvaro Pombo

Yeah. Yeah. Yeah.

Dave Croucher

Okay. It has been actually pretty steady, David. So if you remember March, April, May were pretty lean. Just people weren't sure. And in our business, people weren't out in the field, so people weren't buying new software to support those people.

June started to come back, and actually, just June alone caused enough uptick that we went positive in Q2, and then we saw that continue pretty steadily through July, August, and September. They said the mix of bookings in that period was commercial and enterprise; maybe a little more commercial than what we normally see but still some good expansions in those areas. So some nice pick-up there.

And the other thing was that our churn rates were much lower. So our churn rates before COVID were pretty steady for many quarters, and then we had an uptick in COVID. And then it actually came down a fair bit, even below pre-COVID levels.

So that's a few different things. We probably cleaned some stuff out during the COVID period or stuff was cleaned out. And just the mix of our base has been changing over time to be more enterprise, which is our best churn profile.

David Kwan

That's good. I appreciate the colour, Dave. I guess, given what's happened though in recent weeks, cases obviously have been surging in many parts of the world, including the US which is a major market for you. Some places we've seen some restrictions, particularly over in Europe. Have you seen much of an impact in the last couple of weeks on the bookings front?

Dave Croucher

Alvaro, do you want to handle that?

Alvaro Pombo

Yeah. Yeah. Yeah. Yeah. I mean, Dave Kwan, not really. I mean a good part of our bookings, as Dave was describing, I mean, is existing customers. So existing customers are on a mission of whatever project they're doing. So we haven't seen any major impact. The US is the main market.

Now, there are, in the new acquisition for large enterprises—that's the one that I referred in my comments at the beginning—yes, definitely, there has been an impact. I'll say delayed more than impact that anything has been cancelled. But that's a portion of the business that has been—anyway, that's the effect of COVID. But no major cancellations or any projects or anything like that. Just taking longer to get new customers through the finish line in the large segment.

David Kwan

Oh. I appreciate it. I was kind of tying it into my next question as it relates to the success that you guys have had in terms of the land and expand, winning more business with existing customers. But it sounds like it's still a pretty tough market out there trying to win new customers?

Alvaro Pombo

I mean, I wouldn't say very tough. We've landed a few. But I think you can see some projects that are taking longer. However, the kind of, I mean, projects you get in, the way we get in is through proof of concepts or POCs, I mean, that people run. And those are not being affected.

I mean, really the next level of expansion on those large enterprises that sometimes people put it like that, they're not moving as—I couldn't say that they're not moving as fast as they used to, but there is definitely a little bit of trepidation on, I mean, going a lot harder for those new customers that come from the POC side of things.

David Kwan

Okay. Perfect. Just a couple more questions. Dave, just on that large professional services contract, I think you guys had mentioned most of it's expected to be recognized in Q3 and Q4. Can you tell me when the balance is expected on that? And I guess, is that expected to show up in Q4?

Dave Croucher

Good question. So we actually got ahead of it pretty well. We're 75 percent complete on it. It was roughly 420, the size of the contract, and we're about 75 percent complete. So the rest will come in Q4, maybe a little bit in Q1.

David Kwan

Okay. Perfect. And the last one, just the commentary you guys had on the R&D, I noticed obviously it picked up this quarter. Was that at least a sequential increase just primarily due to the IRAP funding ending last quarter? Or was there something else going on there?

Dave Croucher

Mostly that. We did have a little bit of adds around product team. But in the MD&A, we have a breakdown. You can see it actually went up just slightly, about 20K. Because on a gross basis, it's because in Q2, we had quite a bit. We had 272K of IRAP funding, and then the IAP also helped by another 50K in R&D.

David Kwan

Perfect. Thanks, guys.

Dave Croucher

Yeah.

Alvaro Pombo

Thank you, Dave.

Operator

Ladies and gentlemen, as a reminder, should you have any questions, please press *, 1.

There are no further questions at this time. Please proceed.

Alvaro Pombo

Okay. So thank you, Pam, and thank you, Dave.

So just to wrap up, I mean, we plan to continue investing in our product and go to market, especially in the enterprise. We are really excited about what's ahead for the Field Service Management market and how our offering fits in that marketplace.

Despite the challenges of the world, we continue to see the next phase of growth for our customers and our company. And I want to thank you very much, everyone, for spending the time this morning with us. And as always, I would like to thank you for your continued support. Thanks, everyone.

Operator

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