Pivotree Inc.

The Frictionless Commerce Company

To our shareholders, employees and customers - Q2 2023

I plan to continue delivering short quarterly updates in between the more comprehensive annual review I started at the end of 2022. As is often the case over our history as a public company, I feel it is important to provide some additional context for some of the numbers we share in our financials and MD&A. One thing that remains constant is we have a great group of Pivoters around the world who continue to drive value for our customers during and have been key to our continuing progress transitioning to product and solution oriented solutions.

Operating Results

We continue to focus more efforts transitioning to the product and recurring revenue businesses which is affecting all aspects of how we run the business and the operating results. The areas that are showing signs of progress are the recurring revenue and MS. Our sales pipeline had the largest increase in MRR and product based opportunities and our ARR bookings of $1.9 million is the best quarter since Q4 2021. This is being driven largely by Supply Chain Managed Services and the recent accelerated uptake of our Control Tower solution. The team has demonstrated creative go-to-market strategies with Control Tower and is getting great uptake which is leading to an increasing number of client driven product roadmap insights. Pipeline of qualified opportunities doubled in Data and Supply Chain between Q1 and Q2. Our MS YoY growth has been consistently positive for the last six quarters as has our MRR. We also recently launched our WMS solution into the AWS solution library and we also expect to be listed in the AWS marketplace this quarter. We are working aggressively with a number of new partner channels to take our IP to market. Our Data business continues to evolve their tool set and transition the way clients buy their data solutions from us. Year to date MRR annualized to $44 million and our trailing four quarter MRR at $45 million is the best four quarters of MRR we have had in 3 years.

We expect Q3 and Q4 to continue the progress on ARR bookings and product expansion. Commerce has also started to see the pipeline of recurring revenue opportunities expand. Some of the delays in large bookings have been the result of clients requesting more proof of concepts and smaller, preliminary discovery phases of work in advance of larger contracts getting executed. Commerce bookings in Q2 had a number of small, six figure discovery phase contracts that will get delivered in Q3 and are linked to seven figure contracts at the end of the discovery phase. A number of these are recurring revenue contracts and have the ability to bring more than one Pivotree product into the complete solution. It is also worth mentioning that most of these products are benefiting from starting with client relationships initiated in our PS practice and identifying gaps we could fill. The client relationship in PS and legacy MS is a critical part of the long term equation for generating revenue and cash flow to fund product initiatives but even more importantly helping to drive the product roadmap insights.

Midway through 2022 we committed to shifting our financial focus to the bottom line and began delivering consistent adjusted EBITDA that would enable us to invest more into our product transformation. We delivered our third straight quarter of positive adjusted EBITDA. We have made a commitment as a company to drive greater discipline and operate more efficiently as a critical foundation for profitable growth. Q2 continued our focus on finding and executing against operating improvements. You will notice the approximately $800k restructuring charge impacting reported EBITDA. This reflects the company wide effort to streamline which resulted in identifying and executing on greater than $10 million in annualized cost savings. I will not provide guidance as we expect to reinvest some of those savings in additional go-to-market initiatives with a particular focus on our products. I will point out that despite the $2.4 million revenue decline from Q1 we maintained positive adjusted EBITDA and the operating efficiencies you are seeing in Q2 will contribute to additional savings in Q3 and Q4 results.

I have been consistent in my communications with regards to some of the recent headwinds we have been experiencing particularly in closing new logos in our Professional Service segments. We have seen repeated client delays in signing statements of work with more of these contracts moving higher into leadership teams for review before signing. We continue to experience this and saw a number of contracts that were on track to close, delayed further and in some cases suspended. The other observation or metrics surfaced recently is the number of proof of concepts and discovery phase initiatives that are being closed and worked on. These are in fact great leading indicators of work being done to justify business cases in our clients but are also a driver of delays in getting to the larger contracts. We are embracing this process as a great way to prove value and better align client expectations and expect to drive more POCs and discovery phases as a path to larger contracts. We also expect that these will become increasingly important in our product transition as all of our current sales processes with our products are starting with small trials and in the case of Control Tower are leading to accelerated scaling opportunities. Clients are spending more time looking at ways to reduce the investment required to begin showing a return, essentially following more of the agile development principle of shorter time to benefit and lower cost, breaking things up in smaller, measurable projects. Our qualified sales pipeline of opportunities remains the largest in company history but I said it last quarter and I will repeat it here - there will be PS booking and revenue volatility for the rest of the year, particularly as we work to convince clients to buy products over projects. Our existing clients continue to work with us in a consistent manner and form a strong foundation for bookings and revenue and our new product initiatives.

Acquisitions

We continue to have active opportunities in the pipeline and we have modified our M&A approach to help identify more “closable” opportunities as we have not found any opportunities that meet all of our criteria so far. M&A continues to be a key part of achieving our mission and vision and we will continue to adapt our approach to find and close on the right deals supported by our strong cash balance sheet, positive EBITDA production and an acquisition line of credit. While the right acquisition opportunities have been hard to come by to deploy our capital, we believe our own stock is trading at a significant discount to its intrinsic and future value that we became more aggressive this past quarter buying our own stock. Year to date we’ve acquired over 230k shares at an average price per share of $2.47 (over $560k total spend).

Summary

Pivotree has a strong and disciplined leadership team navigating the current challenges of this market and driving the transformation to a product oriented business. Their focus on cost efficiencies has further strengthened Pivotree’s position and with strong signs of progress on our product fronts driven by insights provided through our deep client relationships established in our PS and MS business working with top tier multinationals, Pivotree is in a strong position to continue executing on its mission and vision.

Bill Di Nardo
Chief Executive Officer