Pivotree Inc.

The Frictionless Commerce Company

To our shareholders, employees and customers - Q2 2024

Fiscal years 2023 and 2024 have been a period of significant transformation. Our restructuring efforts, aimed at optimizing our operations and enhancing client experiences progressed well and I am grateful for the dedication and hard work of our team. We have been closing our data centres while transitioning our clients towards a cloud first strategy and like our clients our teams are effectively doing more with less.

<u>Closer look at our results:</u>

We articulated our strategy in 2023 to run a profitable PS and MS business and use the money and insights we generate working with these clients to invest in our IP based solutions for longer term growth in frictionless commerce. We started breaking out the revenue around those new solutions that we call Managed and IP Solutions (MIPS) to help our stakeholders see what progress we are making. The Managed and IP Solutions (MIPS) had another good revenue quarter at $4.0 million which is up 30+% versus Q2 2023. Our rolling 4 quarter MIPS revenue is tracking to $17 million and is up 57% versus previous rolling 4 quarters. Our rolling four quarter MIPS bookings average is up 18% at $13.5 million vs $11.4 million the previous four quarters. The SKU building category bookings are quite lumpy with a mix of small proof of concept deals blended with some very large multi-quarter deals. Based on what I see in the pipeline for SKU build solutions that lumpiness will continue and I am confident we are going to see continued growth. We are also seeing more hybrid deals with a combination of traditional PS and MIPS assisted PS. I am excited about what I am seeing and while I would like to see it move faster, it is making measurable progress.

We started an aggressive campaign in 2023 to reduce opex which included exiting our data centres and remaining Canadian office leases (which concluded this quarter and explains some of the accelerated depreciation observed on our P&L as well as the restructuring charges). The team has removed more than $10 million in annual opex over the 12 month period which has set Pivotree up for operating cash flow generation moving into 2025. We delivered our seventh consecutive quarter of positive adjusted EBITDA while continuing to invest in our products and IP based solutions and I believe the team set up the ability for real value creation over the next 24 months. Clearly we need to see the Adjusted EBITDA convert to EBITDA and ultimately to consistent positive cash flow, and I believe the leading indicators are there.

The remaining critical metric I have suggested everyone pay attention to are our bookings numbers. Q2 registered $20 million in Total Contract Value bookings which was up 15% versus previous year and was driven largely by our Total Managed Service business that had the strongest booking quarter in company history at $10.1 million which is up 40% over Q2 2023 and 8.5% versus Q1 2024. This was driven mostly by large renewals and extensions in our Legacy Managed Services (LMS) bookings up 309% vs Q2 2023. A number of large renewals were two and three year contracts with the total contract value being captured in the bookings number. This means greater visibility into the future revenue, but it will not translate into growth by itself. The bookings number we are more focused on is the professional services of $9.4 million which is off the recent $11+ million of PS bookings we had been tracking to. PS booking and revenue volatility makes cash flow management more challenging and the team is working hard to get back onto a consistent growth trajectory. We have a number of great opportunities that would help us to finish 2024 in a very strong position to set up 2025, but slow signings have been much of the norm in 2024 so we will plan conservatively and work hard for the upside.

<u>Summary:</u>

I have been engaging more directly with client executives and decision-makers this year, who consistently highlight their environments are too complicated, with so many different and often overlapping applications, delivered by too many vendors with many of the applications not being used to their full capabilities. Many of the projects and opportunities we are seeing now are helping them to simplify their digital environments, lower their cost of running and keeping the customer experience a positive one and reducing their overall footprint including the number of vendors they need to manage it all. The number of different applications makes it challenging to keep historical data in sync across systems at the same time they are bringing on more data that has to move through different operational and sales channels. Clean, well organized data lends itself to better use by their core applications as well as setting our clients up for better application of ML and AI tools in the future. We have been transforming the way we take our capabilities to market to address the client feedback - “save me money, simplify my environments and help me clean up my legacy data and bring new data in cleaner and more efficiently”. Like our own efforts the past 12 months, our clients are generally looking to do more for less. I remain optimistic we are investing in the right areas to create long term value for our clients and shareholders.

Bill DiNardo
Chief Executive Officer