Urgent.ly Inc.

First Quarter 2024 Conference Call

May 13, 2024

CORPORATE PARTICIPANTS

Jenny Mitchell, *Vice President of Finance Strategy and Investor Relations*

Matt Booth, *Chief Executive Officer and President*

Tim Huffmyer, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Chris Pierce, *Needham & Company*

Brian Dobson, *Chardan Capital Markets*

PRESENTATION

Operator

Good afternoon and welcome to Urgently's First Quarter 2024 Conference Call.

As a reminder, today's call is being recorded and your participation implies consent to such recording.

At this time, all participants are in listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press pound zero on your telephone keypad.

With that, I would like to turn the call over to Jenny Mitchell, Vice President of Finance Strategy and Investor Relations. You may proceed.

Jenny Mitchell

Thank you, Operator.

Good afternoon, everyone, and thank you for joining us for Urgently's financial results conference call for the first quarter ended March 31, 2024.

On the call today, we have Urgently's CEO, Matt Booth; and CFO, Tim Huffmyer. Following Matt and Tim's prepared remarks, we will take your questions.

Before we begin, I'd like to remind you that some of our comments today may contain forward-looking statements that are subject to risk, uncertainties, and assumptions which could change. Should any of these risks materialize or should our assumptions prove to be incorrect, actual company results could differ materially from these forward-looking statements.

A description of these risks, uncertainties, and assumptions and other factors that could affect our financial results is included in our SEC filings, including our most recent Annual Report on Form 10-K for the year ended December 31, 2023, our quarterly report on Form 10-Q, and other filings and reports that we may file from time to time with the SEC. Except as required by law, we do not undertake any responsibility to update these forward-looking statements.

During today's call, we will also discuss certain non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in our earnings materials and press release, which are available on our website at investors.geturgently.com. A replay of today's call will also be posted on the website.

With that, I'll now turn the call over to Matt.

Matt Booth

Thank you, Jenny. Good afternoon, everyone, and thank you for joining us today for our first quarter 2024 earnings call.

As we have stated in previous calls and discussions, during the first half of 2024, we are primarily focused on the financial and operational improvements so we can turn our focus to accelerating profitable growth. We are on track with these improvements, and in future quarters, we look forward to discussing growth strategies and business expansion efforts more broadly.

In terms of the first quarter, we're very pleased with our results, which exceeded our expectations we outlined during our last earnings conference call. Our revenue for first quarter of 2024 came in at $40.1 million, which was above our guidance range of $35 million to $38 million, mostly due to higher-than-expected volumes.

Our gross margin of 23% is our fourth consecutive quarter with gross margins of at least 20%. In addition, our non-GAAP operating loss of $5.1 million was a 35% improvement from the fourth quarter of 2023, demonstrating our progress towards achieving non-GAAP operating break-even by the beginning of the third quarter.

In support of sustainable growth, I can update you on the progress we're making with our key operational and financial improvements. As it relates to our operational improvements, over the last several quarters, we have transformed our customer service operations by optimizing the staffing balance between nearshore business process organizations and onshore call centers. We continue to leverage technology and optimization of our service model to drive additional improvement in this area. We've enabled real-time data streaming capabilities to improve efficiencies in our call center, such as streamlining alerts and proactively identifying high-risk jobs. We expect telematics integrations with our partners will also result in efficiencies and additional cost improvement.

Improving margin continues to be a priority. In the prior quarters, margin improvement was primarily driven by our actions regarding price changes and partner mix. We have also, and continue to, perform technology platform upgrades that drive visibility and efficiency in the marketplace as we launch capabilities that further optimize the match of service provider to service event. In addition, we expanded our dynamic pricing algorithm to incorporate location-based pricing at a granular level to further optimize our margin.

Our progress in this area over the last 12 months has been notable. When compared to Q1 '23, our Q1 '24 gross profit of $9.4 million is slightly higher than our Q1 '23 gross profit of $9.3 million, but with 19% less revenue than in the first quarter of 2023. Improving our gross margin and reducing our operational expenses is critical in achieving non-GAAP operating loss breakeven by the beginning of the third quarter. Post-merger integration is at the forefront of this effort as we eliminate redundant functions and integrate Otonomo and Urgently technology teams.

We recently launched OEM telematics to improve the customer experience by speeding up the process of gathering critical data about the vehicle. In addition, we have started to capitalize software specifically related to long-term platform upgrades, scalability, alert improvements, portal enhancements, and payment automations. All of these, we believe, are critical functions for additional operational improvements.

Tim will provide an update on improving our balance sheet and debt refinancing.

We believe we are tracking well against these priorities. Overall, I'm very proud of our accomplishments this first quarter, which included delivering financial results above expectations and the guidance provided, and I believe the team continues to make great progress in executing against our strategic priorities shoring Urgently up for the near- and long-term growth opportunities ahead of us.

On that note, we're pleased to announce that our launch of the top five OEM occurred in late March. The integration and launch were successful, our operational performance is strong, and we've received positive feedback on our collaboration and partnership thus far.

In addition, we believe our sales pipeline is solid and we have started to return focus on our growth strategy. We look forward to sharing more about this in our future earnings calls.

As we look ahead, we remain focused on expanding our existing B2B incident business through new partnerships and expanded relationships with existing partners. Second, achieving non-GAAP operating breakeven through our operational improvement and margin expansion. And third, leveraging our assets from Otonomo together with Urgently's core technologies to provide innovative and differentiated services to our partners.

Thank you for your time and continued support. I'll now turn the call over to Tim to discuss our financial results in greater detail.

Tim Huffmyer

Thank you, Matt, and good afternoon, everyone.

Today I will discuss our results for the first quarter ended March 31, 2024. For the first quarter, revenue was $40.1 million, down 19% or $9.5 million from the same quarter last year. The year-over-year revenue decline is primarily related to our decision to move away from less profitable revenue, including the loss of one insurance partner due to our change in strategy, as well as the customer partner non-renewal that we have discussed during previous calls. This was partially offset by volume and rate increases from new and existing customer partners.

The first quarter revenue of $40.1 million exceeded our guidance range announced last quarter.

For the first quarter, gross profit was $9.4 million, up approximately $100,000 compared to the same period last year, and notable when taking into account a revenue decline of 19% in the first quarter to the same period last year. The increase in gross profit was primarily driven by rate increases applied to customer partners and the decrease in first call costs.

Gross margin for the first quarter was 23% compared to 19% for the same period last year. This is the fourth consecutive quarter of gross margins exceeding 20%, including growth in the last two quarters. As a reminder, our long-term gross margin target is 25% to 30%, and we continue to work towards these goals.

Now let's move on to operating expenses. Operating expenses for the first quarter was $17.7 million, a decrease of $1.9 million, or 10%, from the same period last year. Most of our operating expenses are employee-related, so let's focus there. At the end of the first quarter of this year, we had 330 total employees, or 241 Urgently employees and 89 Otonomo employees. For the Urgently employee count, when comparing to the first quarter of last year, we have decreased the number of Urgently employees by 12%, and when comparing to the fourth quarter of last year, we have remained flat. For the Otonomo employee count, when comparing to the fourth quarter of last year, we have decreased the number of Otonomo employees by 18%.

Also, just last month, we took actions to further decrease employees, primarily in Israel and the U.S., which resulted in an additional decrease of 38 employees, or 12%, which included 22 Urgently employees and 16 Otonomo employees. This action includes consolidation of the technology teams, transferring nearly all responsibilities from Israel to the United States. To summarize, our April 30 employee count is now 292 total employees, which includes 219 Urgently employees and 73 Otonomo employees.

GAAP operating loss for the first quarter was $8.3 million, an improvement of $2 million, or 19%, from the same period last year.

We also review non-GAAP operating loss, which is defined as GAAP operating loss plus depreciation and amortization expense, stock-based compensation expense, non-recurring transaction costs and restructuring costs. Non-GAAP operating loss for the first quarter was $5.1 million, an improvement of approximately $300,000, or 6%, from the previous year.

Most notably, though, and as discussed during our last few calls, our non-GAAP operating loss for the first quarter of 2024 of $5.1 million, was an improvement of 48%, when compared to the third quarter of 2023 combined company non-GAAP operating loss, including both Urgently and Otonomo, which was $9.9 million.

Further, these same results were also an improvement of 35%, when compared to the fourth quarter of 2023 non-GAAP operating loss, which was $7.9 million.

These results are aligned with the operational improvement activities that Matt previously outlined and are in line with our expectations and comments over the last six months. We are proud of these improvements and all the hard work from the team.

Now a few comments on our balance sheet. As of March 31, 2024, Urgently had cash, cash equivalents, and short-term investments of $40.7 million and a net principal debt balance of $54.3 million, with a maturity in January of 2025. As we had previously discussed, in January of 2024, we took steps to enhance our capital structure by using cash on hand to repay $17.5 million in net principal debt and $6 million of banking fees under the structural loan agreement, while also extending the maturity date to January of 2025.

During the first quarter, we capitalized approximately $1.6 million of internally developed software activities in support of launching the previously mentioned Top 5 Global OEM and to make enhancements to our platform by adding features and functionality, which benefit all our customer partners. We expect this practice to continue during 2024, including approximately $1.4 million in the second quarter of 2024.

We continue to take important, proactive steps to address our capital structure, enhance our liquidity position, and provide the Company with additional financial flexibility. We are taking further actions with respect to maturities of our debt and expect those results by the end of the third quarter. As of March 31, 2024, we had 13.4 million common stock shares outstanding.

For the second quarter of 2024, we expect revenue to be between $32 million to $35 million. Additionally, we remain on track to achieve non-GAAP operating breakeven by the beginning of the third quarter of 2024. Our expected common stock shares outstanding at the end of the second quarter is 13.4 million.

With that, we're now happy to open the call for questions. Operator, will you please open the line for Q&A?

Operator

We will now begin the question-and-answer session. To ask a question, you may press star then one on your telephone keypad. If using a speakerphone, please pick up your handset before pressing the keys. To withdraw from the question queue, please press star then two. At this time, we will pause momentarily to assemble our roster. Our first question will come from Chris Pierce with Needham. You may now go ahead.

Chris Pierce

Hey, good afternoon, everybody. I just have a couple questions. You spoke to higher-than-expected volumes in Q1. What drove that? Is it weather-type events or was it share gains with your partners? Like, what's the right way to think about that and how repeatable is something like that?

Matt Booth

Yes. Hey, Chris. It's Matt. Two answers to that. The first one is weather related; and the second one is additional share from our partners that was above and beyond what we anticipated. It was a growing in the book of business and then a handful of weather-related events.

Tim Huffmyer

As far as that being repeatable, we do the best we can to provide responsible guidance, but the volumes do drive it. As you know, we get paid on every dispatch. The volumes level do matter, but we try to do our best to estimate that.

Chris Pierce

Okay. When you say you're taking share, is that because there's an incident and your competitors are unable to get a service provider there in a reasonable period of time, you're taking share in that moment or these are longer term decisions that your partners are making based on your longer-term performance with them?

Matt Booth

It's mostly the latter. It's longer-term performance from partners and them shifting volume to us from other competitors.

Chris Pierce

Got it. That's sort of a continuous share gain over time is the right way to think about that. Okay.

Matt Booth

Perfect.

Chris Pierce

Okay. You talked about a decrease in first call cost. Is it right that that's a human calling in from one of your partners into your help desk? Can you talk about further room in decrease in first call cost? Is this something where you're in the early earnings or, like, what's the right way to think about this?

Matt Booth

You are thinking about it the right way. Let's say a customer partner would transfer one of their customers to us on the phone and we would have a live agent answer the call. There's probably room there. There's a bunch of technology innovations that we're working on around IVR and AI and chat to bring those costs down. There's more room there. I think we're super focused on how do we expand the share of wallet that we have with our partners and how do we expand the business overall. We feel like this line item is pretty tight. There's a little bit more room we can do on it, but overall, we're pretty pleased with where we are today.

Chris Pierce

Okay. Going along that theme there, can you talk about share expansion and potential new customer wins and kind of loop in renewals that might be upcoming on the horizon?

Matt Booth

Yes, we have a handful of renewals that are coming up on the horizon. We feel very positive about where we sit with that. We expect to have a lot more to say about that in the next earnings call in terms of both partner renewals and then also some new customer wins that are on the horizon.

Chris Pierce

Okay. Can you just remind us on seasonality? I know summer might have the most driving, but you've got drivers far away from your service providers on more far-flung vacations. Is winter the best time of year for you guys from a mixed perspective since you've got incidents and people are traveling less? Or what's the right way to think about seasonality of events throughout the year?

Tim Huffmyer

Yes. Chris, winter events definitely drive something, but the summer vacation months are popular. That's when there's a lot of traffic on the road, a lot of volume. That's the better time of year for us. That's the late June, July, August time period.

Chris Pierce

Okay. Perfect. Okay. I know you talked about the third quarter might be something where you talk about what you're going to do with the debt, but you've got it all in current liabilities now due in less than a year versus the $40 million in cash, $41 million in cash. How should investors think about the balance between those two and the options that you have for the $52 million in debt?

Tim Huffmyer

Yes. We're in active collaboration with existing lenders and looking at outreach to other lenders to find the best solution there for the Company. We're confident we can get through that here in the next couple of months with our goal being to have that done in the third quarter. We'll definitely need to align some of that maturity with the future projected cash flows of the Company. But given the fact that we're holding and expect to achieve the third quarter non-GAAP operating breakeven, we feel pretty comfortable with that as we think about our options to extend the maturity.

Chris Pierce

Okay. Perfect. Just to, not quite to split hairs, but I just want to make sure I'm modeling the Company correctly. The second half of '24 is when you sort of get to the growth numbers and the gross margin numbers that you're speaking of, or is that more of a '25 event in terms of repositioning the Company for growth after the integration?

Tim Huffmyer

Yes. Great question and a good follow-up from the last call. When you look at the model, we've been modeling and we've been talking about the non-GAAP operating breakeven, and really there's two major levers there. One is operating expenses. I think we've done a good job as a team demonstrating our ability to leverage existing and even reduce operating expenses, and that trend should be expected to continue. Again, we've proven that. On the margin side, you absolutely would expect that we're working very hard on the tech side to put margin inside that range that we've been guiding to in the back two quarters of the year. That is our goal. When you combine those two elements, that is part of the formula to get to the non-GAAP operating breakeven.

Chris Pierce

Okay. Perfect. Lastly, on the OEM telematics that you spoke to, how does that show up in the model when you're able to get vehicle information sooner or without having to speak to the driver? Like, how does that help in the financial model?

Matt Booth

Yes. It improves the gross margin because we don't have to deploy an agent to answer the phone. It's all taken in algorithmically.

Chris Pierce

Okay. I appreciate the time.

Matt Booth

Thanks, Chris.

Tim Huffmyer

Thanks, Chris.

Operator

Our next question will come from Brian Dobson with Chardan Capital Markets. You may now go ahead.

Brian Dobson

Hi. Thanks for taking my question this evening. Do you think you could speak a little bit about your strategic investors and the relationships you have with those companies and how they've, I suppose, helped you to perhaps find new OEMs as you're looking to gain additional contracts?

Matt Booth

Yes. That's a good question. Just for a reminder, strategic investors in the Company that we've named, BMW, Porsche, InMotion, which is Jaguar/Land Rover, and Enterprise Rent-A-Car. I'd say that, in general, we have a collaborative relationship with all of them. We talk to all of them often. They do not outwardly call people on our behalf, but they, like anyone that they're happy with—they do take reference calls from time to time. I should mention at least one of those is not a current partner today, but we're hoping in the near future we'll be able to add them to the partner portfolio. They're really helpful. They tell us when we're doing a great job, they tell us where we need to do work. In a lot of cases, we're pretty ingrained in some long-term planning, so we can really sit down and think about how to improve both their business performance and our business performance at the same time.

Brian Dobson

Yes, great. Thanks very much. Turning to your fleet clients, as I recall, you have fairly high penetration rates within the fleet. Is that right?

Matt Booth

That's correct.

Brian Dobson

Yes. I suppose as you're looking to add additional fleet clients, what feedback have you received from potential clients as they consider bringing the service on?

Matt Booth

I think the feedback we get is pretty consistent. It's twofold. One, they want to diversify where they're sole source. In the case of large companies, they might want to do a dual source relationship. Number two, they're very focused increasingly on quality and then technology, how can we use technology to increase the quality of the dual relationships for the OEM side; and then with other partners like fleets, how can we use technology to make sure that we decrease the amount of time it takes to get someone out to service them. It's really relying on the technology that we build and improving the performance of their overall program.

Brian Dobson

Just as a final question for me, and I know that you alluded to this in your prepared remarks, but could you maybe just give a little color on how the collection of real-time data helps to build a moat around your business?

Matt Booth

Yes, sure. We spent a lot of time in the last kind of year and a half or so taking the data that we have historically in the business and really drilling down on like a geospatial basis. We can say within a very specific defined geography, smaller than a business trade area down to the zip code level, like what is the right pricing given the time of day and how do we use real-time events like weather, traffic, and other things to really isolate what's going on with the job. We're pretty good now at predicting what it will take and what it will cost in any given geography and any given day part about what the job will cost and given the kind of quality we want to get. I think what you'll hear us talk about more in the future is if a customer wants to start to tier the service and say, hey, we want this customer set who is our VIP customer to get a very specific kind of experience, we can tailor the experience around that versus some other kind of experience that they may want. It's really what we're starting to do is break down. You'll hear more about this in future calls, creating a VIP level, if you will, so we can create an exceptional quality experience where price isn't really the issue and then start to tier it. We'll be able to roll that out algorithmically and share that with partners, and you'll start to hear more about that in the next couple of calls.

Brian Dobson

Well, we look forward to that. Thanks very much.

Matt Booth

Thanks for your time.

Tim Huffmyer

Thanks, Brian.

Operator

Again, if you have a question, please press star then one. It appears there are no further questions. This concludes our question-and-answer session. I would like to turn the conference back over to Matt Booth for any closing remarks.

Matt Booth

Great. Thanks, everyone, for your time.

As a reminder, we'll be attending the Needham Technology Media and Consumer Conference on May 15; and also, the B. Reilly Institutional Investor Conference on May 22 and May 23. If you're attending either of these and you'd like to have a one-on-one meeting, please contact the conference desk.

If you're not attending and you want to meet with Management, please reach out to us at investorrelations@geturgently.com, and we're happy to schedule time for a call.

Thanks again for your interest in Urgently, and thanks again for joining the call. Have a great evening.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.