Urgent.ly Inc.

Third Quarter 2024 Conference Call

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CORPORATE PARTICIPANTS

Matt Booth - *Chief Executive Officer*

Tim Huffmyer - *Chief Financial Officer*

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

PRESENTATION

Operator
Good afternoon and welcome to Urgent.ly's Third 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 assistance during the conference, please press "*" then "0" 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 Urgent.ly's financial results conference call for the third quarter ended September 30, 2024. On the call today, we have Urgent.ly'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 risks, 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
Thanks, Jenny. Good afternoon, everyone, and thank you for joining us today for our third quarter 2024 earnings call. I am pleased with our performance during the third quarter where we delivered revenue of $36.2 million, which was in line with our expectations while making improvements in both non-GAAP operating expense and non-GAAP operating loss.

Notably, this is our fourth consecutive quarter where we delivered on our revenue guidance commitment. As we close out the year, we remain focused on the continued execution of our strategic initiatives, which are aligned with accelerating profitable growth, delivering exceptional customer service, achieving operational efficiencies, and improving our capital structure. We were active across all areas of the business during the third quarter, and we have again made progress on renewing several significant customer partner contracts.

Let me spend a few minutes to provide some highlights. As previously mentioned, we secured a three-year contract renewal with a global automotive fleet management company. The renewal extends our long-term customer partner relationship to nine years.

Under this renewed contract, our customer partner will leverage Urgent.ly's comprehensive technology stack capabilities in the US and Canada to provide capabilities encompassing vehicle classes one through six, which is light-duty passenger cars, vans, small pickup trucks, through medium-duty and commercial vehicles. They will also leverage our AI-driven yield-based pricing technology with predictive location-aware capabilities to drive network pricing and actionable insights with the goal of minimizing vehicle downtime.

Also, as previously released, we secured a two-year contract renewal with one of our largest worldwide vehicle rental companies. With this renewal, our relationship, which began in 2022, will extend through 2026. Urgent.ly's connected assistance platform will continue to provide their roadside assistance program, enabling exceptional mobility assistance services, including knowledgeable support for electric vehicles in the US and Canada. Our recent contract renewals reflect Urgent.ly's ability to foster growth, stability, and collaboration across our existing client base.

Each renewal underscores our client satisfaction and trust in our mobility assistance platform. We look forward to deepening our relationship with each of our customer partners and remain dedicated to supporting their long-term success. Looking back on our progress over the first nine months of 2024, we successfully renewed and expanded eight existing customer partners and acquired three new customer partners.

I'm proud of the hard work across the organization, which have led to these successful outcomes. Despite this positive momentum, our business is not immune to some of the challenging market conditions facing our partners. In October 2024, we were informed that a customer partner, which is our top five global OEM, has shifted their internal strategy.

As a result, this customer partner has decided to close its mobile technical support trucks and eliminate dealer technicians providing remote services, which is the program that we're specifically selected to integrate in support. The strategy change includes a contract wind-down. This global OEM will be rolling its brand back under the vendor currently serving its other suite of brands. This customer partner currently represents less than 5% of our revenue for the first nine months of 2024.

We remain focused on winning new business and renewing and expanding relationships with our customer partners. An ongoing priority remains improving our margin profile to deliver profitable growth. As such, we are constantly looking at the business to find opportunities to drive operational improvements and efficiencies.

On September 19th, we completed our divestiture of Otonomo business unit as well. This action is part of our strategic effort to divest non-core assets and dedicate our resources to advancing our core business. Under this divestiture, we returned 51% of the ownership to the business units management and retained 49% equity ownership.

In addition, Urgent.ly retained the perpetual royalty-free license to integrate the Flow Software into the platform, which includes driver behavior, driver scoring, crash detection, and analytics platform. The divestiture and license will also enable us to continue to leverage the flow software to advance our connected vehicle offerings while enabling the flow management team to focus on its own growth opportunities and seek outside capital to grow independently without continued investment from Urgent.ly.

We would also expect to optimistically partner with the flow in the future. Separately, we believe the product innovation that leverages our technology platform and data insights, will not only drive further optimization of our margin profile, but also will enable our customer partners to build roadside assistance programs that perhaps fit their goals.

On this front, I'm very pleased that Urgent.ly was recently recognized in October by AutoTech Breakthrough Award for the overall transportation tech of the year. Our next generation yield-based pricing technology, which was introduced this year, this AI driven pricing technology makes it possible to reliably predict and optimize job prices for roadside assistance services leading to higher quality customer experiences.

Real time yield based pricing allows Urgent.ly to better manage surges in roadside assistance demand, similar to surge pricing used by ride hill services. This award is a result of the hard work of our data engineering teams, who developed our yield-based pricing technology and who continually look for ways to apply technology to advance the roadside experience.

Our location aggregation system has been tested nationwide for RSA-4 dispatches, which include four roadside service events of fuel, jumpstart, auto lockout, and flat tire. We were successful in increasing the digital engagement with our service providers and reducing our cost to provide this service within this test segment.

On the customer service side, we saw improvements in our time to assign and reduction in wait times for stranded drivers. As testing validated our assumptions, we recently rolled out our location aggregation system to 15% of our network for all RSA-4 dispatches. In closing, the team had a productive third quarter.

And I'm pleased with our progress, which included securing customer contract renewals, continuing our focus on breakeven through operational initiatives and improving our gross margin for the quarter and year-to-date over the prior year. We continued to take significant steps forward in our path to breakeven during the third quarter as evidenced by the 16% year-over-year improvement in our quarterly non-GAAP operating expenses and 17%, year-over-year improvement in our quarterly non-GAAP operating loss. We believe this progress positions as well for capturing new and long-term growth opportunities ahead.

As we look ahead, our core priorities remain expanding our existing B2B incident business through securing renewals, expanding relationships with existing partners, and developing new customer partner opportunities, achieving non-GAAP operating breakeven through our operational improvements, margin expansion, and managed growth, and continuing 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 financials.

Tim Huffmyer
Thank you, Matt, and good afternoon, everyone. Today, I will discuss our results for the third quarter ended September 30th, 2024. Let me start by providing more information on the strategic transaction to divest the flow in Otonomo business unit. As Matt highlighted, in

September, we announced our decision to divest this business unit, which we believe will enable greater focus in capital resource allocation to advancing Urgent.ly's core business.

As part of the transaction, we returned 51% ownership to the business unit's management and retained 49% equity investment ownership. This transaction resulted in an immediate deconsolidation of the business unit from Urgent.ly including the removal of all related assets and liabilities and a new non-current equity investment asset on our balance sheet valued at approximately $1.4 million.

Separately, we retained a perpetual royalty-free license to all divested IP, allowing Urgent.ly to utilize the desired functionality to enhance the Urgent.ly platform. This license was independently valued at approximately $1.4 million and is classified under property, equipment, and software on the balance sheet. The write-off of all the divested assets and liabilities and the write-up of both the equity investment asset and the IP software license resulted in a reported book loss within the third quarter of $3.3 million.

Now let's move on to the financial results. For the third quarter, revenues were $36.2 million, which was within our guidance range of $35 to $38 million, and a decline of 21% or $9.8 million from the same quarter last year. The year-over-year revenue decline was in line with our expectations and was primarily driven by the reduction in dispatch volume from the customer partner non-renewal that we had previously announced in January of 2024. This was partially offset by net volume and rate increases from new and existing customer partners.

For the third quarter, gross profit was $7.8 million compared to $9.2 million in the prior year period. Again, the decline was driven primarily by the customer partner non-renewal from January 2024. Gross margin for the third quarter was 21% compared to 20% in the prior-year period.

This is the sixth consecutive quarter of gross margin exceeding 20% and we remain focused on executing against our strategic initiatives to drive profitable growth and achieve our long-term gross margin target of 25% to 30%.

Now, let's move to operating expenses. Operating expense for the third quarter was $13.7 million, an improvement of 9% from $15 million in the prior year period. The prior year included transaction costs and was part of the pre-merger Urgent.ly financial results. We remain focused on driving operational efficiencies which includes changes in business processes, such as eliminating redundancies within the organization and reducing operating expenses.

As previously discussed, most of our operating expenses are headcount related, so we will focus on this initially. At the end of the third quarter of this year, we had 188 total employees, a reduction of 160 employees or 46% when compared to the fourth quarter of last year just after we completed our merger with Otonomo. This number also includes the divestiture of 64 employees as previously referenced.

In further support of driving operational efficiencies, operational and support costs during the third quarter of this year were $3 million compared to $5.4 million during the same period last year, a decrease of $2.4 million or 45%. We also reduced our reliance on customer support representatives, who are employed through our BPO partners.

In the third quarter of this year, we had 223 full-time customer support representatives, compared to 404 during the same period last year, which is a reduction of 181 customer support representatives, or 45%. These reductions are in part due to the hard work from the operational and technology teams to modify business processes and implement new technologies over the last several quarters, resulting in reduced operating expenses and the elimination of personnel.

We also review non-GAAP operating expenses, which is defined as GAAP operating expenses plus depreciation and amortization expense, stock-based compensation expense, nonrecurring transaction costs and restructuring costs. Non-GAAP operating expense for the third quarter was $10.7 million, an improvement of 16% from $12.7 million in the prior year period.

This improvement is in line with our discussions throughout 2024 and more clearly shows the results of the operational efficiencies and leverage we've achieved along with the integration efforts with the Otonomo merger. Overall, we remain focused on optimizing our operating structure to driver further improvement in this metric.

GAAP operating loss for the third quarter was $5.9 million, relatively flat as compared to the prior year. We also review non-GAAP operating loss, which is defined as GAAP operating loss plus depreciation and amortization, stock-based compensation expense, non-recurring transactions and restructuring costs.

Non-GAAP operating loss for the third quarter was $2.9 million, an improvement of 17% from $3.5 million from the prior year period. We continue to drive operational improvement initiatives as we realign our corporate structure with our current market opportunities.

Our efforts are most notably reflected in the significant improvement of 70% in our third quarter non-GAAP operating loss when compared to the third quarter of 2023 combined company non-GAAP operating loss including both Urgent.ly and Otonomo, which was $9.9 million. Also, an improvement of 63% when compared to the fourth quarter of 2023 non-GAAP operating loss, which was $7.9 million.

Now, a few comments on our balance sheet. As of September 30, 2024, Urgent.ly had cash and cash equivalents of $17.4 million and a new principal debt balance of $54.3 million with a maturity in January of 2025. We continue to take important steps to address our capital structure, enhance or liquidity position and provide the company with additional financial flexibility.

We are in discussion with lenders regarding a senior secured working capital line of credit solution which would allow the company to meet its scheduled debt maturity on January 1, 2025. We are also considering a plan for this maturity which could involve partial or full pay down of this obligation prior to maturity.

Further, the company continues to work with its second secured lender to modify the January 31, 2025, maturity to align terms with the new senior secured working capital on a credit solution. The complexity of our secured debt structure requires negotiation and collaboration amongst the various stakeholders. This would also contemplate a solution for the unsecured notes that matured on June 30th, 2024. We look forward to providing further updates on our capital structure.

During the third quarter, we capitalized approximately $1.4 million, mostly to make enhancements to our platform by adding features and functionalities, which benefit all of our customer partners. We expect this practice to continue with approximately $1.4 million to be capitalized in the fourth quarter of 2024. As of September 30th, 2024, we had 13.4 million shares of common stock outstanding.

Turning now to our outlook. We expect revenue in the range of $30 million and $33 million during the fourth quarter of 2024 and revenue in the range of $141 million and $144 million for the full year of 2024.

In addition, we are targeting our non-GAAP operating loss during the fourth quarter of 2024 to be approximately $2 million with the continued target of non-GAAP operating breakeven during the first quarter of 2025. Our expected common stock shares outstanding at the end of the fourth quarter is 13.5 million.

With that, we will open the call for questions. Operator, please open the line for questions and answers.

QUESTION AND ANSWER

Operator
We will now begin the question and answer session. To ask the question, you may press "*" then "1" on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys, to withdraw your question, please press "*" then "2."

Our first question will come from Chris Pierce with Needham. You may now go ahead.

Chris Pierce
Hey, good afternoon guys. How are you doing?

Matt Booth
Hey, Chris.

Tim Huffmyer
Chris.

Chris Pierce
Can you just give us a little breakdown? I know you talked about the renewals and three new partners and then the loss of a partner. What's the right way to think of the three new partners potentially replacing or replacing at a higher level of the partner that unfortunately is kind of pulling back on what they're doing?

Matt Booth
The renewals, Chris, as we went through this year, we've been pretty successful in the renewals. I think we've renewed on a run-rate basis about 50% or so. Tim, keep me honest on that, 50% of the revenue, which is great. The three new partners, as they're modeled out now, will more than make up for the one that is discontinuing with us in terms of top line revenue. They're larger in scale and have equal to or exceeding margin contribution.

Chris Pierce
Are they global OEMs or fleet managers? What's the right bucket that they fall into?

Matt Booth

It's a combination of fleets, and it's a combination of insurance and B2B2C.

Chris Pierce
And these are competitive processes that you guys won?

Matt Booth
Yes.

Chris Pierce
And then so, if I think about the revenue that you guided to in the fourth quarter, can you remind me, is the first quarter of 2025 still sort of a messy comp because you had the larger customer that didn't renew as part of revenue in the first quarter and then the comps get more organic in the second quarter. Is that the right way to think about it?

Tim Huffmyer
It is Chris. That's right.

Chris Pierce
And then gross margins. I know there was a sort of a headwind last quarter on lower-margin jobs, which is sort of outside of your control. But from our kind of looking at things historically, we actually thought third quarter was the weakest quarter for gross margins because of summer travel and people traveling further and away from jobs, like providers have to travel further to get to jobs. But gross margins were up sequentially. So, can you just tie those two together for me?

Matt Booth
Yes, I think your theory is right, Chris. I mean that's where all our conversations have been. It does come down to a bit of mix and how all the jobs come in and depending on the margin profile of each of those jobs. So, it is mix driving a little bit of that.

Chris Pierce
That's all from me. Thank you.

Operator
This concludes our question and answer session. I would like to turn the conference back over to Matt Booth for any closing remarks.

CONCLUSION

Matt Booth
Great. Thanks, everyone. In closing, we're proud of the significant progress we've made to position the company for profitable growth, and we look forward to providing you with further updates on our progress on future calls.

As a reminder, we'll be attending the Sidoti Virtual Microcap Investor Conference on August 14th and 15th. We're also scheduled to host a fireside chat at 10:00 a.m. Eastern on August 15th, which you can access live or as a replay via our Investor Relations website. If you're attending and you'd like to have a one-on-one meeting with us, please contact your Sidoti representative. If you're not attending and would like to meet with management, please reach out to us at investorrelations@geturgently.com, again, investorrelations@geturgently.com, and we can schedule a call. Thank you for your interest in Urgent.ly and for joining our call today.