# Urgently Inc.

# Second Quarter 2024 Conference Call

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**CORPORATE PARTICIPANTS**

**Matt Booth** - *Chief Executive Officer*

**Tim Huffmyer** - *Chief Financial Officer*

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

**PRESENTATION**

**Operator**
Good afternoon, and welcome to Urgently Second 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 a 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 "*", "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 Urgently's financial results conference call for the second quarter ended June 30th, 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 would 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 31st, 2023, our quarterly reports 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.urgently.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 second quarter 2024 earnings call. Overall, we are pleased with our second quarter results, which were in line with our revenue expectations. We remain focused on executing against our strategic initiatives to drive financial and operational improvements, specifically in the areas of providing exceptional customer experience and eliminating the post-merger operating loss.

In addition, and as we have highlighted in the last quarter, we have also shifted our focus to accelerating profitable growth. As a reminder, our group has historically been lumpy driven by large enterprise contracts that drive additional revenue and growth once they are launched. To that end, I am proud of the effort across the entire team to deliver renewals on all three customer partner contracts that were set to conclude and which collectively generated more than one third of our revenue for the second quarter which today, we reported at $34.5 million for the quarter.

In addition, we secured new customer partners as well as contract expansion with our existing customer partner portfolio and we did not intentionally terminate any contracts. We believe these renewals, expansions and new customer wins are a further validation of the significant value we deliver to our customer partners through the strength of our service and leading technology.

Now, let me spend a few minutes discussing our growth and business expansion efforts more broadly, as well as providing details on our customer partner renewals and expansions. As we have previously stated, the average length of a customer partner contract is about three years. Approximately one third of our customer contracts come up for renewal each year. Renewals not only shore up our revenue forecast, but we believe they also demonstrate our commitment to long-term customer partner relationships and service proof points for our strength in the marketplace as an innovator in the roadside industry.

During the second quarter, among our customer partner renewals, we renewed contracts with two of our global OEM customer partners, which we announced via press releases. The first, a global automotive OEM, known for its focus on safety, quality and innovation, has extended our relationship for another two years. Under the contract renewal, we will continue to power their warranty-based roadside assistance program, as well as their post-warranty roadside assistance membership plans in the US, Canada and Mexico.

In addition, we also continue to provide assistance for operational, technical and mechanical breakdowns as well as accident-related towing services. The OEM partner will continue to leverage our comprehensive technology stack, which includes full roadside assistance customer relationship management to support its outsourced call center operations and API-based integration into its customer-facing products.

The second is also a two-year extension with a global OEM known for its precision engineering and commitment to delivering an unparalleled driving experience. Under the renewed contract, we will continue to power their warranty-based roadside assistance program as well as its post-warranty roadside assistance membership plans in the US.

In addition to the two-year renewal, we also signed a new two-year agreement with this global OEM to expand geographically into Canada. This expansion recently launched on August 1st, 2024. In addition to our customer partner expansions and renewals this quarter, we have also signed a new customer partner agreement with a direct-to-consumer subscription and insurance aggregator, which will launch later this year. All-in-all, it's been an extremely successful quarter in terms of renewals, expansion contracts and new business. I'm very appreciative of the efforts of the team to deliver these results.

We're always excited to talk about our initiatives to re-accelerate growth post-merger integration as we see with our Q2 customer partner retention and expansions. We believe that delivering the best-in-class customer experience has historically been a primary differentiator for Urgently. This quarter, we remain focused on quality and delivering exceptional service at scale which is reflected in the 4.5 customer satisfaction scores achieved during the second quarter and 4.6 satisfaction scores out of five year-to-date.

Our data and engineering teams continue to look for ways to apply technology to advance the motorist experience. To further differentiate our customer experience, we recently announced the launch of next-generation, yield-based pricing-as-a-product across our service provider network. Much like other industries, we believe the data and analytics around pricing and performance are a competitive advantage to deliver higher quality customer outcomes and margin improvement.

As a key feature of this product, Urgently now leverages micro-targeting, which are much smaller geographic areas than either zip codes or rural service areas, together with relevant historical data, make, model, time of day, population density, service quality, weather and other location-based data. Then, our AI-driven dynamic pricing technology reliably predicts and optimizes job prices for roadside assistance.

We use this technology to better manage searches in roadside systems demand, which we believe leads to faster job acceptance by service providers, resulting in shorter wait times for the stranded driver and a higher quality outcome for our customer partners. This all results in lower agent handle time, which we expect to continue to be reflected in our improved operational expenses, which Tim will review shortly.

For our customer partners, these insights and predictive pricing also help empower them to develop roadside assistance programs that best fit their business goals. One example from a luxury OEM partner, is to increase performance by market for specific makes and models to build a differentiated premium VIP program offering. More generally, it allows us to maximize service performance while maintaining a stable cost structure for our customer partners. We expect that future products will include the ability for customer partners to tailor the experience based on how they segment their customers.

Finally, and furthering our commitment to exceptional customer service, we reorganized the product and operations team under a single leadership structure into the customer experience team, which now reports to Gab Huerta, Urgently's Chief Product and Technology Officer. Our goal is to continue differentiating ourselves based on the customer journey regardless of how motorists access our services. We believe that integrating our products and operations team will promote a singular vision and ownership in providing an unparalleled experience across all channels, both digital and human.

Turning now to an update on gross margin. Improving margin continues to be an ongoing priority for us. For the near-term, we have maximized the margin improvements related to pricing changes and partner mix that we had outlined on previous calls. We expect additional margin improvement to be driven by creating further efficiencies in the marketplace.

First, geographic area is one of the primary drivers of service network costs. We believe the next-generation yield-based, pricing-as-a-product initiative that we recently launched will positively impact our margins in a market that was once constrained by geographic or ZIP code boundaries.

We have observed the successful implementation of similarly predictive, optimized pricing in other industries as well. Our initiatives so far have performed very well. Our 21% gross margin for Q2 '24 is consistent with that of Q2 '23, and more notably, our June 2024 year-to-date margin of 22% is a 200 basis point increase over our June 2023 year-to-date margin of 20%. While our OEM customer partner non-renewal, which we announced this past January, has impacted revenue, we are continuing to bolster our potential future revenues through demonstrated wins, renewals and expansions.

Improving our gross margin and reducing our operational expenses is critical in achieving non-GAAP operating breakeven, and we remain focused on this important milestone. However, during the second quarter, we encountered several factors which have caused us to revise our outlook for targeting non-GAAP operating breakeven to the first quarter of 2025 versus our earlier expectation for the beginning of the third quarter of 2024. Having said that, we expect to be below $1 million of non-GAAP operating loss in the fourth quarter of 2024, which is down from $7.9 million in the fourth quarter of 2023.

Let me walk through these factors in greater detail. The first factor is a return to managed growth. Given the length of contract cycles and the RFP process, we wanted to prioritize our ability to capitalize on Q2 opportunities around renewals, expansions and new business. This deliberate decision required us to move technology resources to focus on new launches, integrations and expansions instead of longer-term operating and margin expense projects that we have planned.

These large margin projects are wide in scope and we expect to see improvements in one or two quarters after deployment, after A/B testing is completed. We still intend to pursue these margin improvement projects, but given the importance of the renewals and expansion contracts, it made sense for us to push the expense reduction efforts back a quarter.

The second factor is related to post-merger integration, including some international complexity. While the team swiftly acted to reduce redundant functions across the combined Otonomo and Urgently teams, the last phase is still under review, as we continue to look at strategic alternatives of certain Otonomo's assets.

And finally, given the nature of our transaction-based business, volume is dependent on several external factors. While we met our revenue guidance, we saw a change in service mix from our customer partners, which impacted our margins. External factors can be events ranging from fewer new vehicles produced by an OEM, changes in coverage policies by our fleet providers, new call routing schemas, or customer behavior trends related to miles traveled, just to name a few. And while no singular event contributed to the service mix changes, the collection of events this past quarter reduced our expected per job revenue and margin.

We saw higher volume from lower margin jobs and lower volume from higher margin jobs on a service mix basis. Again, I'm very proud of our accomplishments during the second quarter, which included continued execution against our strategic priorities to optimize our business and financial operations, while re-accelerating sustainable growth and profitable growth, as evidenced by our exciting contract wins, renewals, and expansions. The team is focused on achieving non-GAAP operating break-even, and we look forward to capturing the near and long-term growth opportunities ahead.

In closing, we remain focused on 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 improvement, 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 financial results.

**Tim Huffmyer**
Thank you, Matt, and good afternoon, everyone. Today, I will discuss our results for the second quarter ended June 30, 2024. For the second quarter, revenues were $34.5 million, which was

towards the upper end of our guidance range of $32 million to $35 million, and a decline of 21%, or $9.4 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 volume and rate increases from new and existing customer partners.

For the second quarter, gross profit was $7.3 million, compared to $9.3 million in the prior year period, again driven primarily by the customer partner non-renewal. Gross margin for the second quarter was 21%, consistent with the prior year period. This is the fifth consecutive quarter of gross margins 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 onto operating expenses. Operating expenses for the second quarter was $15.7 million, which was similar to the prior year period. The prior year included transaction costs and was part of the pre-merger Urgently financial results. As Matt indicated, we continue to focus on operational improvements, which include changes in the business process to drive operational efficiencies.

As part of these improvements, we expect to continue eliminating redundancies within the organization and reduce 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 second quarter of this year, we had 282 total employees, a reduction of 38% from the fourth quarter of last year when we completed our merger with Otonomo. In further support of driving operational efficiencies, operational and support costs during the second quarter of this year were $3.6 million compared to $6 million during the same period last year, resulting in a decrease of $2.5 million or 41%.

We also reduced our reliance on customer support representatives, who are employed through our BPO partners. In the second quarter of this year, we had 220 full-time customer support representatives, compared to 457 during the same period last year, which is a reduction of 237 customer support representatives, or 52%. These reductions are 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.

Also, during the second quarter of this year, within our general and administrative expenses, we recorded bad debt expense of approximately $600 thousand due to an EV customer partner that recently filed for bankruptcy, bringing our total bad debt expense related to this customer partner to $735 thousand during this year.

Overall, we continue to focus on our operating structure and doing more with less. We expect to further reduce our operating expense run rate in the back half of 2024. GAAP operating loss for the second quarter was $8.3 million, an increase of $2.2 million during the prior year period. This increase is mostly due to the Otonomo post-merger combined reporting this year compared to Urgently standalone last year.

We also reviewed non-GAAP operating loss, which is defined as GAAP operating loss plus depreciation and amortization expense, stock-based compensation expense, non-recurring transaction cost, and restructuring cost. Non-GAAP operating loss for the second quarter was $6.2 million, an increase of $2 million from the prior year period. This increase is also primarily due to the combined reporting of Otonomo this year compared to Urgently standalone last year.

We continue to drive operational improvement initiatives as we integrate Otonomo and re-align our corporate structure with our current market opportunities. Our efforts are reflected in the significant improvement of 38% in our second quarter non-GAAP operating loss when compared to the third quarter of 2023 combined company non-GAAP operating loss, including both Urgently and Otonomo, which was $9.9 million, an improvement of 22% 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 June 30, 2024 Urgently had cash, cash equivalents and short-term investment balance of $29.3 million and a net principal debt balance of $54.3 million with a maturity in January of 2025.

During the second quarter, we capitalized approximately $1.5 million of internally developed software activities in support of launching the previously mentioned top five global OEM and to make enhancements to our platform, by adding features and functionalities which benefit all our customer partners. We expect this practice to continue during 2024, including approximately $1.4 million in the third 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 action with respect to maturities of our debt and expect measured results before our next earnings conference call. As of June 30, 2024, we had $13.4 million common stock shares outstanding.

Turning now to our outlook for the third quarter of 2024, we expect revenue in the range of $35 million to $38 million. In addition, we expect to continue to make progress towards targeting non-GAAP operating breakeven during the first quarter of 2025, as Matt has previously highlighted. Our expected common stock shares outstanding at the end of the third quarter is $13.4 million.

With that, we will open the call for questions. Operator, please open the line for Q&A.

**QUESTION AND ANSWER**

**Operator**
The first question is from Chris Pierce with Needham. Please go ahead.

**Chris Pierce**
Hey, good afternoon, everyone. Is there a way to think about when you guided Q2, you came in at the high end, but you cited higher revenue from low margin jobs and lower revenues from high margin jobs. Is that something that fluctuates on a quarterly basis and is largely out of your control, or is there some seasonality to that?

**Tim Huffmyer**
Chris, it does fluctuate. And as Matt highlighted in some of his prepared remarks, some of it or all of it's out of our control. It just depends on how the jobs are rolling and the activity that's out there. So, it's difficult to be able to predict that as a factor. We do our best to guide on the

revenue side and directionally on the margin side, but largely it's out of our control. Matt, you can add anything there.

**Matt Booth**
That's right. The next shift is it's not below historical trends, but it's not something that we can control.

**Chris Pierce**
I think usually, correct me if I'm wrong, but we see lower sequential gross margins in the third quarter, because of summer travel. Is that something we should expect this year or does the unique factors in the second quarter kind of offset that?

**Matt Booth**
That's been the trend, Chris. So, one could expect that trend to continue just based on that activity and also based on our discussion around the push off of some of the margin projects. Certainly, the team is constantly working on improving margins and making that better metric for us. But from a modeling perspective, that isn't a bad way to look at it.

**Chris Pierce**
And then you talked about positive non-GAAP operating income in the first quarter of '25. Is the right assumption that if it all goes according to plan, you would see that throughout the year, or could there be some lumpiness based on seasonality and that type of thing? And you might see fluctuation in non-GAAP operating income between positive and negative.

**Matt Booth**
Good question. Once we achieve that, Chris, we feel pretty confident we'll be able to hold the line and improve on it from there. Everything's not linear, right? So, it could revert back to a loss here or there, but our expectation is that that wouldn't materially happen.

**Chris Pierce**
Last one for me, you talked about lining up the debt maturity in Jan '25 and the cash in the balance sheet and messaging you'll have ahead of potentially the next earnings call. What's something we should think about? I know some of your debt holders or equity investors are like, what's the right way to think about it? I guess should we just expect a resolution within three months here and then think sort of there'll be a longer dated debt? What's the right way to think about the cash versus the debt right now?

**Matt Booth**
Well, as far as resolution goes, that's certainly our goal is to provide that resolution. If we can do that before the next earnings call, that's certainly what we hope to accomplish. The way we are, I would definitely look at longer maturities. And we didn't talk about it in these prepared remarks, but in the past we've talked about maybe two tiers of debt activity, one related to more of a working capital line of credit, which allows us to kind of flex with some of the growth that we've talked about, and then maybe some terming out the rest. But thinking of it in those two pieces is something that we've consistently talked about previously and we're consistently still thinking about today.

**Chris Pierce**
Okay. Perfect. I appreciate the time. 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**
Thanks, everyone, for joining. In closing, we're very proud of the significant progress that 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 August 15th, and we're also scheduled to host a fireside chat at 10 a.m. Eastern on August 15th, which you can have access to live or as a replay via our Investor Relations website. If you're planning on attending and like to have a one-on-one meeting with us, please contact your Sidoti representative. If you're not planning on attending and you'd like to meet with management, please reach out to us at investorrelations@geturgently.com, and we're happy to schedule a follow-up call.

Thanks again for your interest in Urgently, and thanks for joining the call today.