Urgent.ly Inc.,

Fourth Quarter and Full Year 2023 Conference Call

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CORPORATE PARTICIPANTS

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

Matthew Booth, *Chief Executive Officer and President*

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CONFERENCE CALL PARTICIPANTS

Brian Dobson, *Chardan Capital Markets*

Chris Pierce, *Needham & Company*

PRESENTATION

Operator

Good afternoon, and welcome to Urgently's Fourth Quarter and Full Year 2023 Conference Call.

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

(Operator Instructions)

With that, I would like to turn the call over to Jenny Mitchell, Vice President of Finance, Strategy, and Investor Relations. Jenny, 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 fourth quarter and full year ended December 31, 2023.

On the call today, we have 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 report on Form 10-Q and any other SEC filings. Additional information will also be set forth in our annual report on Form 10-K for the year ended

December 31, 2023. 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 and 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 turn the call over to Matt.

Matthew Booth

Thank you, Jenny, and good afternoon, everyone, and thank you for joining us today for our fourth quarter and full year 2023 earnings call.

We're pleased with our results for the year, which were in line with expectations that we outlined during our third quarter earnings call.

As we had previously discussed, our key priority last year was to execute against our operational improvements to position Urgently for sustainable and profitable growth over the long term.

Our second priority, as Tim will discuss, was to improve our balance sheet by paying down part of our debt and beginning to restructure our longer-term liabilities. Our fourth quarter and full year results reflect the significant progress we've achieved towards these goals, as well as towards our target gross margin of 25% to 30% over the longer term.

During the fourth quarter, we delivered gross margin of 22.6%, a 650-basis point improvement over the prior year. For the full year, 2023, we delivered gross margin of 20.5%, a 980-basis point improvement over the prior year. In addition, we reduced our full year non-GAAP operating loss by 57%, and our target remains to achieve non-GAAP operating break-even beginning in the third quarter of 2024.

We debuted as a public company with $142.2 million in debt, and we're very pleased that during our listing our investors converted $70.4 million into equity, and in the first quarter we paid down another $17.5 million to pave the way for proper working capital line of credit. Tim will talk more about our thinking here in his section.

During the year, we embarked on several key initiatives to drive gross margin improvement. First, with an eye towards driving profitable growth, we rationalized our partner relationships to shift away from less profitable revenue and pursue more profitable revenue accounts, which also included a fresh look at pricing with existing partners. We also conducted a technology platform upgrade to enable more optimal pricing, efficient matching of service providers to service events.

On the cost side, we moved away from partnerships that required first call support as a primary way to access our service, which carried higher incremental costs, and instead focused on partnerships that support digital-first interactions. We believe the future of roadside service will primarily be reliant on telematics integrations and digital interactions for which our technology platform has been purpose-built.

Consequently, we have transformed our customer service operations by balancing near-shore business process organizations and telematics integrations with a focus on keeping the most critical and complex functions in-house.

Finally, we've also taken significant steps to right-size our organization to align with our current market opportunity and protect our improving margin profile, particularly in light of the decision in late January of an OEM partner not to renew its contract with us.

While we are disappointed with the outcome, we believe their decision was not a reflection of our technology platform. We continue to believe that our proprietary digitally native software platform is a key differentiator for Urgently in the marketplace.

Our mobility assistance and dealer platforms dynamically match vehicle owners and service professionals enabled by proprietary technology, algorithms, and data ecosystems. The key capabilities include real-time tracking, connecting the customer, partner, consumer, service provider, and repair facility via a digital and analog communication channel from dispatch to final disposition.

Integrated dealer technology that allows dealers to extend their service technician footprint outside of the dealership to help dealers capture more service revenue by receiving and managing service requests for customers at home, at work, or on the road.

Live job management and actionable data from dispatch to completion, both on a per job basis and in the aggregate.

Multi-channel consumer and service provider accessibility, including a fully digitized experience via a mobile application, live customer service representatives, and a software as a service layer.

And finally, broad mobility assistance capabilities, including towing solutions, mobile repair services, collision and impound related towing and onward mobility services that enable a customer to continue their journey following a roadside event.

We believe Urgently continues to be best positioned among our competitors to be a brand extension for OEM and fleet companies by delivering exceptional service to all of our customers. Our value proposition is resonating in the marketplace as evidenced by some of our key customer wins we garnered last year.

As I had previously mentioned, we find a top five global OEM, which we expect to launch in Q2, '24. This one is significant because we believe it reflects penetration into the next tier of partners within the market, which we are well positioned to expand within. We also believe that this first win represents a proof point that the market perceives Urgently as a top competitor in the space with a platform that is scaled for volume.

Delivering on our land and expand strategy, we increased our product offering with an existing partner, which will take business away from a competitor. This expansion is expected to also launch in 2024.

We executed a one-year renewal with a leading fleet management company. Renewals are yet another proof point demonstrating that partners are pleased with the functionality and quality of the service that we provide.

We launched a program with a luxury U.S. EV OEM demonstrating our ability to support the next generation of hybrid and all electric vehicles.

We launched a program with a leading global delivery and logistics company, solving for complex and costly delivery downtime. Uptime is critical to our fleet partners, and we're proud to play an important role in that for them.

Overall, I am pleased with our significant accomplishments in 2023, which included the acquisition of Otonomo, and our public listing on NASDAQ, and our financial results that were in line with our expectations.

Our team made tremendous progress in executing against our strategic initiatives to drive profits, operational efficiencies, and disciplined expense management during the year. The significant actions we have taken to right size our organization and enhance our capital structure have built a strong foundation positioning us to capitalize on near and long-term growth opportunities ahead.

As we look to the balance of this year, we remain focused on expanding our existing B2B incident business by winning new clients and expanding our relationships within existing partnerships; improving operational efficiencies, driving margin expansion, and achieving non-GAAP operating break-even; and continuing to integrate assets from Otonomo to accelerate connected vehicle integrations and expand into proactive and preventative services.

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.

Timothy Huffmyer

Thank you, Matt, and good afternoon, everyone.

Today, I will discuss our fourth quarter and full year 2023 results. Before I do that though, let's review a few details from the Otonomo Technologies merger completed during the fourth quarter, and a few other recent events.

On October 19, we completed the merger with Otonomo, which coincided with our NASDAQ direct listing on the same day. The merger with Otonomo included the acquisition of the Otonomo business, 111 employees located mostly in Israel and the United Kingdom, revenue contracts, technology, and the net assets.

Following the merger, Otonomo was delisted and became a wholly owned subsidiary of Urgent.ly Inc. The acquisition accounting was completed in the fourth quarter, resulting in a bargain purchase gain of $73.4 million, which was recorded on our consolidated statement of operations. The reason for the gain was attributable to the net asset value acquired exceeding the consideration value.

As previously reported on our third quarter earnings conference call and our Form 10-Q, we had a net principal debt balance of $142.2 million. However, at the time of the merger and direct listing, based on the existing convertible debt terms and other voluntary conversions, we converted approximately $70.4 million of net principal debt to common stock. This transaction resulted in a $42 million gain on debt extinguishment, which was recorded on our consolidated statement of operations. This gain was primarily related to the net carrying value of the notes compared to the fair value of the shares issued.

Additionally, as previously announced in January of 2024, we used cash on hand to pay down an additional $17.5 million of net principal debt, resulting in $54.3 million of net principal debt as of today. This debt matures at various times in January of 2025.

At the time of the merger, nearly all Urgently outstanding warrants were net exercised for common stock of the combined company. This transaction along with the debt extinguishment previously mentioned, resulted in a $38.2 million gain in fair value of derivative and warrant liabilities, which was recorded on our consolidated statement of operations. The gain was primarily related to the elimination of the derivative liability due to the debt conversion and the net exercise of the warrants, essentially eliminating the warrant liability.

Finally, as previously reported on our third quarter earnings conference call, and Form 10-Q, at the time of the merger, the former Otonomo shareholders owned approximately 40% of the new combined company, and the former Urgently shareholders owned approximately 60% of the new combined company. These ownership percentages encapsulated the entire Otonomo and Urgently capitalization tables, including the Otonomo warrant exchange, conversion of Urgently's convertible notes, and the net exercise of nearly all Urgently's outstanding warrants, all resulting in an October 19 common stock share count of approximately 13.1 million.

Now let's focus on the fourth quarter and full year 2023 results. The following results include Urgently activity for 2023, and Otonomo Technology activity from October 19, 2023, through December 31, 2023.

For the fourth quarter, revenues were $45.1 million, down 13%, or $6.9 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, partially offset by volume and rate increases from existing business. Despite this decision to move away from less profitable revenue, we are excited about the profit quality of the existing revenue growth. Otonomo revenue for the fourth quarter was approximately $1.4 million.

For the year, revenue was $184.7 million, down 2%, or $2.9 million, from the same period last year. The decrease in revenue was primarily driven by lower customer-partner dispatch volume from one OEM partner based on lower vehicle sales and our decision to move away from less profitable revenue, including the loss of one insurance partner, partially offset by an increase in volume and rates with existing partners, specifically with our fleet management and OEM partners.

For the fourth quarter, gross profit was $10.2 million, up $1.8 million, compared to the same period last year. Gross profit grew 21% compared to a revenue decline of 13% when comparing the fourth quarter of 2023 to the same period last year. Otonomo's gross profit for the fourth quarter was $645,000.

For the year, gross profit was $37.9 million, up $17.7 million compared to the previous year. Gross profit grew 88% compared to a decline in revenue of 2% compared to the previous year.

Over the last year, we have been focused on transforming our operating model, including a focus on gross profit. Most of the realized gross profit benefit is a result of contract optimization, including adjusting partner rates and a focus on increasing efficiencies, technology-led optimization initiatives and reducing costs associated with first call by focusing on digital path entry to our services.

Gross margin for the fourth quarter was 23% compared to 16% for the same period last year. Gross margin for the year was 21% compared to 11% for the previous year.

Now let's move on to operating expenses. Operating expenses for the fourth quarter was $34 million, an increase of $17.2 million, or 102%, from the same period last year. Operating expenses for the year was $84 million, an increase of $10.3 million, or 14%, from the previous year. Otonomo's operating expenses for the fourth quarter were $3.4 million.

Most notably, within our operations and support line item, and as part of the business and operational model changes we made in 2023, we migrated a portion of customer support resources from the United States to business process organizations located in Central and South America. This change lowered impacted labor charges by approximately 60%, which is contributing to the 29% and 33% reduction in operations and support operating expenses for both the fourth quarter and full year 2023, respectively.

During the fourth quarter and full year of 2023, merger transaction expenses were $12.9 million and $21.3 million, respectively. Additionally, during the same period, stock-based compensation expense was $2.3 million and $2.5 million, respectively.

At the beginning of the fourth quarter last year, we had 286 employees. Compared to the end of the fourth quarter this year, we had 349 employees. This included 108 employees related to the Otonomo merger. Removing the Otonomo employees, Urgently had a reduction of 45 employees or 16%. This reduction impacted all areas of our business and was a direct result of the operational model changes.

GAAP operating loss for the fourth quarter was $23.8 million, an increase of $15.4 million or 182% from the same period last year. GAAP operating loss for the year was $46.1 million, a reduction of $7.4 million, or 14%, from the previous 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 costs, and restructuring costs.

Non-GAAP operating loss for the fourth quarter was $7.9 million, an increase of $1.3 million, or 21%, from the previous year.

During our third quarter earnings conference call, and in the third quarter earnings press release, we discussed the combined Company results. This included Urgently and Otonomo combined company non-GAAP operating loss for the third quarter of 2023 of $9.9 million.

Our fourth quarter non-GAAP operating loss was $7.9 million, which was a reduction of $2 million or 21% quarter-over-quarter. This reduction was consistent with our expectations.

Additionally, our non-GAAP operating loss in 2023 was significantly reduced when compared to our non-GAAP operating loss in the same period last year. Non-GAAP operating loss for 2023 was $21 million, a reduction of $27.7 million, or 57%, from the previous year.

Now, a few comments on our capital structure. As previously reported on our third quarter earnings conference call, the combined Company cash and cash equivalents and short-term investments balance at the time of the merger was approximately $88.7 million. This balance was net of all related transaction expenses. Urgently had cash, cash equivalents, and short-term investments of $69.6 million as of December 31, 2023.

As mentioned earlier in my comments, 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.

Therefore, following the repayment, Urgently had a pro forma cash, cash equivalents and short-term investment balance of $45.6 million, and a net principal debt balance of $54.3 million with a maturity in January of 2025.

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 intend to take further actions with respect to maturities of our debt within the next two quarters, including setting up a proper working line of credit.

As of December 31, 2023, we had 13.3 million common shares outstanding.

Turning now to our outlook. For the first quarter of 2024, we expect revenue to be between $35 to $38 million. Additionally, we are on track to achieve non-GAAP operating break-even by the beginning of the third quarter of 2024. Our expected common stock shares outstanding at the end of the first quarter is 13.5 million.

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

Operator

Thank you very much. (Operator Instructions) Today's first question comes from Chris Pierce with Needham. Please go ahead.

Chris Pierce

Hey, good afternoon, everyone. Could you guys just go into a little more detail about the 25% customer that chose to walk away, what went into the relationship, how long you had the relationship, why they decided to leave? Can you cross-reference that with the pipeline you have at this point in time to replace that customer, just from the negative and positive side of things?

Matthew Booth

Sure. Hey, Chris, it's Matt. Thanks for joining the call. I'll go ahead and I'll start it off and then I'll turn it over to Tim if he has anything to add. It is unfortunate it was a long customer. It was one of the earlier customers that we had. The margin profile of that particular customer was slightly lower than some of our other newer customers just given that they came on the Urgently platform way, way early. We believe that they left because they consolidated vendors and were able to leverage costs. We don't think it was a reflection on our technology or anything like that. In terms of the future pipeline, we did announce a top five global OEM that is expected to launch at the end of this month as we mentioned on this call. Now, I think the rest of the pipeline, Tim has given forward guidance and I'll let him talk about that specifically.

Timothy Huffmyer

Yes. Hey, Chris. The new partner that we're launching here late this quarter, early next quarter, will help replace some of that revenue, roughly 20% to 30% of the revenue that we lost, not of the entire revenue, but of the revenue we lost. We'll start organically growing from this new point of that, and then in the back half year, we continue to have renewals that we feel confident about, some of which Matt spoke about, and then some new opportunities, as well, we expect to come on the scene. We feel pretty good about the rest of the year. The longer-term guidance, which I have it listed in the investor presentation I got posted here a few minutes ago, we are sticking with the 20% to 30%. We'll have to build back up to that obviously with this customer loss, so it's probably closer to the end of '25 we'll be at the run rate rather than the end of '24 now. We are sticking with the 20% to 30% revenue guidance, which again, historically, the Company has grown about, on average, 25% a year. I hope that filled in some gaps for you, Chris.

Chris Pierce

Perfect. Thanks. You guys spoke of a conquest of an existing customer. Can you go into some detail on that and what are the opportunities for further conquest along those same lines?

Matthew Booth

Chris, it's Matt. Are you talking about the reference that we made earlier about winning a customer from a competitor?

Chris Pierce

Yes.

Matthew Booth

That's the question? Yes. No, I think there's a lot of opportunity that we see in front of us to do more consolidation around our platform. We're in a lot of conversations with a lot of different possible partners, as you can imagine. That's one of the early ones that we got this year. We think that there will be others. We think that the renewal pipeline, as Tim mentioned, looks pretty strong. Overall, as we mentioned on this call, we've finally gone through the of glass ceiling, if you will, of this top five global OEM, which is something that the Company's been working on for years and years. We believe that once we launch that partner and once we can announce the brand, it will entice other companies of that magnitude to come work with us as well. Feeling pretty positive about that. Tim, if you have anything you want to add.

Timothy Huffmyer

No, nothing further.

Chris Pierce

Okay. Lastly, when we think about that top OEM and that brand within their umbrella, does it fall within the luxury category that you guys have done well in, or is this something that's a little more mass market and that's what you're referring to about puncturing the glass ceiling?

Matthew Booth

Yes. It is a mass market OEM. We have one brand out of the portfolio, but just as you can imagine out of the magnitude of new vehicles that are sold from, say, a premium OEM that we work with previously versus the new cars that are sold from a mass market OEM, it's a magnitude step change. So while it is one brand within that portfolio, we believe that it's a stepping stone to increase the business with that partner and then also work with additional partners of that caliber.

Chris Pierce

Okay, perfect. I appreciate it. That's it for me tonight.

Matthew Booth

Thanks, Chris.

Operator

Thank you. The next question comes from Brian Dobson with Chardan Capital Markets. Please go ahead.

Brian Dobson

Hey, thanks very much for taking my question. Just to revisit your guidance again, as you're considering that 2024 revenue outlook, what percentage of that range comes from new client wins and how much organic growth is within that figure?

Timothy Huffmyer

Yes. Hey, Brian. The first quarter guidance is straightforward. When we think about 2024, we haven't provided that guidance yet for the rest of the year. There's probably, out of what we expect for the rest of the year, probably about roughly 5% to 10% is going to be your organic growth there, and that will be working back towards our 20% to 30% that I referenced earlier. It's a step function is how it should be thought about, and we do expect to work our way back to that 20% to 30% growth. This year will be a step back, so we're going to take a step forward then and roughly 5% to 10% will be in that organic growth range.

Brian Dobson

Thanks. I misspoke. I actually meant to refer to that 1Q. From a broader perspective, as you look to scale the business through relationships with enterprise partners, can you speak a little bit about your penetration rates that exist in customers, and perhaps provide a little bit of color about some conversations you may be having with potential clients and the type of feedback that you're receiving in the marketplace.

Matthew Booth

Yes. It's probably a little bit too early for us to go into specific one-on-one client conversations given where we are, but in terms of where we sit with clients, generally most of our OEM relationships, we have between 80% and 100%. Many relationships that the Company has started off with over time, started with say 15% or 20% of the business and then grew to the level I mentioned previously. It is an important part of how we think about operating the business going forward, which is, we call it land and expand, which is get with a partner, prove that we can deliver quality service, and then we start to expand across the portfolio of other brands that they have. Tim, you want to add anything?

Timothy Huffmyer

No, nothing further.

Brian Dobson

All right, thanks for the color.

Operator

Thank you. (Operator Instructions) Seeing no further questions, I would now like to turn the conference back over—please excuse me.

Matthew Booth

Great. Thanks, everybody, for attending…

Operator

Please go ahead.

Matthew Booth

As a quick reminder, we're going to be attending the Roth Conference in Southern California on March 17 through the 19 of this month. If you're attending and you'd like to have a one-on-one meeting with us, please contact the conference desk. If you're not attending and you'd like to meet with Management, please reach out to us at investorrelations.geturgently.com. We're happy to schedule a call at your convenience. Thanks again for your interest in Urgently and for joining the call today.

Operator

The conference has now concluded. Thank you for your participation. You may now disconnect your lines.