

## Pivotree Inc.

*The Frictionless Commerce Company*

### To our shareholders, employees and customers

We recently passed the one year anniversary of our Initial Public Offering in October 2020. So much has changed this past year that it felt appropriate to add some additional insight to our business than what is traditionally found in the standard MD&A document. I have decided to write a letter to all of Pivotree's stakeholders to help everyone better understand that we are a new breed of company that combines both professional services and product/service based delivery model aimed at frictionless commerce, as well as share the market conditions we are operating in, our strategy and how I view our results. If people find this letter helpful I will consider writing more in the future.

My objective is to add colour to the standard reporting documents we issue quarterly by providing an open and "plain english" perspective, simplifying the way we talk about the business and avoiding too much industry jargon. We live in a complicated technological world, we run a complicated business but neither the markets nor our customers want complicated so I will do my best to simplify as much as is practical.

#### Operating Results

Let me start with our recent Q3 results. Overall I am pleased to report a significant improvement in our topline results. As we have been saying for a while we were expecting a strong rebound from our Q2 2021 low of \$14.3 million and the team delivered with \$15.3 million of revenue excluding the recent Bridge Solutions Group ("**Bridge**") acquisition. Including one month of Bridge revenue we achieved the \$16.0 million that we reported. **Organically we grew the business 7% quarter over quarter and 12% when we add the Bridge revenue in.**

Millions \$	<u>Q1</u> <u>2019</u>	<u>Q2</u> <u>2019</u>	<u>Q3</u> <u>2019</u>	<u>Q4</u> <u>2019</u>	<u>Q1</u> <u>2020</u>	<u>Q2</u> <u>2020</u>	<u>Q3</u> <u>2020</u>	<u>Q4</u> <u>2020</u>	<u>Q1</u> <u>2021</u>	<u>Q2</u> <u>2021</u>	<u>Q3</u> <u>2021</u>
<b>Total Revenue</b>	\$13.7	14.7	\$15.2	\$16.0	\$15.9	\$14.9	\$16.2	\$16.5	\$15.0	\$14.3	\$15.3
Q over Q growth		7%	3%	5%	-1%	-6%	9%	2%	-9%	-7%	7%
Y over Y growth					16%	1%	6%	3%	-6%	-4%	-6%
<b>Total incl. acquisitions</b>	<b>\$13.8</b>	<b>\$14.8</b>	<b>\$15.2</b>	<b>\$16.0</b>	<b>\$15.9</b>	<b>\$14.9</b>	<b>\$16.2</b>	<b>\$16.5</b>	<b>\$15.0</b>	<b>\$14.3</b>	<b>\$16.0</b>
Q over Q growth		7%	3%	5%	-1%	-6%	9%	2%	-9%	-4%	12%
Y over Y growth					16%	1%	6%	3%	-6%	-4%	-1%

As our bookings in previous quarters would suggest, the Q3 growth was driven primarily in the professional services ("PS") segments of our business but our recurring revenue also had its first quarter over quarter growth period this year. Although modest and not enough for me to say we are back on the kind of recurring revenue growth trajectory we are aiming for in the mid to longer term, the added recurring revenue from Bridge as well as some of the products and services we

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added last year are helping to offset the downward recurring revenue trend related to our Oracle Commerce business that started in Q1 of this year. We still have work to do but our pivot to the new products and services is starting to accelerate and is expected to help offset the shrinking Oracle Commerce business over the coming years.

We shared openly in our last quarterly update, explaining the headwinds on the recurring revenue business are primarily a result of our Oracle ATG clients churning and melting. Churn is reported when a customer leaves us completely. We had some of that in Q1 of 2021 with some customers that had struggled through 2020 and simply didn't make it past Q1 of 2021. We had some customers leave us that replatformed onto systems we decided we were not going to pursue being experts in. The rapidity of Oracle decline in Q1 caught us off guard as we expected a slower and longer run off period but clearly had not factored in the Covid impact for some of those clients that departed sooner than expected. But we also had a number of our customers simply reduce spend but stay with us and we call that melt.

In 2019 and 2020 our customer base consumed a lot of "Oracle Commerce" services from us. While we acquired some new customers in our Oracle Commerce business line, we moved quite a few to public cloud infrastructure as well as moving some to new platforms. The 2nd half of 2021 represented more success in retaining customers while pivoting to the new services and continuing to lower the percentage of our business delivering Oracle Commerce services. This trend will continue to play out over the next 4-5 years as Oracle's importance to our core clients will continue to decline and the new products, solutions and lines of business make up an increasing portion of our business. That is why we started investing in new capabilities in 2019 and 2020 and continued those investments in 2021. Examples of our pivot to new are: We had a very successful year building our VTEX capabilities and as an example have evolved a strong relationship with CAE, helping them with their digital transformation journey using VTEX as the foundation for that. We have also moved a number of our customers to Shopify Plus for different use cases. We are now better positioned to help the remaining Oracle Commerce customers to replatform as well as provide them services in our other categories.

As it will not be obvious from our financials it is important to share another insight into our recent Codifyd Inc. ("**Codifyd**") acquisition. Our current Master Data Management (MDM) business is almost 60% managed/hosted services and recurring revenue in nature. It had been flat in part because our professional services business had been slow to ramp, but for every dollar in PS pre-Codifyd we generate two dollars in recurring. Codifyd brings USD\$12 million of professional services revenues and high quality clients that we know have been asking for managed services. Codifyd had never invested in building the MS capabilities. While it won't happen overnight, we expect to drive recurring revenue growth in the MDM customer base by simply meeting the demand we know exists.

Our YTD bookings are up 26% YOY and don't include anything materially added from Bridge or Codifyd. This is one of the best indications that the business was starting to turn the corner in Q1 and Q2 averaging \$10 million per quarter, which grew significantly from 2020. While our Q3 bookings were \$6.8million, I am not worried as a number of large deals we were working on at the end of the quarter slid into the start of Q4 and closed. We are on track to have a record bookings year which bodes well for a strong start to 2022.

**Acquisitions:**

Since the IPO I've been on the record stating that acquisitions were going to be an important part of our growth strategy and the pursuit of our long term vision and mission to be the leader in frictionless commerce. I also told the market I am a patient and purposeful buyer and look for the right skills, economics and customer base in our acquisitions.

While I know it took longer than some expected I hope at this point the market understands and agrees that we try to be smart buyers. We still have a lot to prove in driving the requisite revenue synergies and most importantly demonstrating to our customers the added value we can bring to them with more scale and skills in the areas most relevant to them. Since we started as Pivotree we have completed 4 acquisitions, two of them in the last 90 days and all of them have demonstrated similar economic characteristics. The Corporate development team we built has helped to identify and review more than 50 opportunities in 2021, signed more than 20 NDAs, issued 6 term sheets and helped close the two deals we have announced.

Let's put the Bridge acquisition into perspective first. If you are paying attention to the industry buzz, this holiday season is going to be one of the most challenging logistically in recent history. Supply chains have been disrupted globally by everything from raw material shortages, transportation network constraints and labour shortages. To put it simply, our clients are not as worried about the "search, find, buy" part of their commerce systems right now, they are distressed by the "get" part. Maybe this is news to some of you but I encourage you to get your shopping done soon for the holidays and keep an eye on delivery dates! We could not have picked a better time to get fully engaged in this part of the ecosystem. This is a category I identified as strategic during our IPO last year and we found a great partner in Bridge. This business will be a growth engine for the foreseeable future as "get" will be central to frictionless evolution for the next decade. But let's also look at the economics of the deal.

We paid \$6 million USD at close for a business that did \$6 million in 2020 and generated USD \$8 million in the previous 12 months. They reported close to 50% of their revenues as recurring and re-occurring revenues. They also bring 3 software products they have been developing over the last 24 months that we believe could be key elements of our frictionless commerce platform. We see value and will continue to develop/invest in them. The business is generating close to 50% gross margins and even subscale it delivered positive EBITDA. We expect to invest much of this EBITDA back into helping accelerate their growth and product development efforts. Overall, the team delivered an on-strategy acquisition that is being well received by our core client base, it was highly accretive and we have acquired SaaS products and an engineering team in India that can help to accelerate our pivot to new recurring revenue acquisition.

While we don't talk about Codifyd in the Q3 results as it closed after the third quarter end, I will mention that this deal also falls exactly within the parameters we have been articulating. This business more than doubles our current Data Management business unit. It is a business experiencing double digit growth with an exceptional management team, strong vendor relationships and an expanding base of PS customers that provide a great opportunity to sell in

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value-added managed services and digital products. We now have two business units that are above minimum efficient scale and a third that should be there in 2022. Like Bridge, we acquired Codifyd for the skills and importance to our long term strategy to lead in frictionless commerce. And like Bridge we acquired on a highly accretive basis and see strong gross margins and flow through margins as well as opportunities to derive recurring revenue from the customer base.

### **Measuring Success**

One of the key measures of our long term success will be improving our revenue per share as this will demonstrate non-dilutive growth. Post IPO we have been hovering around \$2.60 of revenue/share. We have confidence that number will end the year closer to \$3.50 (+25% over Q4 2020) and will continue to climb in 2022. Our acquisitions have not only provided scale but more importantly position us with clear revenue synergies that will drive organic growth post-integration.

We continue to source interesting opportunities and improve our diligence and deal management process. The corporate development team is becoming more capable and independent and with some changes to our organizational structure we are creating capacity to do more acquisitions. But I will remain firm in our approach and criteria. They have to be on the right economic terms and with a strong culture fit as our thesis ultimately depends on revenue synergies that can only come through effective integration and collaboration.

We are always carefully balancing investments for growth with an eye on the bottom line. 2021 included significant investments in sales, marketing, product development and building out new revenue lines. This had an obvious impact on EBITDA. Strong gross margins will continue to be important as flow through margins become the key lever driving long term profitability. We have been comfortable emphasizing growth investment this past year as we can see our gross margins remain strong once normalized for investments being made ahead of the curve. We have been investing in organic growth initiatives by standing up delivery capabilities which put pressure on the aggregate and reported gross margins as well as EBITDA. As more of these areas in which we have been investing start to mature and reach scale we will see the gross margins begin to trend back up. The MDM category is a great example that was organically seeing gross margin improvements but will now benefit greatly from adding the mature Codifyd business into the mix. MDM will go from “investment” level margins to scale margins through the acquisition and the full impact will start to show up in Q1 2022. We have a clear pathway to grow our EBITDA in 2022 and will continue to manage that careful balance of investment for growth and profitability.

### **Key Market Trends**

As we have all observed, the continued push to digitally assisted transactions received a significant bump in 2020 during the pandemic with some of the largest single year growth reaching record levels. While growth continued in 2021 it did slow down in comparison to the previous year and was only single digit, it is still climbing and will do so in my opinion until 100% of every transaction will be digitally assisted in some capacity.

Spend within our customer base continues in the “search, find and buy” - particularly replatforming to next generation platforms like VTEX, SAP cloud, Shopify and Salesforce. We have also been helping customers in our B2B segment investing more in their front end “experience”.

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We are seeing our biggest and most complex ecosystem clients moving towards a “headless” architecture leveraging microservices (which essentially means decoupling aspects of the commerce website to allow them to work more independently). Essentially this means stitching together best in class solutions using smaller, purpose built components. Commerce Tools is one of those platforms that comes up often in these conversations and an area we are exploring investing into for 2022 to complement our growing VTEX and SAP business.

We are seeing a lot of effort flowing into transforming the supply chain ecosystems across all client profiles. Some of our clients are telling us that for every dollar they spend in front end experience they are spending four dollars improving their back-end supply chains systems. As we look to the future of frictionless and even back over the last 25 years of ecommerce evolution, supply chain has always been the hardest to crack. Generally our expectations today are “getting” what we need or want in days, not weeks or months, and I have no doubt that over the next decade the value proposition will be measured in less than a day and likely hours or minutes.

Underpinning all of these progressions in “search, find, buy and get” is the vast and growing amounts of data. One of the biggest reasons commerce and supply chain projects fail to meet budget, timing or value expectations is the data required to affect the transformation is often messy, unreliable or too expensive to acquire and transform. As we get deeper into this category one of the areas we are most excited about is higher levels of automation in the ingestion and transformation of data. Every software implementation project is really about structured data - moving data from one application that supports certain processes to another application. The better control you have over the data, the more automated your process of ingestion and transformation, the more agile you can be in taking advantage of new and more modern applications and tools. We have started to get real traction with our DIVE Machine Learning application that we started building in 2019/2020 that automates data ingestion and transformation. It complements the MDM systems of our partners and it automates processes that many of our clients spend too much time and money on. In a deal we signed recently, our “proof of concept” demonstrated to the client our DIVE solution could do in a day(s) what had been taking them 1 month to complete. This product is particularly useful for very large and complex vendors with hundreds of thousands or millions of SKUs and lots of regular changes. Reducing the friction surrounding ingesting and transforming data means greater agility getting the right products in front of the right customers faster and when faster can also mean cheaper this is a valuable proposition we think will hold broad appeal for our customers.

Increasingly employers are going to where the skilled labour is and they are paying that labour based not on local market rates but on the value of the work product. We are seeing global inflation rates on skilled labour accelerating towards a global median. It is one of the reasons that we think it is so important to ensure that we are leveraging reusable IP for our clients to keep development costs down. Maintaining a balance of “hot skills” people based services and the resultant IP with a lower reliance on expensive people costs serves our clients best in the long term. Our ratio has hovered consistently around 65/35 (highly automated MS revenue/ people intensive PS revenue) but it shouldn't surprise anyone if that approaches 50/50 at different points in time. Virtually all of the new products and services we are building organically are recurring in nature. They also happen to be the most expensive to acquire in the market today. In periods

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where more “new technology” is being deployed we will see an increase in PS and as technologies mature that balance will shift back towards higher levels of automation and MS.

### **Summary**

In summary, this past year has been an exciting and challenging one. I have certainly learned a lot about what it means to run a public company with big ambitions in the middle of a global pandemic. In reality it is hard to call anything in the world in the last 18 months normal, so it is hard to know if or when we will get back to normal and what the new normal will look like. What I do know is we have a terrific team of people and their combined skills make them uniquely positioned to adapt relentlessly in the constantly evolving world. Despite our first quarter revenue challenges we have delivered on many of the commitments we made when we started this next phase of our journey.

**Our mission remains bringing frictionless commerce to life for our customers** and going into 2022 our priorities will be to i) integrate our recent acquisitions and drive revenue synergies and additional value to our customer base ii) accelerate the commercialization of new products and managed services we started in 2021 iii) continue to build the M&A pipeline and close on a number of new acquisitions iv) finish hiring out the executive team and v) improve our EBITDA position by driving operating leverage on the many investments that we made in 2021.

Thank you to all of our shareholders, employees, partners and our customers for giving us the opportunity to share this exciting journey with you. I look forward to continuing this dialogue over the coming months and years with you and wish you all a happy and safe holiday season.