



## Pivotree Inc.

*The Frictionless Commerce Company*

### To our shareholders, employees and customers - Q3 2023

To all of Pivotree's stakeholders, I am pleased to provide you with an update on our performance for the third quarter of 2023. Thank you to all of the hard working and skilled Pivoters that are helping to drive our transformation to a product and solution oriented company while delivering value to our customers today as they all grapple with the uncertain economic conditions.

#### **Maintaining The Right Balance:**

We remain focused on two key areas of our business. We have invested significant management time driving operating efficiencies into our current core business of managed and professional services. We have succeeded in that area of creating an operating cash flow positive business with a terrific client base and a unique skill set. The current business drives revenues/cash flow, clients and insights. We are reinvesting the cash we are producing into our new products and solutions. We are seeing great early indications of client uptake in our Control Tower and Data family of services and a strong pipeline building in our Warehouse Management Solution (WMS). Our job over the next 12-24 months is continuing to manage the current business to optimize investable capital and client acquisition while allocating capital appropriately to the new products as they show progress. You are starting to see progress in the Managed Services line of our P&L which captures most of our new product and service revenues. We are evaluating better ways of highlighting the leading indicators in our reporting package of metrics for next fiscal year.

Control Tower uptake has been more rapid due to the low cost entry point and the attach rate to existing managed services clients. I am really pleased to see the request for additional seat licenses from existing clients on Control Tower as well as the expanding requirements clients are providing for us to prioritize feature enhancements. Our data family of solutions and services contributed significantly to our Managed Services revenue in Q3 and in particular our SKU Building solution. We are building SKUs faster than our customers expected with high quality and at great prices which is driving more demand. SKU Builder has started pricing more around SKUs delivered and SKUs under management which is one of our key internal metrics. This also helps to explain why our MS revenue is maintaining a healthy growth despite our regular churn and melt in other parts of the MS business.

Managed Services (MS) Revenue reached \$11.1 million this quarter, constituting approximately 53% of our total revenue for Q3-23 which is the first time since Q4 2021 that MS outweighed Professional Services (PS). This shouldn't be surprising given the consistency of MS revenues over the last four years. The MS consistency has often been overshadowed by PS volatility. MS revenue grew 5% vs. previous quarter and is up 9% versus a year ago. Managed Services generally reflects our recurring revenue business lines and I have communicated consistently for some time that a number of product initiatives like SKU Builder and Control Tower are in fact being used as tools in our Managed Service delivery. One of the reasons our ARR bookings for the quarter are not connecting well to the MS results is due in part to the way we define ARR bookings and the impact of "consumption" or "transactional" revenue types. We don't currently report our MS bookings as part of our general metrics package and we probably should, given how much it reflects the way our new products are currently getting bundled into services and being consumed. MS bookings contributed \$2.8M of the \$10.7M non recurring bookings, with a significant portion coming from demand to manage additional SKU build volume on a transactional basis. These booking results performed very well for us as the quarter's MS revenue climbs back to historical highs, despite the legacy revenue churn.

Despite the PS revenue drag we improved our gross margins and maintained positive EBITDA. We continue to view our PS business as a source for client intimacy, contribution margin and foundational skills that help drive our new products. We delivered our fourth straight quarter of positive adjusted EBITDA which re-enforces my earlier point. This is a great operating team that has continued opex improvement efforts which resulted in further restructuring charges in Q3 and right sizing to current trends. We remain committed to maintaining positive EBITDA while

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investing in our product and growth initiatives. Our product pipeline continues to grow and the team is working hard to get those top of funnel opportunities to convert into new clients.

**Summary:**

I can't say enough about the effort and commitment by the Pivotree team to transform the business. They are delivering great value to our current clients, they are driving more operating cash flow and they are investing it in accelerating our product initiatives which are driving tangible results. With the continued resolve and shifting of dollars towards our new solutions I expect to see and report on more evidence of that transformation over the next 12 months.

Bill Di Nardo  
Chief Executive Officer