Pivotree Inc.

The Frictionless Commerce Company

To our shareholders, employees and customers - Q3 2024

As we reflect on the third quarter, we recognize both the challenges and opportunities that lie ahead. The quarter has been marked by a focused effort in 2024 to streamline our operational and administrative functions, positioning us for leaner and more sustainable growth. I outlined in my pre-earnings release the significant changes that are reflected in the Q3 earnings so I won't repeat them here. I want to thank all of our Pivoters globally that have worked hard making significant changes to the business while supporting our clients in their own change management initiatives.

Closer look at our results:

I will focus my comments in this letter to our operational spend targets, explaining the recent gross margin, bookings in particular MIPS and PS as well as provide some insight into what we are seeing with customer trends. We spent much of 2024 right sizing our operations, exiting our data centres and in Q3 leaning out our overhead expenses. We are still overspending on opex as a percent of revenue as we continue to invest in Sales & Marketing at a pace 25-30% higher than our peer group as our new Chief Revenue Officer (CRO) rebuilds the team and drives for longer term sales efficiency. We expect these changes will bring us into consistent 5+% EBITDA margins. Accelerating bookings beyond the 2024 levels based on continuing investment levels in Sales, Marketing and Product, with even modest growth in bookings, would move us closer to 6-8% EBITDA after R&D investments.

Gross margins and revenue in Q3 were negatively impacted by revenue recognition adjustments on two large milestone based deals in the quarter. Our delivery team subsequently completed one of those projects and the second project should start tracking to normal margins and EBITDA in Q1 2025. These one time adjustments negatively impaired gross profit and EBITDA by more than $1 million in Q3. I am pleased to report that our Total Contract Value (TCV) bookings maintained the current trend coming in at $19.2 million which is up 13% versus Q3 2023. The mix of bookings is important to note with PS bookings back up to $11.7 million which is up 24% versus Q2 and 52% versus Q3 2023. We also saw Managed & IP Solutions (MIPS) bookings up 14% versus Q2 2024 and relatively flat versus Q3 2023. I am optimistic with the number of opportunities currently in contracting inside our MIPS category that should lead to a strong Q4 MIPS booking quarter. We added close to $12 million of qualified new logo pipeline in Q3 which is up 55% vs. Q2 and is the highest level it has been since Q2 2022. These are two important leading indicators on future revenue.

These latest booking trends lead me to my observations in the market with our clients. B2B clients are focusing on driving more revenue through digital channels. They tend to be further behind in their digital commerce journey and while many are starting with cleaning data to make channel expansion viable, their requirements extend beyond data into transforming the way their clients engage with them. The future of B2B commerce appears to represent more significant client investment moving forward. B2C clients have already made significant investments in their digital channels and are trying to reduce total cost of ownership and optimize run costs versus major transformational changes. In both cases we are seeing bigger projects with longer commitments breaking through the CFO hurdles. Contracts are still taking time to get signed but we are seeing more activity than in recent quarters. I don't believe we have seen any material change resulting from lowering interest rates yet but continuing rate drops certainly won't hurt in building support for capital projects.

Summary:

Pivoters have done the hard work of creating a leaner and more efficient organization over the course of 2024 and working through some challenging projects. This has left the organization in a terrific position to move forward with confidence. There are very positive signs in the pipeline and pending contracts that are being negotiated and we continue to have world class delivery people who have a very strong reputation in the market.

Bill Di Nardo
CEO, Pivotree

Forward-looking Information

This letter contains "forward-looking information" and "forward-looking statements" (collectively, "**forward-looking information**") within the meaning of applicable securities laws. Forward-looking information may relate to the Company's future financial outlook and anticipated events or results and may include information regarding the Company's financial position, business strategy, growth strategies, addressable markets, budgets, operations, financial results, taxes, dividend policy, plans and objectives. Particularly, information regarding the Company's expectations of future results, performance, achievements, prospects or opportunities or the markets in which the Company operates is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects", "budgets", "scheduled", "estimates", "outlook", "forecasts", "projects", "prospects", "strategy", "intends", "anticipates", "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", or "will" occur. In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events or circumstances. The forward-looking information contained herein includes, but is not limited to, proposed expansion of the Company's market position and potential acquisitions.

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