CORPORATE PARTICIPANTS

Christopher Whitcomb, *Vice President, Investor Relations*

Rajat Suri, *Founder & Chief Executive Officer*

Ashish Gupta, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Brian Dobson, *Chardan Capital Markets*

Samad Samana, *Jefferies*

PRESENTATION

Operator

Greetings, and welcome to Presto Second Quarter 2023 Earnings Call.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Chris Whitcomb, VP of Investor Relations. Sir, you may begin.

Christopher Whitcomb

Thank you.

Good afternoon, everyone, and thanks for joining us today. My name is Chris Whitcomb and I'm Vice President of Investor Relations here at Presto. I'm pleased to be joined on today's call by Presto's Founder and CEO, Raj Suri, and CFO, Ashish Gupta.

Just as an announcement, the filing and the press release have both been issued, so they should hit the wire at any minute. With that, please note that on today's call, Management will refer to Adjusted EBITDA, which is a non-GAAP financial measure. While the Company believes this non-GAAP financial measure provides useful information for investors, the presentation of this information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. You are directed to our press release for a reconciliation of such measures to GAAP.

Before we begin, please note that some of our remarks on this call will be forward-looking. Therefore, please refer to the cautionary statement in today's press release for additional details about these remarks. Please note that these forward-looking statements made during this conference call speak only as of today. Please refer to today's press release and filings with the SEC for a discussion of the risks that could cause actual results to differ materially from those expressed or implied in any forward-looking statements made today.

Now, I'll turn it over to Raj Suri, Founder and CEO of Presto. Go ahead, Raj.

Rajat Suri

Thank you, Chris, and thank you, everyone, for joining us today for our Fiscal Second Quarter Earnings Call.

Twenty-twenty-three has brought a lot of exciting new developments for Presto Automation. On the macroeconomic side, thanks to ChatGPT and OpenAI, there is now mainstream interest in artificial intelligence, and everyone can see what we all have known at Presto for many years, that AI is a transformational technology that will dramatically increase productivity in a wide variety of applications and industries.

Presto actually has been developing AI applications since 2018, and has leveraged GPT-3 for several of these applications. One of our early investors in 2014 was Sam Altman, the CEO of OpenAI. We've always believed in the power of AI to enhance traditional industries and take great pride in our position, not just as a market leader for drive-through voice AI, but also a technology leader. Large language models help to make sense of the intricacies of human speech and are here to stay. We believe several of our other cutting edge products currently under development will gain mainstream adoption over the next few years.

In addition, labor issues have recently improved, but AI in the drive-through sector has shown benefits beyond solving labor challenges. Those at the drive-through wanting food and those taking the order have seen that upsells have greatly increased with voice AI assistance. The food ordering guests, when given a choice, will often opt into additional choices, although they are never pressured to do so.

On the microeconomic front, Presto started 2023 with a major customer announcement, the signing of another enterprise voice AI contract with a national rollout with Del Taco, the second largest Mexican fast food chain nationwide. The total opportunity at 600 stores is worth over $10 million in annual recurring revenue to Presto.

Additionally, Del Taco is owned by Jack in the Box, which has another 2,200 stores and shares the same visionary Management team that chose to sign voice AI with us. We have begun conversations as well with this group.

The Del Taco win represents the rapid growth of the voice AI market. Presto has grown its install base and voice AI cash collections by 50% sequentially quarter-over-quarter and now has over 300 locations implemented. Our rollout with Checkers has been so successful that that they recently named us Supplier of the Year in their innovation efforts. Voice AI for Presto has represented over 30% of our customer cash collections the past quarter.

The combination of interest in AI, operational efficiencies and Del Taco announcement has led to a spike of interest in Presto's voice solutions. We have signed and begun to implement promising pilots with several new brands that we hope to convert to MSAs during calendar 2023. The logos we currently have partnerships with, and live pilots, they represent 15,000 drive-throughs, totaling over $200 million in potential ARR if fully expanded. We are progressing to late stages with several of these customers, and we hope to have more partnership announcements in 2023.

Our legacy touch business continues across all primary logos, albeit with contracted revenue organically declining as existing contracts maturing and legacy deferred revenue being fully amortized. Transaction revenue was up 25% versus prior year Q2.

Several of our enterprise partners are now in the process of testing our world-class Presto Flex product which operates in six different modes, including Tabletop, Kiosk, Handheld, Curbside and Drive-Thru Line Buster. Should these customers upgrade to Presto Flex, we expect to see an uptick in platform revenue. Most of our customers have also renewed existing contracts through the end of 2023.

Finally, Presto has also taken steps to streamline operations and reduce recurring operating burn by rationalizing headcount and vendor spend. This enables us to operate more efficiently on our path to profitability, which we hope to achieve at around $100 million ARR. We had a higher-than-normal cash burn last quarter, but we expect it to normalize at a much lower level going forward as one-off expenses from our public transition are resolved.

Now, I'd like to hand it over to Ashish Gupta, our CFO.

Ashish Gupta

Thank you, Raj, and once again, thank you, everyone, for joining us today.

I'd like to start by walking through the highlights of our current quarter ending December 31, 2022. GAAP revenue was $7.4 million, down 4% from prior year Q2. This reflects a $29 million ARR run rate. Transaction revenue increased 25% to $3.2 million versus prior year Q2, due to a successful increase in pricing for our gaming fees. ARR would have been $32 million in total, but for the accounting treatment related to a specific customer contracted that precluded the recognition of certain revenues related to the contract. AI voice customer cash collection also increased 50% sequentially versus the prior quarter.

Gross profit was lower versus prior year, both due to the voice-related accounting adjustment we just mentioned, as well as higher COGS deferred expense amortization from our legacy touch business. This was due to increases in freight and installation costs, and the residual impacts of COVID-related equipment replacement. We expect legacy accelerated COGS expense to bleed through our P&L by the end of Fiscal '23. Following this, we expect margins to expand over time as we convert voice pilots into system-wide rollouts, and our AI-enabled solution gets fully trained.

Q2 Fiscal '23 Opex was $13.6 million versus $7.6 million for Q2 in the prior year. This includes normal operating expenses as well as the impact of trailing items from the merger. As such, Adjusted EBITDA for the quarter was a loss of $10 million as compared to a loss of $5 million in the same quarter last year.

This Opex increase of $6 million primarily represents $2 million higher legal accounting fees and temporary service expenses, of which $0.8 million were ancillary professional public company related compliance service fees; a $2 million increase in stock-based compensation, which included merger-related expenses; $1.3 million was related to higher headcount year-over-year, in order to enable our AI platform growth; and a $0.7 million increase in public company insurance, software spend and presumed travel coming out of COVID.

Both during Q2 and as we operate the business going forward, we have started to take specific steps to reduce Opex and burn. This is part of our specific goal to get the business to profitability, combined with voice-fuelled growth. We have initiated a headcount and vendor rationalization process, along with a detailed exercise to achieve cost synergies across all functions. We're taking actions to cut operating expenses by 30% by the end of the current quarter, and manage the business with a continued focus on our cost structure. We're also beginning to analyze areas of the business that are more mature like our legacy touch business, and where we should expect to achieve operating leverage.

We expect Fiscal '23 revenue ending June to be between $28 million to $30 million. This guidance is normalized for certain accounting adjustments that we discussed earlier, the total of which is expected to be in the range of $3 million to $4.5 million for the year.

In closing, we would like to reiterate that what continues to excite us about the growth opportunity in front of us is that our customers are large, global enterprises and our technology is mission-critical to them and sticky, especially with our voice product.

With that, we're going to turn it back over to the Operator for questions. Thank you, everyone.

Operator

Thank you.

Our first question comes from Brian Dobson, Chardan Capital Markets. Please go ahead.

Brian Dobson

Hi, thanks very much for taking my question.

First, just kicking it off, let's talk a little bit about Del Taco. Do you think you can give us a little bit more color about how you see the rollout taking shape there over the next, call it, 12 to 18 months? What have you learned in that process that can help you with the current late-stage contracts that you mentioned that are currently in negotiation?

Rajat Suri

Yes, thanks, Brian, appreciate the question.

We've learned a lot from the Del Taco experience, as we have with Checkers before that. Mostly what we learned is what do we need to do, what do we need to demonstrate in a pilot to prove the ROI to the operators and to the brand? I think we've got it down to a science on that front. With Del Taco, we were able to show that value just within a couple months of installing the product. The ROI was so compelling, both on the labor redeployment side and also on the upwelling side, that I think for them it was not a difficult decision to decide to expand this to the rest of their stores.

There's a large amount of details to get right in that; it sounds easy, but we have a very professional team on the projects side, on engineering and QA and product, that all work well target, co-management. It's a machine that we've built here over many, many years to execute on this. We have a number of internal KPIs that we measure and we report on, on a daily or weekly basis. We have communication channels and escalations. Again, this is many years of work of building the machine internally.

We've previously had the success with our Tabletop product and we just re-implemented a lot of those processes in the team for voice AI, and that's what leading to the success. I think that answers the second part of your question.

Can you repeat the first part again?

Brian Dobson

Sure. The first part of the question was, as you're thinking about Del Taco, how do you envision the store rollout over the next 12 to 18 months?

Rajat Suri

Yes.

Brian Dobson

Should we expect a similar trajectory to previous master service agreements, or do you expect a different kind of ramp here?

Rajat Suri

Yes, that's a great question. There's a couple of key factors there. One is, how many corporate stores does a brand have versus franchisee? In Del Taco's case, they have a large number of corporate stores, anywhere from 25% to 35%. They announced they were going to refranchise some stores, but it turned out they're not going to refranchise as much as originally anticipated, so I think they'll end up around 25%, is what the latest we've heard is.

Those stores, the corporate stores obviously go very fast in general, the franchisees take a bit longer. With Checkers, it's been a year now into the contract. We've deployed now, I think, 35% to 40% of their install base with 300 or so stores, out of the 850 that they have. I would say that's a floor for how fast we can go. I think we can go a lot faster with better execution and also with a brand that's willing to go fast and open this up to their franchisees.

Over time, we're just going to get better and better at this, for every new brand that we go live with. There's a whole franchisee education component of this. You need a sales team that's used to talking to franchisees, and of course you need to deliver a great product. If you deliver a great product, franchisees will be all over you to deploy this. We do anticipate that we can go pretty fast, assuming we can maintain that ROI with all of our installs, because again, it's found money for these franchisees, and they're actually pulling. It's a pull for them; it's not like you have to push it to them. They're our greatest advocates within every system.

Brian Dobson

Yes, thanks, that's excellent color.

I suppose, as you're thinking about the guidance range for reported ARR, call it $28 million to $30 million, how much of that stems from Del Taco, and is there a portion of that that is in, call it blue sky or yet to be announced, or contracts that you think that you'll be able to announce during the course of the year?

Ashish Gupta

Yes, Brian, that's a very pertinent question. As we had mentioned also in our last Earnings Call for the First Fiscal Quarter, we do not bake in any kind of forecast into our forecast guidance, any kind of sales projections. The way we do our forecasting and guidance, right, it's all based on signed customer contracts and logos.

The part of your question about how much of Del Taco, I would say very little. For at least the Fiscal, we're not quantifying that number, but just given we're just getting started with Del Taco now, so the majority of the revenue upside from Del Taco would be in next year's guidance.

Brian Dobson

Yes, and is that just a function of the ramp, or could there be, I suppose, material upside to that guidance outlook as those Del Tacos are included? Or is that really more of a 2024 event?

Ashish Gupta

Yes, we hope that there is some upside, right, in that, but we're not projecting along those lines.

Brian Dobson

Yes, excellent. I suppose I'll hop back in the queue and let someone else have a go. Thank you.

Rajat Suri

Thanks, Brian.

Operator

The next question comes from Samad Samana with Jefferies. Please go ahead.

Samad Samana

Hi, great, maybe a few questions. Ashish, I think that you mentioned lowering the cash burn and taking action across the organization. Could you maybe give us some more specific examples? Where should we think about—has it been in terms of using technology to lower costs, has there been headcount reductions? If so, what were the main functional areas and how should we think about that being factored into the Company's forward-looking outlook?

Ashish Gupta

Yes, yes. Hi, Samad. Happy to. At the macro, it's across the board. We're looking practically right under every rock, and it covers the gamut of looking both from a line item perspective, and also a functional perspective, looking at the cross-section of how we look at the business and where spend is. For every function, right across every line item, we're looking at headcount. Headcount efficiency, headcount rationalizations, and we're doing it, right, on a product line basis. Basically, and as we had mentioned earlier, and also in the Earnings Call, being more focused on getting operating leverage and efficiency from touch.

Then, so there's the headcount component, there is a vendor component. Then, at the macro, right, we're also then looking at shaving off the top a certain percentage, just across all vendors, and being more efficient from a unit cost basis. Literally, it's looking at all aspects of the business. There's no silver bullet.

Samad Samana

Understood. Then maybe just one more numbers question and then I'll switch gears. I think last quarter, the Company had given a revenue outlook. I think I just heard ARR in the prepared remarks today. I'm just curious, how should we think about that prior $33 million to $35 million revenue outlook that you'd given, and should we not use that anymore as a framework for the revenue side for the outlook?

Ashish Gupta

Yes, that's right. That's what I tried to mention in my prepared remarks by noting the revised guidance, but then also calling out for consideration and quantifying the impact of the accounting changes, and providing that bridge of sorts as to what that impact potentially will be for the entire Fiscal, which is in the range of $3 million to $4.5 million.

Samad Samana

Great. Then maybe, Raj, for you; if we step back, I mean, obviously the Del Taco deal is big news, and you mentioned the engagement with other prospects. But just how are your conversations with end customers going that's made you think it's an indication of how deal cycles are trending, or maybe where Presto's solutions are in terms of priorities, just as you think about where spend will map from customers to different solutions for the year?

Rajat Suri

Yes. The customers that we're installed and live with are very excited about the solution and seeing good value from it. There is, again, as I mentioned, pull from the franchisees to adopt it and deploy to their stores. We're seeing a similar sentiment, I would say, to Del Taco and Checkers, with other brands. There's nothing out there that's dramatically different. For us, it's a case of rinse and repeat there.

In terms of priorities, labor is still top of mind for all of our customers. I read a stat the other day, there's over 10 million jobs still unfilled in the U.S. It's not easy to find people, and even when you find people, they tend to be pretty high turnover, and sometimes the quality can be less than desired. It's what we're hearing from our customers.

This is a high priority for every brand that we talk to, to have an AI solution in place to help with labor redeployment, as well as boosting sales. There's no CEO in the country of a QSR team that will tell you they don't want to improve sales. The fact that the AI never forgets to upsell, and upsells better than a human, is a big deal as well.

The third big thing that we're starting to see is that brands really care about AI because it helps them deliver a consistent experience, and it helps with their overall brand promise. For example, if a brand has a new LTO, they can push it out to the AI within hours. But to retrain all their staff, it takes a long, long time, on a limited time offer. That's another big benefit for these brands.

What we're hearing from our customers, the customers that are piloting with this and serious about it, this is one of their top three initiatives for the year. That's why we're excited about where AI is… All of this talk about ChatGPT and all these things, it only helps us. It's the talk of every Executive team in the country, how are they going to be leveraging AI to grow their business?

Samad Samana

Great. Thank you.

Rajat Suri

Thank you.

Operator

Thank you.

Not seeing any further questions at this time, I'd like to pass the floor back to Management for concluding remarks.

Rajat Suri

All right. Well, thank you, everyone, for attending the call.

In closing, I'd like to take the opportunity to thank our team of Prestonians for their commitment over the last quarter, and say how proud I am of what we have been able to achieve in such a short time as we pioneer a new exciting frontier of AI for traditional industries. There is so much more to come from this fantastic group.

We'd especially like to thank Ashish Gupta for all his contributions to the Company for the past 3.5 years. He has been an instrumental part of our success and a great partner for me. Thank you, Ashish, for everything you've done as CFO.

Ashish Gupta

Thank you, Raj. It's been a pleasure, this partnership.

Rajat Suri

Thank you.

Thank you again, everyone, for attending our Earnings Call. Happy Valentine's Day.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a great day.