CORPORATE PARTICIPANTS

Chris Whitcomb, *Vice President of Investor Relations*

Raj Suri, *Founder and Chief Executive Officer*

Ashish Gupta, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Samad Samana, *Jefferies*

Stephen Sheldon, *William Blair*

PRESENTATION

Operator

Greetings, and welcome to Presto First Quarter 2023 Earnings Conference Call.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Chris Whitcomb, Vice President of Investor Relations. Thank you. You may begin.

Chris 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.

By now everyone should have access to the Company's first quarter 2023 earnings release issued this afternoon, which is also available on the Investor Relations section of our website.

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 to, or as a substitute for, the financial information presented in accordance with GAAP. You're directed to our press release for a reconciliation of such measures to GAAP.

Before we begin, please note that some of the 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. Also note that these forward-looking statements made during this conference call speak only as of today. Finally, please refer to today's press release and our filings with the SEC for a discussion of the risks that could cause actual results to differently differ materially from those expressed or implied in any forward-looking statements made today.

Now I will turn the call over to Raj Suri, Founder and CEO of Presto.

Raj.

Raj Suri

Thank you, Chris, and thank you, everyone, for joining us on the first ever earnings call for Presto Automation.

We are delighted to share our business momentum and technology progress here with the financial community. Presto today is benefiting from macroeconomic conditions resulting in strong interest in our labor automation solutions across the restaurant industry. Labor cost and availability continue to be a major issue in the U.S., and physical industries like restaurants suffer the most, because they need labor physically present. They can't just hire a remote worker to get the job done.

The problem is acute, and the long-term trends suggest it will only get worse. This positions Presto ahead of a very large opportunity as one of the market leaders in labor automation for the massive restaurant industry. Presto has already won major rollout deals with some of the largest chains in the world, Checkers, Applebee's, Outback Steakhouse, Chili's and more, which led to nearly 250% revenue growth since early 2019. The reason we win these deals is because no other player in the market has a platform like ours.

The Presto automation platform combines voice AI, computer vision, and touch technologies. These help speed up service times, improve labor productivity, and enhance the customer experience, all the while capturing critical operational data that no other systems can easily capture. In addition, we make it easy to integrate our leading edge technology with a restaurant's legacy systems, and our team is very experienced in implementing and installing solutions that meet the needs of large scale restaurant brands.

I'd like to explain each one of our products now in detail. First, Presto Voice is our automated AI-powered assistant that takes orders at restaurants. With a rollout of over 200 stores pioneering Voice AI at Checkers, we believe we possess the largest footprint of drive-thru voice AI in the restaurant industry.

When deployed in the drive-thru, up to 95% of orders can be taken autonomously by our AI technology without staff intervention. Unlike a person, this system never forgets to upsell and consistently delivers the right language. Consider the simple line, “Would you like an ice cold drink with that?” A human would find it awkward to say, would you like an ice cold drink? Because naturally we just say, would you like a drink. But the AI does exactly what brands it want to do every single time. Additionally, Presto Voice can save five to 10 labor hours a day, expanding restaurant operating margins by around 10%.

Second, our proprietary Vision AI can instrument the drive-thru to service many more critical operational data points and legacy systems. Presto Vision in real time identifies key gaps in the customer experience as well as opportunities for operational improvements. For example, how many cars are leaving a drive-thru because the wait is too is slow and the line is too long. Deployed in tandem with Presto Voice, Presto's Vision technology boosts upselling and enables Voice to deliver the right experience at the right moment for the right guest.

We believe that together Presto Vision and Presto Voice combine to form the most powerful product in the market for drive-thru automation. Together, they deliver a highly personalized guest experience, enhance upselling, speed up service, improve labor productivity, and provide valuable analytics to restaurant brands.

Finally, our legacy business involves touch products such as guest tablet and server handhelds. Our tablets allow guests the convenience of ordering food, playing games and paying for their tab without having to wait for a server. This not only leads to a better guest experience, but it also frees up time for the servers, and therefore helps restaurants deal with the labor shortage. Restaurants have been able to double their front of house labor productivity with these solutions.

Now let me explain our go-to-market sales motion. Presto's goal is to sign master services agreements with the top 50 restaurant brands, massive enterprises with global footprints representing well over 100,000 locations. To give you a sense of how large our customers are, the smallest brand we are currently engaged with for a high potential pilot is over $1 billion in revenue. Our sales motion involves a pilot test in which the technology and business case are evaluated. Most of our customers have franchisees in addition to a corporate arm, and after a successful pilot, we will proceed to an MSA and then rollout with both franchisees and corporate stores.

Our enterprise sales cycle from first conversation to MSA can be six to 12 months. A rollout cycle can take another 12 to 24 months on top of that. So our revenue tends to crest in large successive cohorts as new brands are rolled out and different franchisees rollout the solution to their stores. Presto differentiates itself not only in our best-in-class solution, but also in the breadth and depth of implementation and operating teams. Restaurants in the top 50 cannot afford to work with small start-up companies who have never rolled out a solution at scale before. Top restaurant brands also struggle to work with larger technology companies who aren't able to deliver the highly customized solutions the restaurant brands need.

Moving on to our recent go-public transaction. As many of you know, we recently completed our transaction with Ventoux CCM Acquisition Corp, which resulted in approximately $120 million of gross proceeds to fund expansion and product development across our platform from strategic Investors like Cleveland Avenue, which is run by former McDonald's executives, as well as many others. This capital position us very well to succeed in the public markets and move the Company forward to take advantage of the robust macro tailwinds.

Next I'd like to talk about some highlights from our first Fiscal quarter. Top line results, $7.8 million in Q1 revenue, $31 million in annual recurring revenue. At the end of Q1, Presto had a handful of high potential pilot install with top 50 brands. These pilots represent over $200 million in ARR on a fully converted bases. This does not include Checkers, which is live and was rolled out to over 200 locations.

At the end of Q1 Presto, was live with each of these pilots and was demonstrating similar or better statistics than we are achieving at Checkers. In each case, the brand is saving on labor cost as the system is able to offload the order taking work that was traditionally handled by staff members. In addition, Presto's Voice AI system presents an upsell offer to the guests nearly 100% of the time. We've generated upsell acceptance rates between 25% and 70% of the time depending on the location. In this fashion, Presto is able to generate material incremental revenue for each location. Based on the metrics we are seeing and the customers' need for this solution, we expect that the majority of these products will convert to rollout in the coming quarters.

On the product and technology front, we have implemented several enhancements to our Voice AI product to increase the stability and performance of our solution in the drive-thru. We have now completed the integration of Cyborg Ops into our Voice AI product. This was announced in our last filing. It provides additional innovation and capabilities to help further differentiate us in the market.

As far as our legacy touch product is concerned, our team has been working hard on the next generation platform called Presto Flex. This has successfully been deployed to test pilots in Q1, and we will continue to work out with our beta partners to strengthen the platform in Q2 before launching in Q3. Finally in Q1 we also hired both a General Counsel, Susan Shinoff (phon), and SVP of Sales, Justin Foster. In addition, we've added key AI talent with deep experience in natural language processing and computer vision.

With that, I'd like to turn the call over to Ashish for a more detailed review of the financials.

Ashish.

Ashish Gupta

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

I'd like to start by walking through the highlights of our quarter ending September 30, 2022. GAAP revenue was $7.8 million, up 8% from prior year Q1. This reflects a $31 million ARR run rate, which also grew at 8% over the prior year quarter. We saw an increase both in transaction revenue from higher yields, and importantly, new Platform Voice revenue coming online from Checkers, where we were live in over 200 locations by Q1.

Gross profit was in line with prior year and includes residual impact of COVID-related equipment replacement and enhancements. We were required to add temporary resources to better service our customers during multiple waves of the pandemic. As a result, our NRR, or net revenue retention, metric remains over 100%, 105% ending Q1. We expect margins to expand over time, in part as we convert pilots into system wide rollouts and additional product-led growth with both existing and new customers. This is in part as our AI technologies have a smaller equipment footprint than our legacy touch business, and we expect they will yield higher steady state margin.

Q1 Opex includes normal operating expenses, as well as the impact of various merger accounting and extraordinary items. Normalized for these onetime costs, Q1 Fiscal '23 Opex of $9.7 million versus $6.6 million for Q1 in the prior year. Adjusted EBITDA for the quarter was a loss of $8.9 million as compared to a loss of $5.3 million in the same quarter last year. The increase in expenses was primarily related to staffing in advance of projected growth from new product lines and new brands, as Raj mentioned earlier, as we expand our footprint into both the casual dining and QSR segments of the industry, certain investments related to our new status as a public company, and higher ancillary professional fees related to the merger.

Other expenses included transaction expense, financing costs and debt that we extinguished as part of the going-public transaction close, interest, and other noncash expenses related to warrant and convertible notes and stock compensation. Looking forward, we intend to manage our 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. Our objective is to continue to innovate and pursue top line growth, and also move Presto on a path toward profitability consistent with that growth.

Further, and as I mentioned above, our burn coming out of COVID has had certain one-off impact and trailing issues from the pandemic, as disclosed in our filings. As such, we expect burn to settle down in steady state going forward and to deploy new capital primarily in service of bookings growth. We expect to have adequate runway as we look to the end of our Fiscal '23. We expect Fiscal '23 revenue ending June to be in the $33 million to $35 million range. In general, we intend to only provide guidance based upon signed logos and bookings, not sales forecasts. Please note this does not necessarily mean our sales cycle is changing, or that we are less bullish on our outlook for the industry, as evidenced by the active pilots that Roger previewed earlier.

As a reminder, and what excites us about the growth opportunity in front of us, is that our customers are large global enterprises. Our technology is mission critical to them and sticking.

With that, I'm going to turn it over back to Raj for closing comments. Thank you, everyone.

Raj.

Raj Suri

Thank you, everyone, for attending our first earnings call. We are thrilled to be able to share our journey with you now as a public company. I'm looking forward to getting to know all of you.

Operator, do you want to poll the audience to see if there's any questions please.

Operator

Thank you. Our first question is from the line of Samad Samana with Jefferies. Please proceed with your question.

Samad Samana

Hi, good evening. A couple of questions for me. First, great to see the first quarter as a public company.

Maybe can you just help us understand the Fiscal '23 guidance? What's driving the confidence there? Just how should we think about maybe where that could be better? Or maybe where it could come in line? Just how should we think about that $33 million and $35 million guidance?

Ashish Gupta

Yes, I'll start, and Raj, please fill in as appropriate.

As I mentioned, Samad, right, we want to guide cautiously, and only project based on the logos we've signed as of now and booking, right, not our sales forecast. So that's just kind of what our philosophy on providing guidance is. Part of it is also just given, in light of the macro environment, and sales cycles getting potentially stretched, plus our de-SPAC getting delayed due to market turbulence earlier this year, which shifted everything out a little bit.

Samad Samana

Great, and maybe just a follow-up, just how are you thinking about managing—you mentioned, investments for growth, and there's a lot of opportunity ahead. But how do you think about maybe managing Opex? You obviously raise capital, which gives you funds to invest, but then as you think about what you just mentioned, with sales cycles, and maybe some of the short term macro concerns, just how should we think about the profitability side of that and how you're thinking about what are you managing Opex toward in terms of growth expectations?

Ashish Gupta

Yes, so our goal is to manage Opex tightly, as we see revenue crest, and some of these high potential pilots convert into full rollouts. Our goal is to reach profitability as soon as we can, and we were managing Opex towards that, and only scaling Opex alongside revenue growth is kind of the way we look at it.

Raj Suri

Yes, and also like the work that I mentioned, we're now engaged in starting to look at areas in the business, which are more mature, right, like our legacy Touch business where we can start to get some operating leverage, too, in turn, then, right, kind of earn the right to feed the areas of the business where we expect to see more growth.

Samad Samana

Great, and maybe I'll sneak one last one in, just in terms of going public, how has that impacted the deal pipeline? Do you think the company is getting more visibility? Or is it making it easier to compete in deals from a public company standpoint?

Raj Suri

Yes, it's been a great—it was a positive surprise. We've seen acceleration in our deal velocity, definitely greater visibility from our customers, many of which are public companies themselves. They appreciate working with another public company. They have more awareness now of our value proposition. They feel more confident signing deals with us, which has been great to see. So we're certainly seeing acceleration in our sales cycles and deal velocity due to the public offering.

Samad Samana

Great, thank you.

Operator

Thank you. Our next question is from the line Stephen Sheldon with William Blair. Please proceed with your question.

Stephen Sheldon

Hi, thanks for taking my questions, and congrats on getting to this point.

Just one for me. Sounds like you have a lot of encouraging pilots underway. I'm curious what factors those restaurant concepts seem to be weighing when they're thinking about a broad-based rollout with your voice solutions. Are these concepts kind of looking at and piloting competing solutions from other vendors? Or is the decision more of a yes or no, this type of technology itself? So whether or not to adopt a Voice AI solution, and what do you think it'll take to convert some of these?

Raj Suri

Yes, great question, Stephen.

What everyone looks for when they're piloting this type of solution is they're looking, A, does it do what we said it will do, which is, take orders, with a very high degree of accuracy and not relying on the staff inside the restaurant to take those orders. Then if he does that, if it achieves its technology goals, do the staff like it? Is it delivering the ROI that that they think it can deliver?

Once those two things are—the boxes are checked, then we start to see the pull from the group and saying like the franchisees as well as the corporate group, like how fast can we get this out there? What do we need to do to move faster on this solution? That's really the thing. I mean, for us, the competitive threat is not as acute as, you know, just people understanding how to leverage a new technology that is really emerging in the restaurant industry for the first time this year.

I mean, we're the pioneers of the solution, we were the largest. We have the largest footprint in the market already. So there's really just every restaurant guy needs to figure out how they can get the most leverage out of the solution, how can we tailor it to their culture and their brand. That's the process that they need to go through as thinking about how to roll this out or what cadence to roll it out.

Stephen Sheldon

Great, thank you.

Raj Suri

Thanks, Stephen.

Operator

Thank you. There are no further questions at this time. I would like to turn the floor back over to the Management for closing comments.

Raj Suri

Yes, just want to thank everyone for again for attending today. We're really excited to be public. We're excited to be able to share our progress with all of you folks. It's going to be a great journey, and we're looking forward to engaging with you all.

Thank you.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.