

BSQUARE Corporation

First Quarter 2021 Conference Call

May 13, 2021

Steven Gottlieb, Vice President, Corporate Affairs

Thank you and good afternoon everyone. Before we begin, we'd like to remind you that this call is being webcast and that a recording of the call, and the text of our prepared remarks, will be available on Bsquare's website.

During this call, we will be making forward-looking statements. These statements are based on current expectations and assumptions that are subject to risks and uncertainties that could cause actual results to differ materially. During this call, management will also refer to GAAP and non-GAAP financial measures.

Please refer to the cautionary text regarding forward-looking statements, as well as the Non-GAAP reconciliation to comparable GAAP financial measures contained in Bsquare's earnings release issued today on our website at www.bsquare.com under "Investors". All per share amounts discussed today are fully diluted numbers where applicable.

Now, I'd like to turn the call over to Ralph Derrickson, Bsquare President & CEO.

Ralph C. Derrickson, Bsquare President & CEO

Good afternoon and welcome to the Q1 2021 Bsquare quarterly earnings call. Thank you for taking the time to be with us this afternoon. Our plan as usual will be to take you through the Q1 financial results, provide our perspectives on the business, and answer any questions you may have for us today. For anyone who would like to arrange a follow up conversation, please contact Steven Gottlieb, VP of Corporate Affairs who is responsible for Investor Relations and led off our call today.

Joining me on the call is Chris Wheaton, fellow entrepreneur and Bsquare CFO and COO. I will get us started and then hand things off to Chris.

Q1 2021 was a building quarter for Bsquare from which we believe few conclusions should be drawn. Partner Solutions revenue was off modestly largely due to a difference in shipping days. Edge-to-Cloud revenue also declined due to changes in revenue recognition that Chris will cover momentarily.

As planned, in Q1 2021 we continued investing in the development of IoT operations services and software growing out of our work with our large IoT customers. You saw the ITRON announcement in February regarding the expansion of our relationship.

The takeaway from Q1 2021 is that business building is not a linear process or always reflected in our most recent financials. We will continue executing our strategy with focus and discipline.

Let me hand things off to Chris now to get into the specifics of the quarter.

Chris Wheaton, Bsquare Chief Financial & Operating Officer

Thank you, Ralph, and good afternoon investors. Let's get right to the financial details of the quarter:

Total revenue for the first quarter of 2021 was \$ 10 million, 9.9% lower than Q4 2020. Revenue in the Partner Solutions segment, composed primarily of sales of Microsoft software, was down 3% quarter-over-quarter. This modest decrease was essentially the difference in shipping days in Q1 2021 versus Q4 2020. After adjusting for the smaller number of shipping days in Q1, revenue in the first and fourth quarters would have been virtually equivalent. Year-over-year comparisons in this segment to the first quarter of 2020 show the depths of the challenges that our Partner Solutions customers have experienced in the twelve months since the onset of the pandemic.

Product mix drove a small quarterly decrease in Partner Solutions gross margin rates. This quarter's 15.2% result is only 50 basis points less than last quarters, a decline largely attributable to a small shift in Q1 sales away from

one higher margin product. Comparisons of year over year margins reflect stability in the Partner Solutions segment.

Turning to the Edge-to-Cloud segment, first quarter 2021 revenue was 1.2 million dollars, down \$800,000, from Q4 2020 due to one-time revenue recognition in Q4 2020 that did not reoccur in Q1 2021. Timing was also the primary contributor to a reduction in Edge to Cloud gross margins; the one-time revenue in the fourth quarter of 2020 also happened to carry unusually high gross margins. Q1's 22% gross margin is likely more indicative of our steady state margins for the segment. We continue to make progress on stabilizing and templating our offerings that may prove beneficial to segment margins.

Expenses in the first quarter of 2021 reflect deliberate, ongoing, and targeted investment in business building. Without significant detriment to net loss or EBITDAS, we have strengthened our team, enhanced our relationships with customers and partners, and are actively exploring new opportunities at the point of connection between our Partner Solutions and Edge to Cloud segments.

Net loss for Q1 2021 was \$900,000, or \$(0.07) per diluted share, compared to a net loss of \$200,000, or \$(0.02) per diluted share in Q4 2020. EBITDAS, a non-GAAP measure of our operating performance, was a loss of \$600,000, a \$700,000 decline compared to EBITDAS in Q4 2020. As a

reminder, EBITDAS provides another perspective on our ongoing operations by excluding certain non-cash and irregular expenses, including some amortization expenses and stock-based compensation expense.

Finally, cash, cash equivalents and restricted cash totaled \$10.4 million on March 31, 2021. The timing of payments to key vendors, including Microsoft, our corporate insurance carrier, and our auditors typically drives relatively high cash use in Q1, and this quarter was no different. The decrease in cash of \$2.6 million from December 31, 2020 is not indicative of future quarters' cash requirements. While the business used cash in the first quarter as planned, our cash balance at the end of Q1 2021 is only \$200,000 less than it was at the same date in 2020. The financial prudence we have instilled throughout the organization has become a source of pride for the entire leadership team.

Overall Q1 2021 was an unremarkable financial quarter. Partner Solutions revenue continues to be buffeted by the impact of COVID on our customers' supply chains. Edge-to-Cloud revenue changes reflected accounting treatment more than a shift in the business, and operating expenses continue to be tightly managed, remaining largely flat quarter-over-quarter. Investors can expect this financial and operational discipline will not change.

Thank you for your time and attention and I look forward to answering your questions at the end of the call. Let me now turn things back over to Ralph.

Ralph C. Derrickson, Bsquare President & Chief Executive Officer

Thank you Chris.

As both Chris and I have shared on this call, business building is a process that takes time and requires discipline. We are making the necessary investments, in a measured way, to position Bsquare for growth.

In our press release you'll note that today we also announced we will be making some changes to our board of directors that will be effective on June 10, the date of our annual shareholders meeting. Andrew Harries will be stepping down as chair and departing the board to pursue other commitments. He will be succeeded by Ryan Vardeman as chairperson. Ryan joined the Bsquare board in 2018 and he is a Principal at Palogic our largest shareholder. Rob Peters, also of Palogic, will be departing the board as well. Reducing the board size is consistent with efforts already taken by the company to reduce cost and increase focus on entrepreneurial business building efforts. Neither Andrew and Rob have any disagreements with the Company, and their departures allow them to pursue other personal and

professional endeavors. I look forward to working with Ryan and building value for our shareholders.

I want to thank Andrew Harries for his leadership. He was part of the team that recruited me to Bsquare and I have enjoyed working closely with him these past 2 years as our chairperson. I would also like to thank Rob Peters for his commitment and service to Bsquare. Rob has been an important mentor and voice of the shareholder for me that I have appreciated and I have benefited greatly from his contributions. Please join me in wishing them both the very best in their future endeavors.

Thank you for your time today. Operator would you please open the line for questions. While that is happening, let me remind you that if you would like to arrange a follow up discussion with Chris and me, please contact Steven Gottlieb. Thank you.