

BSQUARE Corporation

Second Quarter 2021 Conference Call

August 12, 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

Thank you Steven. Good afternoon and welcome to the Q2 2021 Bsquare quarterly earnings call. I hope summer has treated you well and that you, along with your family and friends, are safe and healthy. Thank you for taking the time to be with us this afternoon. Today's call will follow the same format as previous earnings calls: Along with Chris Wheaton, fellow entrepreneur and Bsquare's CFO and COO, I will take you through the Q2 financial results, provide commentary 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.

I will get us started by providing some perspectives on the quarter and will then hand things off to Chris for a review of the financial results. Total revenue for the quarter was \$10.7 million. This was an increase in revenue over both the first quarter of 2021 and the second quarter of 2020. COVID-19 related supply chain issues eased for some of our Partner Solutions customers during the quarter, but it is not clear that this is an indication of a sustained recovery. The combination of increased revenue, flat expenses, and forgiveness of our 2020 Paycheck Protection Program loan drove quarter-over-quarter improvement[s] in our bottom

line. The business used cash during the quarter in part to fund measured investments in developing products that power the connected economy.

Our business building continued in Q2 2021 with focus and discipline. Subsequent to the close of the quarter, our financial reserves were bolstered by additional cash generated from our previously announced “At the Market” stock sale program, which I will discuss in more detail at the end of this call. In the meantime, let me hand things off to Chris to get into the details 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:

Revenue for Q2 2021 was \$10.7 million, an increase of \$700,000, or 7.0%, from Q1 2021. Total revenue was up \$1.7 million or 20% when compared to the second quarter of 2020, which appears to represent the revenue low point since the onset of the COVID pandemic. Since then, our revenue has generally trended upward with variations for seasonality in Partner Solutions orders and revenue recognition timing for Edge to Cloud contracts.

Partner Solutions drove the total revenue improvement in Q2 with an increase of \$1.2 million or 13% over Q1 2021 and an increase of \$1.9 million or 23% over the comparative

period in 2020. Ordering activity was up in June 2021 with more than one of our larger customers sharing with us that their critical chip shortages had eased during the quarter. Despite the Q2 improvement, Partner Solutions revenue continues to be highly variable and, generally, lags pre-COVID levels.

In the Edge to Cloud segment, revenue declined \$500,000 from Q1 2021. This decrease was due to deferred revenue recognition in Q1 that did not reoccur in Q2, as well as purchasing delays from one of our key customers. These delays were unexpected and unrelated to our activities or deliverables.

Edge to Cloud revenue decreased compared to the second quarter of 2020 by \$100,000, a small decrease driven largely by the completion of certain professional services projects for our smaller customers. These revenue trends reflect an intentional shift of focus to our larger customers and to product development opportunities.

Second quarter Partner Solutions gross margin rate was 13.9%, down from 15.2% in the first quarter of 2021 and down from 14.4% in Q2 2020, both due to minor fluctuations in customer and product mix.

Edge to Cloud gross margin rate decreased compared to both Q1 2021 and Q2 2020. Edge to Cloud cost of revenue consists primarily of labor costs that remain relatively stable across periods. As a result, gross margin in this segment fluctuates based on revenue and has

been inconsistent between periods. With Edge to Cloud revenue down compared to both Q1 2021 and Q2 2020, gross margin was also down.

Q2 2021 total operating expenses were flat compared to the first quarter, increasing by less than \$100,000 – an increase primarily attributable to the cost of the ATM program that Ralph mentioned earlier. Second quarter 2021 operating expense increased compared to the second quarter of 2020 due to one-time professional fees and a decrease in rebates and co-operative marketing reimbursements provided by Microsoft. In the second quarter of 2020, Microsoft temporarily increased the availability of these rebates to help distributors maneuver the difficult and uncertain environment created by the onset of the pandemic. In addition, operating expense continues to benefit from the work done in 2019 and 2020 to right-size our cost structure to fit our business model.

Net income for the current quarter was \$300,000, or \$0.02 per diluted share, compared to a net loss of \$900,000, or \$(0.07) per diluted share in the first quarter of 2021. Current quarter results also compare favorably to the net loss of \$1.1 million or \$(0.08) per diluted share in Q2 2020. Positive net income in the quarter and improvements in net income over the prior periods were driven by a non-operating gain of \$1.6 million related to the forgiveness of the Company's PPP loan.

Cash, cash equivalents and restricted cash totaled \$9.2 million on June 30, 2021. The company used \$1.1 million during the second quarter of 2021, as compared to \$2.6 million used during the first quarter.

Cash use in the quarter was driven by strategic investments, variations in working capital, and a loss from operations as our revenue continues to be constrained by COVID-related issues. The June 30 cash balance includes \$350,000 of net proceeds from the sale of Bsquare common stock that took place during the quarter. Ralph will speak to additional fundraising that took place subsequent to quarter-end.

As always, 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. That does it for our discussion of the second quarter.

Let's turn our attention now to our fundraising which has been generating questions as of late.

In Q1 we filed a \$50 million dollar shelf-registration statement. Shortly thereafter, we filed a \$25 million dollar At the Market or ATM prospectus supplement. By July we had exhausted our fundraising capacity and filed a subsequent \$25 million dollar ATM prospectus

supplement, representing the balance of our \$50 million dollar shelf. Total fundraising to date is \$32.1 million, net, from the sale of 6.9 million shares of common stock. As described in our filings, we intend to use the ATM proceeds to supplement operational cash and systematically pursue new opportunities for growth.

We have recently received a number of inquiries regarding our funding status and intentions which I believe I have addressed here, but prompts me to remind investors to review our EDGAR filings for additional information. I would also like to add that it is our policy not to comment on our share price, market activity or ongoing offerings.

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.