

ASX RELEASE

Q1 FY19 Appendix 4C and Business Update
MSL executing on strategic plans; continued strong growth in recurring SaaS revenues

31 October 2018: MSL Solutions Limited (ASX: MPW) (**MSL** or **the Company**) has today lodged its Appendix 4C Report and is pleased to provide a review of the Company's progress for the quarter ended 30 September 2018 ("Q1 FY19").

Highlights:

- **Annual Recurring Revenue ("ARR") of \$17.6m as at September 2018, up 5% in the quarter. ARR comprises:**
 - ARR on Support Revenues of \$9.6m (30 June 2018 - \$9.2m)
 - ARR on SaaS/Subscriptions of \$8.0m (30 June 2018 - \$7.6m)
- **Strong pipeline growth, up 35% on the prior corresponding period, driven by:**
 - Global world handicap system announcements;
 - UAE office establishment and Dubai Expo 2020 momentum;
 - Q1 FY19 Expo & trade show activity in Australia and the UK; and
 - Investment in emerging adjacent industry sectors including Sport Associations and Retirement Living.
- **Q1 FY19 Cash Flow Statement**
 - **Cash inflow:**
 - Cash receipts for the quarter were \$7.8m, compared to \$8.6m for the prior corresponding period;
 - Q1 FY19 cash receipts are lower, compared to Q1 FY18, due to the positive transition to SaaS contracts and the timing of receipts on upfront sales. This is reflected in the deferred revenue balance, which at 30 September 2018 was \$5.0m, up \$2.3m (85%) on the deferred revenue balance of \$2.7m as at 30 September 2017; and
 - The first quarter historically is seasonally the softest quarter, expect 15% to 20% of annual revenues.
 - **Cash outflows:**
 - Cash payments to suppliers for the quarter were \$9.4m, compared to \$9.1m for the prior corresponding period, which included \$1.6m of abnormal IPO related costs;
 - Research & Development and Sales & Marketing costs are \$1.3m higher than the prior corresponding period due to increased investment in organic revenue growth initiatives; and
 - Earn-Out payments of \$2.4m during Q1 FY19 are in line with expectations as disclosed in the FY18 Annual Report.
 - **Cash balance:**
 - Cash balance as at 30 September 2018 was \$2.5m; and
 - In addition a facility of \$2.0m has since been secured from Westpac to allow for short-term timing of cashflows.

Q1 FY19 Business Update

The key metrics table, as previously included in the FY18 Results Presentation, is updated below for Q1 FY19:

AUD \$m's	FY17	FY18	FY19 Q1	Notes
1. Annual Recurring Revenue (ARR)		16.8	17.6	ARR is up 5% for the quarter
- Support ARR		9.2	9.6	
- SaaS / Subscriptions ARR		7.6	8.0	
2. Recurring Revenue	12.1	15.8	4.3	FY19 annualised is \$17.2m
- Support Annuity	7.4	9.2	2.3	FY19 annualised is \$9.2m
- SaaS / Subscriptions	4.7	6.6	2.0	FY19 annualised is \$8.0m
3. Revenue Growth	110%	44%	(16%)	Deferred revenue of \$5.0m is up \$2.3m (85%) on the prior corresponding period. Q1 FY19 revenue down \$1m due to timing issue on recognition of upfront deals and increased number of SaaS contracts.
- Organic Growth	17%	20%	(17%)	
- Acquisition Growth	93%	24%	1%	
4. Customer Venues	2,066	2,406	2,422	16 new customer logos added in Q1 FY19, despite historically Q1 being the softest sales quarter.
- Organic Growth		4%		
- Acquisition Growth		12%		
5. R&D Expense	4.3	5.7	1.8	FY19 annualised is \$7.2m. R&D spend doubled as compared to the prior corresponding period spend of \$0.9m. Increased R&D run-rates to target new opportunities e.g. World Golf Handicap, UAE localisation
- % of Revenue	18%	17%	n/a at qtr.	
6. S&M Expense	4.6	4.8	1.5	FY19 annualised is \$6.0m. S&M expense up slightly on prior corresponding period spend of \$1.1m. Increased investment in key trade shows in UK and Australia.
- % of Revenue	20%	14%	n/a at qtr.	

1. Annual Recurring Revenue (ARR) is the forward-looking annuity value contracted at a point in time.
2. Recurring Revenue represents annuity contracts.
3. Revenue Growth is the growth in Total Revenue for the period including Recurring Annuities (customer support & SaaS Subscriptions) and Non-Recurring Revenue (upfront license fees, services hardware & advertising).
4. Customer Venues represents those venues using MSL software modules from the MPower Connect technology stack at period end.
5. R&D Expense is expenditure on innovation including investment in future commercialisable research & development.
6. S&M Expense is the amount of sales & marketing headcount, commission and non-headcount programs spend in the year.

Strategic Growth Plan

MSL are focused on executing their strategic growth plan as outlined in the FY18 Results Presentation. The strategic growth plan comprises:

- Continuing transition to SaaS revenues, with annualised recurring revenue expected to grow over time to eventually represent 75% of MSL total revenues;
- Targeting 5,000 venues within four years;
 - Target minimum 15% annual organic revenue growth;
 - Expecting to, on average, double this annual organic revenue growth rate target within the next four years through strategic acquisitions;
- Upsell additional modules and increase average revenue at customer venues;
- Increased international revenue growth with expectations that 75% of MSL revenues will eventually be sourced internationally;
- Continued acceleration of revenue growth, with decelerating cost growth. NPATA margins should trend toward 30% over time, however in FY19 MSL will be reinvesting profits to accelerate future revenue growth; and
- In FY19 the historical seasonality of revenue will continue with 40% of the annual amount in the first half of the year and 60% in the second half. Profits will be skewed to the second half of the year. In the future it is expected this will even out with an increased mix of recurring annuity revenues and expansion of sales into the UAE & US markets.

Accelerated Investment in Organic Revenue Growth Initiatives

In Q1 FY19, MSL reinvested profits to accelerate growth and penetrate new market opportunities including:

- Golf Solutions – supporting unification of World Handicap System set for 2020;
- Expansion into the United States market;
- Middle East market expansion – leveraging Dubai Expo 2020; and
- Penetration of adjacent market sectors in Retirement Living & Sport Associations

MSL also accelerated investment in Research & Development in Q1 FY19 to \$1.8m, up from \$0.9m in the prior corresponding period.

Key R&D activity during the quarter, that related to the aforementioned new market opportunities, were as follows:

- New Real-Time Analytics Module launched and in beta at five customer sites;
- New Event Analytics released for cash management and stock control for major venues. This product won an award for its positive business impact at the National Racecourse Catering Awards in October 2018;
- Enhancement of new mobile point of sale options for clients via mobile, tablet and kiosk;
- Enhancement of cloud golf solutions; and
- Upgrade of workforce management modules.

Sales & Marketing expenditure in Q1 FY19 was \$1.5m, up from \$1.1m in the prior corresponding period. Key initiatives are underway on branding strategies in new markets that support the aforementioned opportunities. MSL also increased its investment in key trade shows in Australia and the UK during Q1 FY19. This has driven good pipeline opportunities for the second half of the fiscal year.

Leadership Changes

In order to execute on our strategic growth plan, several key senior personnel appointments have been made, which are as follows:

- Appointment of James Aleman to Chief Operating Officer. James has over 19 years IT industry sales and management experience and most recently was with Swedish-Swiss multinational ABB which is a pioneering technology leader listed on the SIX, OMX and NYSE. He was part of the APAC Senior Leadership Team for Enterprise Software where he had a proven track record of accelerated revenue growth and increased customer satisfaction. James has been with MSL for the past 20 months as the Chief Revenue Officer (CRO).
- Greg Davies, previously the Chief Operating Officer, has been appointed to an M&A focused role; and
- Andrew Ritter to be the Company Secretary, with the CFO role in transition with the appointment of Judy Amos to Acting CFO, subject to the appointment of a permanent CFO. Judy has over 30 years' experience in finance, legal and risk and compliance. She began with Pricewaterhouse Coopers and has worked with a number of global software companies, including Mincom, a global software company based in Brisbane.

Annual General Meeting (AGM)

As disclosed in the Notice of AGM distributed on 29 October 2018, MSL will hold its AGM next month – the details are as follows:

Date: Thursday, 29th November 2018
Time: 3:00pm (Brisbane time)
Location: McCullough Robertson Lawyers,
Level 11, 66 Eagle Street, Brisbane QLD 4000

Ends

For further information, please contact:

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About MSL Solutions Limited

MSL Solutions Limited (ASX: MPW) is an Australian based global provider of hosted, software as a service (**SaaS**) and on-site deployed solutions to clients in the sport, leisure and hospitality sector. MSL services member organisations across APAC, EMEA and North America through its MPower Connect Platform. MSL has a head office in Brisbane and offices in Australia, UK and Denmark. To discover more about MSL please visit www.mpowermsl.com.

About MPower Connect

MPower Connect, the industry-first collaboration platform, connects member organisations' business software and data needs to improve guest engagement and loyalty whilst improving operational efficiency and profitability. Our customers can select one or more modules and increase their footprint as they develop the intentional customer experience. MSL provide solutions to both small and large organisations and associations which can be deployed as a cloud-based SaaS, hosted or on-site deployed software.

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

MSL Solutions Limited

ABN

96 120 815 778

Quarter ended ("current quarter")

30 September 2018

Consolidated statement of cash flows	Current quarter \$A'000	YTD (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	7,805	7,805
1.2 Payments for		
(a) research and development	(1,796)	(1,796)
(b) direct costs of sales	(1,881)	(1,881)
(c) sales, advertising and marketing	(1,515)	(1,515)
(d) customer and technical services	(1,703)	(1,703)
(e) general and administration	(1,248)	(1,248)
(f) other working capital costs	(1,342)	(1,342)
1.3 Dividends received (see note 3)		
1.4 Interest received	3	3
1.5 Interest and other costs of finance paid	-	
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(1,677)	(1,677)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	
(b) businesses (see item 10)	(2,451)	(2,451)
(c) investments		

Consolidated statement of cash flows		Current quarter \$A'000	YTD (12 months) \$A'000
	(d) intellectual property		
	(e) other non-current assets		
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment		
	(b) businesses (see item 10)		
	(c) investments	39	39
	(d) intellectual property		
	(e) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	(2,412)	(2,412)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares		
3.2	Proceeds from issue of convertible notes		
3.3	Proceeds from exercise of share options		
3.4	Transaction costs related to issues of shares, convertible notes or options	-	
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings	(9)	(9)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	(9)	(9)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	6,647	6,647
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,677)	(1,677)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,412)	(2,412)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(9)	(9)

Consolidated statement of cash flows		Current quarter \$A'000	YTD (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(36)	(36)
4.6	Cash and cash equivalents at end of quarter	2,513	2,513

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,384	3,997
5.2	Call deposits	825	2,648
5.3	Bank overdrafts		
5.4	Other (provide details) – Deposits & guarantees	304	
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,513	6,645

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter
\$A'000

117

Fees and salaries paid to Directors and the Managing Director.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter
\$A

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
8.1 Loan facilities		
8.2 Credit standby arrangements		
8.3 Other (please specify)		
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

As at the date of this report, the Company has put in place a \$2m facility with Westpac, with an indicative interest rate of 6.3% and amortisation of the limit over 36 months. There are no financial covenants, and the facility is secured by a GSA over the Australian entities of the MSL Group.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	1,800
9.2 Direct costs of sales	3,000
9.3 Sales, advertising and marketing	1,700
9.4 Customer and technical services	1,600
9.6 General and administration	1,400
9.7 Other working capital	800
9.7 Other (acquisition payments)	1,340
9.8 Total estimated cash outflows	11,640

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	Rocket Pty Ltd	
10.2 Place of incorporation or registration	Australia	
10.3 Consideration for acquisition (deferred instalment)	\$25,000	
10.4 Total net assets	\$279,049	
10.5 Nature of business	IT infrastructure sales and support and computer hardware sales.	
10.1 Name of entity	Pallister Games	
10.2 Place of incorporation or registration	Australia	
10.3 Consideration for acquisition (earnout)	\$337,300	
10.4 Total net assets	(\$61,059)	

10.5	Nature of business	IT infrastructure sales and support and computer hardware sales.	
10.1	Name of entity	Xcite Media Pty Ltd	
10.2	Place of incorporation or registration	Australia	
10.3	Consideration for acquisition (deferred instalment)	\$100,000	
10.4	Total net assets	\$475,000	
10.5	Nature of business	IT infrastructure sales and support and computer hardware sales.	
10.1	Name of entity	GolfBox A/S	
10.2	Place of incorporation or registration	Denmark	
10.3	Consideration for acquisition (earnout)	\$1,988,889	
10.4	Total net assets	\$5,649,000	
10.5	Nature of business	IT infrastructure sales and support and computer hardware sales.	

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: 
Company Secretary

Date: 31 October 2018

Print name: Andrew Ritter

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.