M•POWER MSL

ASX RELEASE

Q2 FY19 Appendix 4C and Business Update

31 January 2019: 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 31 December 2018 ("Q2 FY19").

MSL are now six-months into our four-year strategic growth plan.

Summary:

- **The prior outlook provided to the market was that FY19 was a reinvestment year to accelerate MSL growth initiatives.**

- **We expect a slew of revenue and profitability to the second half of the year, in line with prior trading history.**

- **Based upon the strength of our pipeline we expect to be operating cashflow positive and generate an NPATA for FY19 of circa $1.5m subject to timing of recognition on sales.**

- **Continued Growth in Recurring Revenue**
  - Annual Recurring Revenue ("ARR") of $17.7m as at December 2018
  - Strong momentum with transition to SaaS, 39% growth on the prior comparable period
  - Recurring Revenue recognised in the six months to December 2018 of $8.7m (December 2017: $7.5m)

- **Increased spend on Research & Development and Sales & Marketing of $1.8m compared to the prior corresponding period reflecting investment in strategic growth initiatives**

- **Strong lead indicators on growth momentum demonstrated in increased qualified pipeline opportunities, up 63% on the prior corresponding period**

- **Q2 FY19 Cash Flow Statement**
  - **Cash inflow:**
    - Cash receipts for the half were $15.6m, compared to $16.6m for the prior corresponding period;
    - Cash receipts are lower, compared to H1 FY18, due in part to the positive transition to SaaS contracts and in part due to the timing of receipts on upfront sales.
  - **Cash outflows:**
    - Cash payments to suppliers for the half were $18.2m, compared to $17.5m for the prior corresponding period;
    - Research & Development and Sales & Marketing costs are $1.8m higher than the prior corresponding period due to increased investment in organic revenue growth initiatives; and
    - Acquisition payments of $3.8m during H1 FY19 are in line with expectations as disclosed in the FY18 Annual Report.
  - **Cash balance:**
    - Cash balance as at 31 December 2018 was $1.4m;
    - Net operating cash outflow in the first half was $2.6m
    - The 2nd half of the year is expected to be operating cashflow positive and there are no material remaining acquisition payments in the 2nd half of the year.

- MSL has an amortising facility of $2.0m with Westpac to allow for short-term funding of cashflows, and had drawn down $1.3m of the $1.9m limit as at 31st December to cover the quarterly acquisition payments.

H1 FY19 Business Update

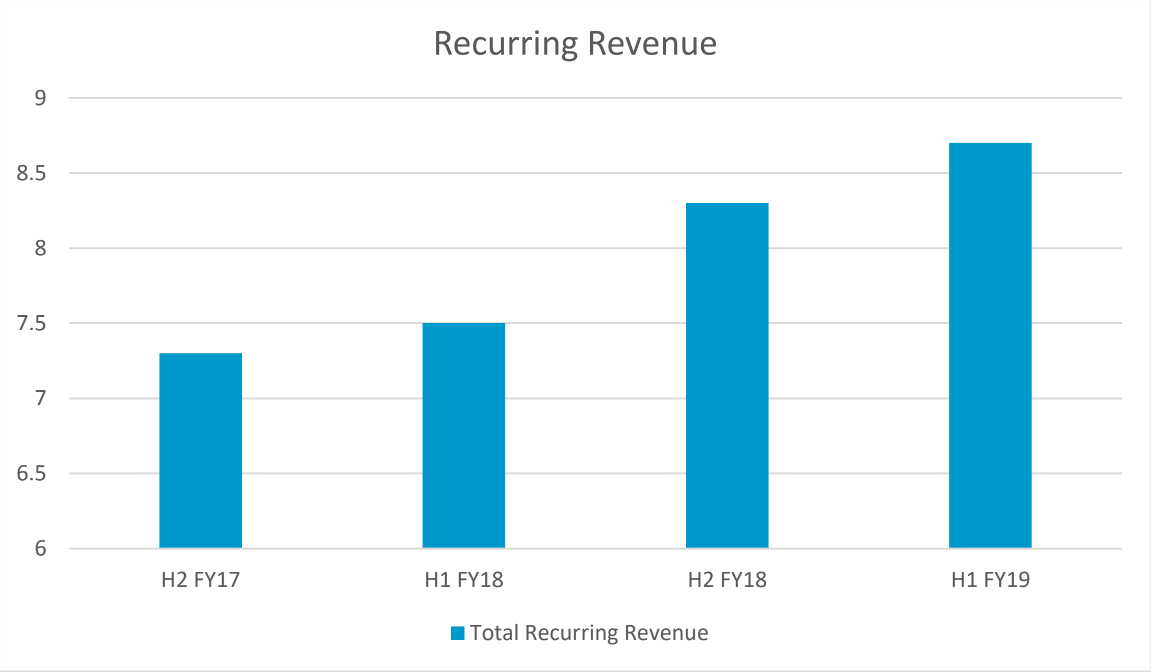
The key metrics table, as previously included in the FY18 Results Presentation, is updated below for H1 FY19:

AUD $m's	FY17	FY18	FY19 H1 (unaudited)	Notes
1. Annual Recurring Revenue (ARR)		16.8	17.7	
- Support ARR		9.2	9.8	
- SaaS / Subscriptions ARR		7.6	7.9	
2. Recurring Revenue	12.1	15.8	8.7	Dec 17 - $7.5m, up 16%
- Support Annuity	7.4	9.2	4.8	Dec 17 - $4.7m, up 2%
- SaaS / Subscriptions	4.7	6.6	3.9	Dec 17 - $2.8m, up 39%
3. Revenue Growth	110%	44%	(8%)	Revenue down overall due to the timing of recognition of upfront sales, and execution of more sales as SaaS contracts that have not yet contributed to revenue in the period.
- Organic Growth	17%	20%	(13%)	
- Acquisition Growth	93%	24%	5%	
4. Customer Venues	2,066	2,406	2,471	
- Organic Growth		4%	2.7%	
- Acquisition Growth		12%		
5. R&D Expense	4.3	5.7	3.1	Increased R&D expense to target new opportunities e.g. World Golf Handicap, UAE localisation
- % of Revenue	18%	17%	23%	
6. S&M Expense	4.6	4.8	3.4	Increased investment in growth initiatives and key trade shows in UK, UAE and Australia in the half-year.
- % of Revenue	20%	14%	26%	
7. Adjusted NPATA – excluding R&D Expense	6.4 *Adjusted NPATA Reported 2.9*	10.9 *Adjusted NPATA Reported 5.6*	1.3 *Adjusted NPATA (1.8)*	MSL does not capitalise any of its R&D, which are investments in future growth. Adjusted NPATA is shown here excluding the R&D expense.

1. Annual Recurring Revenue (ARR) is the forward-looking annuity value contracted and recognised in the last month of the period.
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.

Continued growth in Recurring Revenue



Operational business update

1. **Example of contract wins in the core business**
   - Multi-Year SaaS Business Intelligence deal for a UK restaurant group to enhance their guest information and loyalty platform
   - Prominent Australian Entertainment Centre & Showground
   - English Premier League venue solution upgrade
   - Leading Sydney country club
   - Upgrade at a leading Melbourne Arena

2. **Pipeline**
   - MSL sales pipeline is operating at record levels. The rolling 12-month pipeline of qualified opportunities is now at $50m. This is up 63% on the prior corresponding period.
   - The pipeline related to Q3 and Q4 FY19 is $39m. At the same point in the prior year the pipeline was $24m, and MSL executed on $12m in sales in the 2H FY18.

3. **Transition to SaaS**
   - The company continues to gain momentum with the transition to a recurring revenue business that will be more valuable to shareholders.

  - Our stated goal is for the business to be generating over 75% of its revenue from recurring revenue over the next 4 years.
  - MSL Annual Recurring Revenue at December 2018 is $17.7m

Strategic Growth Plan

MSL remain focused on executing it's strategic growth plan as outlined in the FY18 Results Presentation. As a reminder 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
- Revenue and profitability will continue to skew to the 2nd half in line with prior trading history. However, it is expected this will smooth into the future with increased annuities and expansion into UAE and US.

Accelerated Investment in Organic Revenue Growth Initiatives

In H1 FY19 MSL has increased its investment in Research & Development & Sales & Marketing by $1.8m on the prior corresponding period. Note MSL does not capitalise any of its Research & Development expenditure.

An update on each of the major new initiatives is provided below:

- Global Golf / World Handicap System
  - Currently implementing the new World Handicap System in Australia and in negotiation with European countries regarding their transition by 2020.

- UAE
  - Pipeline opportunities are increasing following registration of the office and investment in local trade shows.

- Retirement Living
  - Product enhancements have been identified, and we are already starting to grow a sales pipeline.

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.

+Rule 4.7B

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	**Quarter ended ("current quarter")**
96 120 815 778	31 December 2018

Consolidated statement of cash flows		**Current quarter $A'000**	**YTD (6 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	7,822	15,627
1.2	Payments for		
	(a) research and development	(1,348)	(3,144)
	(b) direct costs of sales	(2,159)	(4,040)
	(c) sales, advertising and marketing	(1,902)	(3,417)
	(d) customer and technical services	(2,019)	(3,722)
	(e) general and administration	(1,322)	(2,570)
	(f) other working capital costs	(24)	(1,366)
1.3	Dividends received (see note 3)		
1.4	Interest received	7	10
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**	**(945)**	**(2,622)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(56)	(56)
	(b) businesses (see item 10)	(1,351)	(3,802)
	(c) investments		

Consolidated statement of cash flows		Current quarter $A'000	YTD (6 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
	(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**	**(1,407)**	**(3,819)**

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	1,274	1,274
3.6	Repayment of borrowings	(10)	(19)
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**	**1,264**	**1,255**

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	2,513	6,647
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(945)	(2,622)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,407)	(3,819)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,264	1,255

Consolidated statement of cash flows		Current quarter $A'000	YTD (6 months) $A'000
4.5	Effect of movement in exchange rates on cash held	(25)	(61)
4.6	**Cash and cash equivalents at end of quarter**	**1,400**	**1,400**

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	1,093	1,384
5.2	Call deposits	3	825
5.3	Bank overdrafts		
5.4	Other (provide details) – Deposits & guarantees	304	304
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**1,400**	**2,513**

6.	**Payments to directors of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to these parties included in item 1.2	$135
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

Fees and salaries paid to Directors and the Managing Director.

7.	**Payments to related entities of the entity and their associates**	**Current quarter $A**
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

8.	**Financing facilities available** *Add notes as necessary for an understanding of the position*	**Total facility amount at quarter end $A**	**Amount drawn at quarter end $A**
8.1	Loan facilities	$1,895,365	$1,290,135
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.

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	1,700
9.2	Direct costs of sales	2,400
9.3	Sales, advertising and marketing	1,700
9.4	Customer and technical services	2,100
9.6	General and administration	1,400
9.7	Other working capital	700
9.7	Other (acquisition payments)	25
9.8	**Total estimated cash outflows**	**10,025**

10.	**Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)**	**Acquisitions**	**Disposals**
10.1	Name of entity	Rockit Pty Ltd	
10.2	Place of incorporation or registration	Australia	
10.3	Consideration for acquisition (earnout payment)	$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	Pricap Services Pty Ltd	
10.2	Place of incorporation or registration	Australia	
10.3	Consideration for acquisition (earnout & deferred instalment)	$790,000	
10.4	Total net assets	$100,000	

10.5	Nature of business	Software provider to venues in the Sports, Leisure and Hospitality market, mostly in the Australian golf sector.	
10.1	Name of entity	GolfBox A/S	
10.2	Place of incorporation or registration	Denmark	
10.3	Consideration for acquisition (deferred instalment)	$536,375	
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: Andrew Ritter
Company Secretary

Date: 31 January 2019

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.