



Prophecy

Prophecy International Holdings Ltd.

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Company Announcement 22nd November, 2019

PROPHECY INTERNATIONAL HOLDINGS LIMITED AGM 2019 CHAIRMAN AND CEO REPORT TO SHAREHOLDERS

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AGM Presentation

Welcome

Slide 1

Thanks Ed and welcome again shareholders, staff and others to the Prophecy International AGM presentation. In FY19 Prophecy again took important steps in our new journey as a growth company and achieved a number of significant milestones that position the company for greater scale and growth in FY20.

Slide 2

In FY19 we achieved a number of highlights:

- Top line revenue increased by 13.5%
- Positive EBITDA
- Sales of Snare increased by 28.9%
- Annual Recurring Revenue (ARR) for eMite reached 71%
- We added 90 new customers for eMite and 698 new sales transactions for Snare.
- We launched eMite CX Intelligence for Amazon Connect
- Snare Analytics sales continued, and we released Version 8 of Snare Central Server
- We won awards with Genesys and the SA Australian Export Award
- We increased sales resources in USA and EMEA
- We increased cash flow and cash at bank, and we continue to have no debt.

Slide 3

Another significant milestone for the company is that we have now been trading for 40 years. Started in Adelaide in South Australia as a company called “Computer Software Packages” in 1979 the company has traded continuously for 40 years this year.

Being an Australian based tech company trading from global locations for that period of time is no small task. I would like to acknowledge Brian Calvert, the original founder of the company who is here today and who continues to take a strong and active interest in the business and who always has a wise word or two to contribute.

I would like to acknowledge and thank all the staff and team members who have worked with the company during the last 40 years, as it’s their efforts that have put us in a position to be able to grow the company in a new direction now with new products, but with the same pride in our achievements that I am sure they had.

Slide 4

The Prophecy story is a long one and has lasted for 40 years so far. Interestingly, depending on how you measure these things the company has also been listed for 21 years after listing on the ASX in 97/98. We have shareholders that have been with us since the listing and I want to acknowledge them and any who have an interest in the company, and we are all working hard to deliver a return for you.

As you all know by now that after the divestment of a few subsidiaries two years ago we now have 2 main products in Snare and eMite and we have one legacy portfolio primarily consisting of the eFoundation product for a small number of customers.

Our focus is on growing our two main products and eFoundation will continue to generate some revenue but there is no growth focus on that product.

Slide 5

Prophecy has had a few structures over the years and currently we operate as a single company and org structure to achieve what synergies we can across our product portfolio and global locations.

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All R&D is carried out in Australia at our offices in Adelaide and Sydney. Snare R&D is Adelaide based with eMite primarily residing in the Sydney office. We have off shore capability for the whole company in Manilla in the Philippines with technical support, some development and QA Capability, PMO office and end customer training based there.

Our sales organisation is regionally based in APAC, EMEA and the Americas. In the US we are based in Denver in Colorado but have some remote workers outside of our main office. In EMEA we are in the UK and are starting to grow out our EMEA sales org based out of Scotland led by Jamie Lind.

In the US we are led by Peter Barzen who is taking a new role as Director of Strategic Alliances for the company in the new calendar year and we are currently recruiting for a new VP of Sales for the Americas.

Slide 6

eMite continues to be focussed on the Contact Centre market and this year we have expanded our offering to include Amazon Connect. Amazon Connect is a new and very fast growing cloud based contact centre offering from cloud giant Amazon Web Services (AWS). eMite was already an AWS partner and it made perfect sense to expand into this new segment.

We have already signed customers and partners for this new offering and are seeing significant demand globally for our solution.

We have sold this offering in APAC, USA and the UK already. With eMite we win because we can deploy in hours, provide immediate value from out of the box dashboards, wallboards, reports and KPI's, can cross correlate data from multiple systems including Salesforce, Service Desk and other CRM systems as well as applications like Workforce Management (WFM) and customer surveys amongst many others.

In December we will be exhibiting at Amazon Re:Invent in Los Vegas and will be launching the availability of eMite for Amazon Connect in the AWS Marketplace. This will enable customers to buy eMite from Amazon and be invoiced with their other Amazon services on their Amazon account.

Over the last year we have also been concentrating on an offering to enable customers to migrate from legacy on premise solutions to cloud based contact centres by enabling them to "take their data with them" and have continuity of their metrics, measurements and KPI's across platforms.

In both the Genesys and Amazon ecosystems we see customers in all segments including large enterprise leaving their old on premise systems and moving to cloud based offerings. In the past one system would be turned off and the new one implemented but there would be no single place to see the data from both systems. eMite now brings that capability and allows customers to transition with minimal disruption.

In the eMite business we are almost 100% channel based and sell through partners like Genesys, Amazon Connect, Telstra and other resellers including companies like Converge One, Voice Foundry and many other.

In January we will be also be a major sponsor at the Genesys Sales Kick Off in Orlando and will also exhibit again at Xperience20 – the major Genesys customer event being held again in Denver, Colorado - our home town in the US.

Slide 7 and 8

As you can see we have a significant presence in the Genesys ecosystem and these images are from our recent presence at Xperience19 in Denver.

Slide 9

Snare continues to grow well, and we continue to add new customers around the globe. We have a full suite of Centralised Log Management tools in Snare that enable customers to monitor events and incidents in their network in real time but also to use this data forensically to determine the root cause of security breaches.

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We enable customers to capture, store, analyse and report on security events, achieve compliance and make their SIEM more efficient and avoid SIEM lock in. Snare enables customers to achieve their regulatory compliance mandates in minutes and not months.

Easy to configure and deploy, we help customers save time and money and reduce their risk.

Slide 10

In 2019 we had the honour of receiving 2 major awards as a company.

First at Xperience19 in Denver in May at the major Genesys customer event of the year eMite was named Global AppFoundry partner of the year for the second year in a row. This is a great endorsement of the value we bring to Genesys customers who are looking for more advanced analytics capability than Genesys can provide. It's also an endorsement of the team that is directly engaged with Genesys on a daily basis working with Genesys sales to bring new customers to eMite.

In October we were also a finalist at the Business SA Exporter of the Year Awards. I am very pleased to be able to say that we were successful in winning that award in South Australia for Technology and Innovation export.

Winning in SA means that we go on to the national final in Canberra and that award is being announced on December 3.

Slide 11

The next slide shows the key financial data for FY19 and I am pleased to report that most financial indicators are trending in the right direction.

On the top line revenue increased from 10.6M to 12.1M dollars representing growth of 13.5%. Most of this came from Snare as you will see in the product level details a bit later in the presentation.

Importantly we also changed the way that R&D is expensed in FY19. Historically eMite had always expensed R&D and Snare had always capitalised R&D. In the interest of consistency and to truly reflect the cost of R&D we have chosen to expense R&D across the business.

This has meant that an amount of just over \$700K was not capitalised and flowed through into expenses in FY19. Accordingly, if you compare FY19 against FY18 there is a significant difference in the expenses for R&D after this change.

We reported EBITDA of \$87K in FY19 but if we had reported on a like for like basis, we would have reported EBITDA of \$790K which would have represented an increase of 52.7%.

Deferred income has increased as customers move onto multi year agreements for eMite subscriptions as well as multi year support agreements for Snare.

Cashflow has increased by nearly \$2M, a very substantial change against FY18.

Cash at bank has increased 68% from 2.6M at the end of FY18 to 4.3M at the end of FY19.

We continue to be debt free and in FY19 the board has elected to not pay a dividend.

Slide 12

In this next slide you can see the revenue progression since 2017. Over this period we have transitioned eMite from large, complex, custom implementations that required a large amount of professional services in each sale, to a SaaS based subscription software company that requires little in the way of customisation. As is often the case this has a negative impact on revenue as in the subscription world revenue only flows through to the P&L on a monthly basis rather than upfront at the start of the contract.

Over 70% of eMite's revenue is now recurring.

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Snare grew by more than 21% in FY19 as we increased both new sales revenue from perpetual license sales as well as increased annual maintenance payments.

The legacy segment that came primarily from eFoundation remained flat. I am pleased to say that we have extended the agreement with our largest customer on eFoundation for an additional 2 years and this will secure the majority of this revenue stream in the short term.

Slide 13

The primary revenue streams for the business are from one of three sources:

1. One off charges like perpetual licences, mostly from Snare
2. Professional Services and set up fees, mostly from eMite
3. Annual Recurring charges including eMite subscriptions and Snare annual maintenance charges

46% of total revenues are now recurring from subscriptions and maintenance, another 46% comes from Snare new perpetual license sales and the remaining 8% from professional services and set up fees.

In FY20 we are introducing subscription licenses for Snare – particularly for the Managed Security Services (MSSP) Segment. This should contribute to further transitioning the company to a predominantly recurring revenue model.

Slide 14

In this slide you see the breakdown by our primary products.

71.3% of eMite's revenue is now recurring and on the Snare side 31.7% is recurring. The introduction of subscription pricing for Snare will help us increase the percentage of recurring revenue across the business.

Slide 15

In this chart we can clearly see the strength of our US operations. Not only was the majority of our revenue booked through our US office, but this grew by 24.4% in FY19. This was pleasing as this geography also grew by more than 24% in FY18.

This is a segment and geography that we will continue to strengthen. In this slide we see a slight contraction in the revenue from EMEA but we did see a reasonable amount of European revenue booked either through our US or Australian operations. Going forward we want to split this out more accurately as we see significant opportunity in EMEA for both eMite and Snare and will be expanding our operation in Europe to drive growth there. More detail at a transaction level will be shown in a few minutes.

Slide 16

In this next slide we see the product highlights from eMite.

The value of new sales contracts as measured by 1CV (1st years contract value) was up slightly, number of contracts was also slightly up as was the number of seats sold and the average deal size.

Pleasingly multiyear term contracts increased from 23% of sales to 40% of sales and the % of recurring revenue increased from approximately 40% of eMite's revenue to over 70%.

In FY20 I expect our average deal size to increase again as we see Genesys PureCloud moving into the large enterprise market, an increased focus on large on premise customers using PureEngage and our new offering for amazon Connect being adopted by existing large Amazon Customers.

Slide 17

This slide shows where our eMite customers came from in FY19. The US contributed the most new customers but we experienced success across a number of countries in EMEA and will be increasing our focus there in FY20.

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Slide 18

The next set of number tells the Snare story for FY19. A very pleasing result is the value of new sales contracts for Snare increasing by nearly 29% to over \$6M. This is only the second time that Snare has broken \$6M in new sales since the acquisition in 2011.

In the first quarter of FY20 we have seen continued momentum with Snare with 67% growth over the same period last year.

We also experienced an increase in the amount of renewals of software maintenance and this continues to be a focus for us. Our target for this year is to exceed \$3M in renewal revenue.

All other indicators increased; number of sales by 27%, number of enterprise agents sold increased by 18% and deal size increased slightly.

One of our key strategies is to scale through partnerships and in FY19 we had a significant jump in revenue through partners. Indirect sales increased from 2.4M in FY18 to 4.0M in FY19, an increase of 66.8%. Our focus in this segment is on selective partnering with companies that want to jointly go to market rather than just react to enquiries from customers. We are focussed on working with MSSP's who want to build Snare into their offering as a core component in managing their end customers' security.

Slide 19

This slide shows the sales spread of new business transactions in FY19. We sold Snare in 23 countries and had nearly 700 separate new sales transaction (not including renewals). As you can see the US was by far the largest market for us with 590 transactions with Europe second with a total of 50 sales. These sales are both direct sales as well as sales through partners.

Slide 20

This slide brings us to the end of my presentation and outlines our key growth strategies for FY20. We will continue to drive eMite into large enterprise, increasing deal size. This will be achieved through the movement of Genesys PureCloud into the large enterprise segment as well as our increased focus on the Genesys PureEngage customer segment.

We will also drive new sales of CX Intelligence for Amazon Connect, which has predominately been to large enterprise to date.

On the partner side we will continue to work with Genesys and their partners as well as recruiting and activating Amazon Connect partners globally. We will increase our focus on the MSSP segment for Snare as the global shortage of skilled cyber resources continues to drive customers to look for suppliers to assist them manage their cyber security posture and risk.

After having a few isolated resources in EMEA for some years we have made the decision to invest in building the team with additional sales and presales technical resources. This will alleviate the strain on our teams in Australia and the US trying to operate across time zones and enable a much closer engagement with customers and partners in Europe.

This investment in people will accelerate the growth from EMEA in FY20.

In the US Federal Govt and Defence segment we already have a number of customers and we have a history of sales to most of the Prime Defence Contractors like Northrup Grumman, Raytheon, Boeing etc. Given this was the heritage of Snare we see a significant opportunity in expanding our existing relationships in this segment and will invest in additional dedicated resources for this market in the new calendar year.

We also have a significant upsell opportunity inside our existing commercial customer base to "sell the stack". We currently have only about 15% of our customers adopting the whole Snare solution suite and increasing sales of Snare Central and Snare Analytics to our existing base will be a focus in the new calendar year.

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Over the last 2 years we have built the business into a position where we can continue to scale and grow. We have invested in systems and processes that will scale and support our customers globally as we do so. Our teams are focussed on delivering great products and delivering a great customer experience. We continue to manage the expenses carefully to ensure we can continue to invest in prioritised growth initiatives.

The markets that we operate in are global in nature, complex and competitive and our competition is often incredibly well funded but we have proven that we can compete and win.

We are now investing in new sales and marketing resources to continue our growth to become a globally significant software company based in Australia.

I would like to thank all of our teams across the globe for their fantastic effort in FY19 and for the great start we have made in FY20. Thanks also to our shareholders for your continued support.

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