



FIRSTWAVE
CLOUD SECURITY TECHNOLOGY

21 October 2021

ASX ANNOUNCEMENT

FIRSTWAVE Q1 FY22 INVESTOR UPDATE

SLIDE 1 – Q1 Investor Update

SLIDE 2 – John Grant and Iain Bartram

Good morning and welcome to FirstWave Cloud Technology's Q1 Update. My name is John Grant. I'm Executive Chair and Interim CEO and I'm joined this morning by Iain Bartram, FirstWave's CFO and Company Secretary.

Let me start by dealing with the trading halt we put in place on Monday.

SLIDE 3 – Material Contracts Update

We received communication last weekend relating to a contract with Telum, one of our Level partners in Africa, to resell WebProtect DNS. You may recall we have an exclusive agreement with Simplifyd Systems UK to resell WebProtectDNS through our global partner channel.

Telum notified us formally that it was seeking to pause the contract from a billing perspective and renegotiate revisions to some key terms to align payment with revenue. This was followed by a similar but unrelated request from another of our Partners, CSquared.

The timing is a coincidence but follows a detailed review we've been undertaking in recent weeks, of all contracts.

The contracts remain on foot and both partners indicated their continuing commitment to distributing the product.

The FirstWave board considered these requests at its meeting on Tuesday and agreed to accept the requests in principle and to enter a renegotiation of the key terms.

We expect to finalise that in coming weeks.

Their combined impact is material as they represent AU\$1.95 million of the AU\$3.0 million IARR reported at FirstWave's Q4 FY21 update, and this revenue has been excluded from FirstWave's calculation of IARR at the close of Q1 FY22.

In light of these requests, moving forward FirstWave will adopt a more conservative view of contract risk and revenue recognition in some of its markets.

To the question of whether these revenues under these paused contracts can be expected to return, we have concluded that it is likely revenue under our contract with Telum, which was the larger component by far impacted by the pause, will return as the issues with its ISP partner are resolved and we agree revised terms, but it will be via a progressive rather than full scale rollout.





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With CSquared, it remains to be seen.

You may also be concerned that other partners with contracts on foot could raise similar issues.

Our view is that this is unlikely in our more mature markets where there is an acceptance of revenue models based on separate platform and usage fees, as over the length of a contract, this is more economical.

But if it does happen, we will be better prepared to transition to different terms without disruption to the contract.

While obviously disappointing in the short-term, FirstWave believes this outcome to be in the long-term interests of its shareholders and partners.

Let's move now to a summary of Q1.

SLIDE 4 – Q1 in Summary

Shareholders will recall I reported at the Q4 Update on 27 July that:

- The strategic rationale for FCT's long term success remained intact
- But there was a lack of organizational focus with what I referred to as 'too many plates spinning at the same time', and
- There was 'friction' in the product for both the service provider and end user to adoption at scale.

I identified specifically what we intended to do and In Q1 we've made progress on all fronts, as you would expect.

Focus within the business has been refined through clear accountabilities and internal governance processes that drive decision making to where and when it must be made.

Our team is adjusting to this, but change doesn't happen overnight. However, every member of the team is committed to moving forward as one.

We're on track with the development program of work to deliver the enhancements to our software to remove the 'friction' for end users and service providers and there's more coming on that at our CyberCision launch next week.

More on that later.

Our sales focus remains on the 'point' solutions:

- WebProtect remains our key opportunity and as at today the platform is operational in 2 more partners and we are working with another 12, 2 of which are in Australia
- Our ADR service over email, which you may recall extends prevention of threats to detection and response – an absolute world first for the small to medium business – has secured 4 customers in India through Level 1 Partners Tata Teleservices and ACT, and 1 in Australia through Telstra. The seat numbers are small, around 1000 in total, but our pipeline is solid at around 40,000 seats, mainly through Telstra



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- In terms of our Indian partners, we have been working solidly with TTL in rolling out WebProtect and with Vi for multi-tenant Palo Alto Firewall. Both are continuing to invest considerable time and resources but, as yet, have not launched.

We are well on target to deliver \$2m in lower operating costs this year and Iain will elaborate in a moment.

He'll also take us through the cash position, but we ended the quarter with a solid balance of \$6.86m.

Let me hand over to Iain to take us through the numbers.

SLIDE 5 – Iain Bartram

Thanks John.

SLIDE 6 – Revenue Trends

I want to start by walking you through the differences in this annualised revenue slide to the numbers shown in the FY21 Q4 update given in late July.

The company set its international sales targets for FY21 in May'20 when the AUD:USD FX rate was 0.65. Sales reporting for the year was then locked in at that rate so month on month and quarter on quarter comparisons had a consistent basis.

In FY22 we are using 0.75 and hence to compare the FY22 Q1 numbers with FY21 we need to adjust the FY21 numbers to this revised FX rate and this is what is represented here.

There was also a revision to the domestic numbers down by 9.2k a month that was made as part of the FY21 audit post the Q4 update having been given. This revision has also been reflected in this chart.

The big impact on the graph though is the removal of revenue recognition for WebProtect revenues from CSquared and Telum as covered in the announcement earlier in the week. We are hopeful that these revenues will return over time and particularly Telum where end-customer usage was already in place, the return to revenues could be as early as next month. However, we are taking a more prudent view to revenue recognition in these particular accounts and will wait until a pattern of invoicing and payment has been established before we recognise any revenue.

It is also worth noting that we have a risk share arrangement in place with Simplifyd and so there are no COGs or other 3rd party costs related to these accounts while we are not receiving payments from our partners.

SLIDE 7 – Q1 FY22 Financials

The net cash used in the quarter was \$3.1m resulting in the quarter-end balance being \$6.86m in cash. I think it is also worth drawing your attention to the fact that there is an estimated \$1.28m in R&D tax refund due for FY21 that we will receive a month or two after we lodge the FY21 tax return which we plan to do in November. Therefore we anticipate receiving this additional cash early in Q3.





There was significant focus on cash management in the quarter and \$2.6m was collected from customers, this is considerably more than in any of the previous 4 quarters and reflects not only a focus on collections but also the continual unwinding of the Telstra prepayment. This will have completely unwound by the end of Q2.

The other main activity from the finance team in Q1 was a cost reduction exercise that saw 17 staff depart the business prior to 1st Oct.

SLIDE 8 – Q1 FY22 Financials

These departures contributed to higher staff costs in Q1 than in previous quarters with \$174k being spent in termination costs. Another contributor to these higher costs was the end of the salary sacrifice scheme that had been saving the business approximately \$100k per month in cash costs.

The 17 staff who have departed the business represented a monthly cost of \$0.19m and the full benefit of this saving will be felt from 1st Oct onwards and annualised is approximately \$2.3M

Administration costs look high in the quarter at \$1.42m. However, there were a number of one-off and annual costs that have inflated this number in Q1, most notably annual insurance payments made in the quarter of \$0.55m.

There are other cost savings underway such as moving to a smaller head office in Sydney and more cost savings planned throughout the remainder of the year. I will stop there though and hand back to John who can talk about the Product plans as that is what will ultimately generate the value in the business rather than cost savings which are more of a hygiene factor.

Let me now hand back to John.

SLIDE 9 – John Grant

Thanks Iain. Let's now look to the future.

SLIDE 10 – CyberCision launch

Next Wednesday, the 27th October, we'll be launching CyberCision and it is no understatement that it is the most transformational technology upgrade in FirstWave's history. Our 2 key technologists, Roger Carvosso and Simon Ryan will explain why this is the case at the launch.

Rebranding of our Cloud Content Security Platform (CCSP) to CyberCision reflects the significance of this transformation and represents a watershed moment for FirstWave and we believe will open up the opportunity to scale revenues at a rate we've all felt we should be able to given the current imperatives an global market opportunity.

For SMB end users, CyberCision adds a range of new and enhanced cybersecurity services to FirstWave's best-in-class cybersecurity technology, and for partners, CyberCision removes critical roadblocks that have constrained their ability to rapidly grow security services revenues.

I hope you can all join us to learn more about the platform and what it can deliver. You'll also hear from key customers and an important industry perspective from leading global cybersecurity analyst, Frost & Sullivan.





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So, if you haven't yet, please register.

Thanks for listening. Let me now hand over to your questions.

SLIDE 11 – Q&A

- ENDS -

Authorised for release by the CFO and Company Secretary.



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