

ASX Announcement
31 July 2018

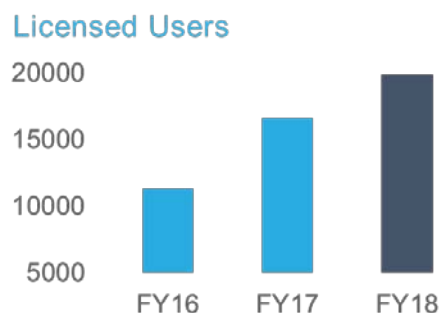
QUARTERLY REPORT & APPENDIX 4C 30 JUNE 2018

CURRENT HIGHLIGHTS

- Contract with ANZ extended for a further 3 to 5 years
- Licensed users over 19,950 at June 2018, giving 30+% yoy growth
- Further significant increase of over 12,000 users expected in the Sept 2018 quarter following full implementation of Singtel and Optus contracts
- Project revenues of over \$700k received
- \$1.4m of new equity raised via oversubscribed placement, completed in May 2018
- Convertible notes of \$1.4m, plus interest, paid out in June 2018
- Cash balance of \$1.1 million at 30 June 2018
- Rights Issue announced to raise up to \$2.6m in new equity, to complete in August 2018

Knosys Limited (ASX: KNO) (“Knosys” and “Company”) is pleased to report on a strong quarter, the successful extension of a major long term contract and the rollout of KnowledgeIQ, the Knosys knowledge management solution, into major new customers.

The total user licence count at June 2018 was over 19,950, representing a 30+% increase compared to June 2017. This total user number will increase by over 12,000 additional users in the Sept 2018 quarter after full implementation of the Knosys software at Singtel and Optus and following completion by them of their own internal processes and training. This will continue the excellent growth in user licence numbers as shown in the below chart.



ANZ extends contract for 3 – 5 years

As announced to ASX earlier today, Knosys has formally extended its customer contract with ANZ, Knosys’ long term major customer. This extension is for 3 years, with the option for ANZ to renew for two further 1 year periods giving a 5 year contract term.

Knosys is extremely pleased that ANZ is extending its long and mutually beneficial relationship with Knosys. KnowledgeIQ is seen as a core transformation platform by ANZ to create a knowledge based workforce that is more efficient and agile.

Singtel and Optus now on board as major customers

As previously announced Knosys signed contracts for the provision of a knowledge management system for Singtel and Optus in January 2018. The contracts are for 3 to 5 years, with a total value of over \$6m. The implementation and SaaS deployment of Knosys' knowledge management system has now been largely completed. We are now progressing through the final project phase where Singtel and Optus conduct their own internal testing, acceptance processes and training in these separate but complementary projects.

These projects have resulted in material operating cash inflows in the June 2018 quarter and will materially increase revenues to be reported in the statutory financial reports for the year to June 2018. Following this implementation, the Singtel and Optus contracts will substantially increase Knosys' recurring revenues in the FY2019 financial year, because of increased user numbers. This increase in recurring revenue will also improve the regular operating cash inflows of the business.

Appendix 4C Quarterly statement of cash flows

The ASX Appendix 4C quarterly statement is attached to this report.

Cash balance at 30 June 2018 was \$1.1 million after receiving net operating cash inflows for the June 2018 quarter of \$131k, including inflows of \$795k from sales revenues and \$326k from government grant funds. Gross operating cash outflows were in line with the estimates from the previous quarterly Appendix 4C and also included the payout of \$148k in interest on maturity of the convertible notes.

The June 2018 quarter cashflows do not include the cashflow from the annual licence fee from the newly extended contract with Knosys' long term major customer, ANZ bank. As noted above, this contract was extended for a further 3 years plus two 1 year options, with formal execution of relevant documentation occurring in July. Annual invoicing for this contract was consequently delayed until July, resulting in the annual cash inflow of over \$1million not being received until after the end of the June 2018 quarter.

Cashflows from Finance Activities for the quarter included new capital inflows of \$1.37m (less costs) raised via a placement to sophisticated investors in May 2018. Outflows included the \$1.41m payout of the convertible notes on maturity. Further capital inflows of up to \$2.6m will occur in the September 2018 quarter with the close of the fully underwritten rights issue at end of July.

As required in Section 9 of the Appendix 4C, gross operating outflows for the Sept 2018 Quarter are estimated at \$920k, including remaining project costs related to the Singtel/Optus implementations. The Appendix 4C does not allow for estimates of operating cash inflows. Readers of this report and the Appendix 4C should note that the company estimates that the gross operating cash outflows will be offset and exceeded by operating cash inflows in the September 2018 quarter. As noted above cash inflows from ANZ Bank will occur in the Sept 2018 quarter. When combined with revenues from other customers this should result in cash inflows from operating activities of over \$1.5m in the Sept 2018 quarter.

The Company's revenue model has predominantly been based on billing customers annually in advance. This is reflected in the quarterly cash flow fluctuations. Licence fees invoiced annually in advance are recognised as revenue in the financial accounts each month as the revenue is earned evenly over a 12 month period. Higher customer cash receipts in the June/July of each year, due to large annual licence renewals, and lower receipts in other months reflect this revenue model. However, the addition of Singtel and Optus as major customers should now provide larger monthly recurring cash inflows to Knosys, giving the company a more balanced quarterly cashflow profile in the future.



ABOUT KNOSYS

The Knosys **KnowledgeIQ** platform is an enterprise-grade, knowledge management solution that enables companies through a machine learning approach to discover and deliver personalised information to staff and customers to transform productivity and engagement. **KnowledgeIQ** is curated information using Artificial Intelligence ("AI"). The solution is designed to be the #1 used app in the life of an information worker being available on their desktop, tablet or smartphone. It drives productivity and optimizes processes by incorporating process wizards, decision guidance, collaboration & feedback while at the same time learning based on user behaviors, patterns and profiles. It also acts as the single knowledge hub from which all digital engagement solutions such as chatbots, web sites, self-service kiosks can consume relevant information to interact with end customers in a consistent manner.

For more information please visit: www.knosys.it

For further information please contact:

John Thompson, CEO

Knosys Limited

T: +61 3 9046 9700

E: cosec@knosys.it

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

Knosys Limited

ABN

96 604 777 862

Quarter ended ("current quarter")

30 June 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	795	1,421
1.2 Payments for		
(a) research and development	(80)	(293)
(b) product manufacturing and operating costs	(83)	(155)
(c) advertising and marketing	(42)	(142)
(d) leased assets	-	-
(e) staff and consultant costs	(475)	(1,915)
(f) administration and corporate costs	(165)	(665)
1.3 Dividends received (see note 3)		
1.4 Interest received	3	34
1.5 Interest and other costs of finance paid	(148)	(167)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives (net)	326	366
1.8 Other – Additional listing fees Oct'17, GST re FY17 revenue	-	(86)
1.9 Net cash from / (used in) operating activities	131	(1,602)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(7)	(45)
(b) businesses (see item 10)		
(c) investments		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (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		
	(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	(7)	(45)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	1,371	1,371
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	(90)	(90)
3.5	Proceeds from borrowings		
3.6	Repayment of convertible notes	(1,410)	(1,410)
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	(129)	(129)

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	1,070	2,841
4.2	Net cash from / (used in) operating activities (item 1.9 above)	131	(1,602)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(7)	(45)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(129)	(129)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	1,065	1,065

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	32	110
5.2	Call deposits	898	324
5.3	Bank overdrafts	-	-
5.4	Other – Term deposits	135	636
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,065	1,070

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**

35

Payments per item 6.1 include:
Non-Executive directors' remuneration.

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'000**

-

-

8. Financing facilities available

Add notes as necessary for an understanding of the position

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
0	0
0	0
0	0

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.

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9. Estimated cash outflows for next quarter

\$A'000

9.1	Research and development	(75)
9.2	Product manufacturing and operating costs	(110)
9.3	Advertising and marketing	(60)
9.4	Leased assets	-
9.5	Staff and consultant costs	(580)
9.6	Administration and corporate costs	(95)
9.7	Other –	-
9.8	Total estimated cash outflows	(920)

Note: September quarter estimated gross operating cash outflows are expected to be offset by estimated revenues of over \$1.5million flowing from existing customers in the September quarter.

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity		
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

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 July 2018

Print name: Stephen Kerr

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.