

KNOSYS INVESTOR NEWSLETTER – MAY 2019

Share Price
\$0.069
At 13/5/19

Mkt Cap
A\$9.9m
At 13/5/19

A message from the CEO



Dear Shareholders,

Knosys has spent the early months of 2019 laying the foundations for long term sustainable growth through new product development, geographic expansion and new channel partners.

Our new Software-as-a-Service product, KIQ Cloud, was launched in early April to bring knowledge management to a broader range of businesses. KIQ Cloud makes it easy for teams and individuals to find the right information, exactly when they need it, and it provides direction for work flows, processes and compliance. This new KIQ Cloud service is targeted at mid-market companies with 200+ employees and our commercial proposition offers outstanding value to these customers. Our cloud-first strategy is showing success already and demonstrates our commitment to innovation in order to meet the needs of our evolving customer base. Knosys continues to focus on and pursue the lucrative enterprise market space and expects to compliment this with additional revenues from KIQ Cloud customers.

We have recently opened an office in Sydney and we are on track to formally open a new office in Singapore within the next few months. The additional direct sales resources in these locations will drive revenue growth and the diversification of our customer base over the next few years. These new locations will also enhance the opportunities for co-selling our KIQ Cloud service as part of the Microsoft Gold Partner program to their enterprise customers.

We are excited about the opportunities ahead and we appreciate the support of our shareholders through this growth phase.

Knosys Managing Director
John Thompson

KNOSYS'S EXPANDED SALES STRATEGY

The company's expanded sales strategy has five discrete elements:

1. New product offering

In prior years Knosys has concentrated almost entirely on sales into the enterprise market. The introduction of KnowledgeIQ in the cloud (KIQ Cloud) has added a product targeted at the mid-market (generally users with around 200 or more employees). With early success already evident, the company is confident that demand in the mid-market will lead to more sales and a shorter sales cycle. We expect that mid-market sales will involve fewer licences per customer, but larger customer numbers being delivered at lower cost, while maintaining profit margins. Mid-market sales are expected to add significant new revenue on a total sales basis. This new offering is in addition to our focus on enterprise-level sales which remain a key strategic objective for Knosys.

2. Expansion of direct sales team

Management is in the course of restructuring the company's direct sales team. A number of our previous sales team have left the business and new appropriately qualified and experienced sales executives are being recruited. When phase 1 of this process is completed, Knosys will have sales staff directed at the mid-market as well as sales staff with the knowledge, skills and experience to make sales into the enterprise market. Restructuring of the sales team has commenced but will roll out progressively over the next one to two years.

3. Geographic expansion of sales capability

Knosys has its main sales personnel in its Melbourne headquarters and has already opened its new office in Sydney manned by an experienced sales executive. Recruitment of sales staff in Singapore is underway. Initially, the company will have one or two staff in Singapore to service existing customers and recruit new customers. Initially focused on Singapore, it is planned that, as the business grows and as customers expand their use of our products, the focus will expand across Asia, including to additional offices of existing client companies.

4. Increased demand from existing customers

Knosys maintains close contact with existing customers both to identify enhancements to our product offering that are of interest to customers and to monitor opportunities for increased sales to those existing customers. This has already proved an important source of new revenue and there is every indication that this trend will continue.

5. Channel diversification with Microsoft Co-Sell arrangement

The Co-Sell relationship between Knosys and Microsoft is potentially of great benefit to your company. Obviously, via its own account managers and its very substantial networks of distributors and resellers, Microsoft has an enormous customer base in Australia and in other Knosys target markets. Through the Co-Sell arrangement Knosys will work with Microsoft to identify and pursue potential customers at both the enterprise-level and the mid-market. Uptake of Knosys products will increase demand for Microsoft products, so there is a mutual interest driving co-operative sales into all target markets. Knosys will continue to develop this and other partnering arrangements to further diversify its sales channels.

PRODUCT UPDATE

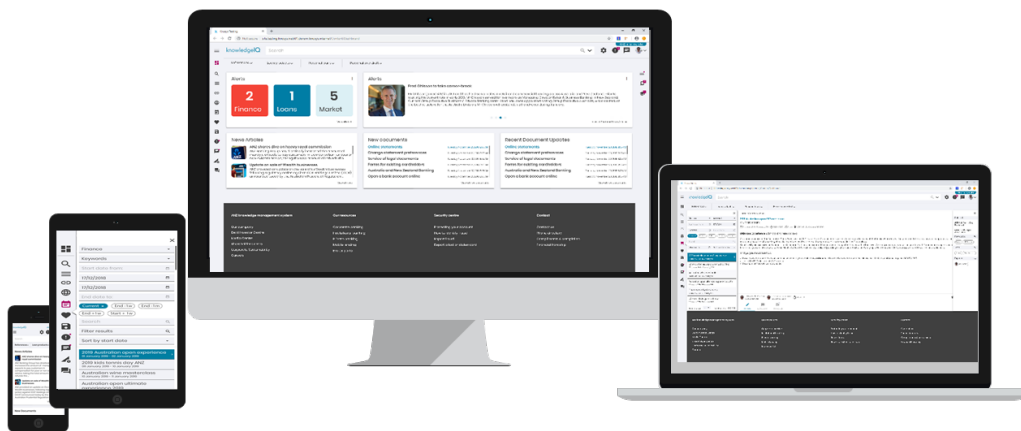
Knosys accelerates growth with cloud service

Knosys has announced a strategic focus towards cloud based Knowledge Management (KM), to reshape how businesses organise and share knowledge.

KIQ Cloud is a cloud-based, omni-channel KM solution designed to simplify and centralise the sharing and organisation of knowledge. KIQ Cloud makes it easy for teams and individuals to find the right information exactly when they need it, providing direction for work flows, processes and compliance. KIQ Cloud is a valuable knowledge management solution for businesses that operate customer contact centers, service desks, frontline offices or online self-service channels.

This platform will drive interest from mid-market companies with new features like QIKAnswers, quizzes and integrations with cloud storage services such as Dropbox and Box. By using the analytic power of machine learning, KIQ Cloud provides a unified interface to assemble previously siloed information and actions across a distributed workforce in multiple branches and departments.

The new cloud delivery model is a core part of a robust growth strategy to diversify revenue streams and target markets beyond the current enterprise opportunities. To find out more about the KIQ Cloud launch, click [here](#).



FINANCIAL UPDATE

Knosys reported strong revenue growth in H1 FY2019

Knosys released its December 2018 half year financial results in February 2019, reporting revenue of \$1.57 million, up 179% on the previous corresponding period. This strong revenue growth was driven by new customer contracts with Singtel, Optus and SBS Bank, which were implemented in the 2018 calendar year. The total user license count at December 2018 was over 38,500, up 115% from December 2017.

In August 2018, Knosys completed a \$2.4 million capital raising and the funds were used to invest in sales, marketing and product development in order to lay the foundation for the next phase of growth. Accordingly, there was a substantial increase in marketing costs in the first half of 2019, to \$150K, up from \$23K in the previous corresponding period. The net loss after tax improved by 45% to \$613K, compared to a \$1.1 million loss in the previous corresponding period. To access the full Half Year report, click [here](#).

Positive cashflow in March 2019 Quarter

The ASX Appendix 4C quarterly statement was lodged with ASX on 30 April 2019. The cash balance at 31 March 2019 was \$3.3 million with net cash inflows of \$0.3m for the quarter, including inflows of \$1.3m from sales receipts. Gross cash outflows included an increased spend on development, annual insurance payments and capex for new premises.

Gross operating outflows for the June 2019 Quarter are estimated to be \$1.1m. The company estimates that these gross operating cash outflows will be more than offset by operating cash inflows in the June 2019 quarter from customers and an R&D rebate. The Company expects a positive cash flow quarter in June 2019, provided all customers pay on agreed terms.

Higher customer cash receipts have typically been received in June/July of each year, due to large annual licence renewals, with lower receipts in other months. However, the addition of Singtel and Optus as major customers now provides a better spread of cash inflows to Knosys across other quarterly cashflow periods. The launch of KIQ Cloud will enable the company to expand its offering beyond its existing enterprise customer base to mid-market organisations. This is expected to shorten the average sales cycle and provide more even cash inflows across the year.

Growth through M&A

Knosys continues to explore and review potential acquisition opportunities that could complement the current business offering and accelerate the geographic diversification of revenues. Targets include businesses that could enhance the Knosys offering through automated business processes, risk management, information governance and enhanced customer experience through analytics.

PARTNERSHIP & CONTRACT UPDATES

Knosys enhances procurement opportunities with Government ICT projects

Knosys has been approved as a prequalified supplier on both the buy.nsw Government Panel and the Digital Transformation Agency's (DTA) COTS Software Panel, enabling Knosys to capitalise on opportunities coming from agencies within the NSW and Federal Governments to procure cloud and ICT services.

To become a prequalified buy.nsw panel member, Knosys undertook a thorough registration process, satisfying all the vendor requirements. Through this procurement panel, Knosys is able to more effectively communicate its product offerings and value to NSW government agencies and authorised buyers. Government agencies can choose to purchase directly from a single panel member or go through a closed tender process with selected panel members.

Knosys followed a similar process for the DTA panel for federal government agencies. In August 2018, the DTA called for providers of commercial-off-the-shelf software and services for inclusion on its Software and Services Panel. The DTA has outlined a comprehensive roadmap to achieve a digital government, including key transformation projects to be undertaken by 2025. This vendor appointment increases Knosys' ability to engage with Federal agencies when they undertake major ICT initiatives.



Knosys targets APAC cloud expansion with Microsoft Gold Partnership

Knosys has attained Microsoft Gold Partner status and will adopt Microsoft Azure as the cloud platform for its knowledge management solution in the Asia-Pacific region. According to the Synergy Research Group in late 2018, Microsoft Azure is the number two provider globally of cloud platform as-a-Service and Infrastructure as-a-service.

Knosys selected the Azure service because it fits well with Knosys' targeted customer base, who demand robust security, superior operational performance and high-levels of availability. During the last six months, the company has become a substantial user of Microsoft Azure services, onboarding telecommunication customers Singtel and Optus to the platform. The Microsoft partnership will offer significant benefits to Knosys by enabling the company to continue to develop and enhance its core technology using Microsoft tools to help scale its solutions.

In addition, as stated earlier, the Microsoft Co-Sell arrangement will enable Knosys to leverage an established ecosystem and partner network to drive opportunities with Microsoft sales teams in Asia Pacific and worldwide. To find out more about the Microsoft partnership, click [here](#).

CONCLUSION

Your Board believes that your company is approaching a major inflection point. Our product offering now includes a valuable cloud-based resource for both mid-market companies and larger enterprise customers and we are advancing with further development of our product capabilities in response to customer feedback.

We are well established with substantial and sustainable licence sales in Australia, N.Z. and Singapore and are well positioned to take up opportunities across Asia in particular. We are opening new sales offices in Sydney and Singapore and upgrading our sales workforce. Knosys has moved to new Melbourne headquarters, more suited to our expanded operations and we have formed an important alliance with Microsoft.

Investors supported our development plans and we expect to reap the benefits of the last few years of hard work and skilled management. We thank shareholders for their support and look forward to the future with confidence.

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