Prophecy

# Prophecy International Holdings Ltd.

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## Company Announcement 5th May, 2016

# FY16 Update

Prophecy International Holdings Limited (PRO) is today releasing revised guidance for FY16.

The Company is disappointed to report that due to deferred sales in the third quarter the trading performance for FY16 will be below original expectations.

FY16 revenues are now expected be in the range of $15.0 - $17.5m, with corresponding EBITDA expected to be between $5.0 - $7.0m. This is lower than the original guidance of $20.0m revenue and $8.9m EBITDA.

The final quarter is traditionally our strongest and we are pleased to report that SNARE product sales have enjoyed a healthy start to the quarter. However, the Company's final result is dependent on the timing of a number of larger eMite deals currently being actively worked by the sales team, with the target to complete by the year-end.

These revised revenue and profit expectations still show considerable growth over the FY15 full year results, when revenue was just under $10.0m generating EBITDA of $4.1m.

**Breakdown of revised forecast**

- eMite sales pipeline is still mainly made up of a smaller number of larger dollar value sales and delays are likely to push out some opportunities to the next quarter. It is estimated that sales worth in the order of $1.8m are likely to move into FY17.

- eMite's FY16 Q3 revenue was lower than expected due partly to a $400k credit in that quarter against a subscription that was not continued as a result of budget constraints.

- eMite has moved more aggressively than originally planned to promote Subscription licenses, in preference to Perpetual deals. This has resulted in lower upfront revenue, but a higher long-term earnings stream. Subscription deals expected for the year equate to an extra $1.3m that would have been recognised as revenue and EBITDA if they were all charged upfront as Perpetual license deals.

- Both Legacy and SNARE revenues were marginally below expectations in the third quarter.

| EBITDA | LOW | HIGH |
|---|---|---|
| **Original guidance** | **8.9** | **8.9** |
| One off license cancellation | -0.3 | -0.3 |
| Delayed orders likely into FY17 | -1.3 | -0.8 |
| Change in model to recurring | -0.7 | -0.7 |
| Legacy products below expectations | -0.4 | -0.1 |
| SNARE/eMite variance versus expectations | -1.2 | 0 |
| **New guidance** | **5.0** | **7.0** |

- In reviewing the slower completion of larger sales opportunities across both SNARE and eMite during the third-quarter, management has implemented a more comprehensive sales forecasting, monitoring and reporting environment.

## eMite earn-out

The FY15 accounts specify a potential additional $2.0m payout for the eMite business purchase as at 1 April 2016. The actual combination of the PRO share price and eMite profit recorded at that time has resulted in no additional payment being due in relation to this earn-out target. A final potential earn-out is still to be assessed as at 1 August 2016 with a potential of 857,142 shares to be issued depending on a combination of eMite profits for the 2016 year and the share price.

## Outlook

So far early FY16 Q4 sales have already bettered the Q3 start and the FY15 Q4 start, giving weight to a healthy sales position in our final quarter being achieved. Notwithstanding the slower than expected third quarter, year to date sales of SNARE are up 54% on last year’s equivalent position. New sales of SNARE via partners stand at 25% of all new sales and through focussed activities in the partner area we are working towards our target of 50% of all new sales coming via partners.



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The pipeline for both SNARE and eMite looks strong moving into FY17.

The current focus for eMite is to expand the opportunities created by the RealTimeBI solution and the eMite Lite Analytics solution, building the proportion of smaller sales opportunities and smoothing the overall flow of sales to lessen the impact of larger sales .

Base revenue has increased to $7.5m going into FY17. Even after allowing for the $400k that was lost (as detailed above), this represents a 15% increase on FY16. We expect this will grow further as sales are completed in the final quarter.

**eMite Lite Analytics**

The sales activity around the first niche market created for eMite Lite Analytics has brought success with the first new deals now in place. In a very exciting expansion, eMite is now packaged with very specific management reporting over-the-top of a popular call centre management software system.

The addition of eMite's analytics capability provides a much needed solution to customers' requirement for better and more timely reporting of the operational efficiency of their call centres. The eMite solution is simple to implement, and provides key management reporting via dashboards for a crucial part of many business operations.

The call centre management software involved in the current trial has more than 5,000 installations worldwide, which would present a significant new vertical for the eMite Analytics solution. Once proven, this style of solution can be implemented over many popular business and technical systems to enhance management’s understanding of their key business indicators. These applications of eMite Lite Analytics have the potential to significantly expand the sales of eMite and generate a large number of smaller dollar value Subscription licence sales in multiple niche markets worldwide.

The Company has agreed commercial terms with a global partner, which it hopes to announce before year end. This will provide the platform to market the eMite Lite Analytics to a worldwide market and ramp up the number of eMite sites. In addition, two other partner opportunities are being progressed in the same manner to add to the FY17 pipeline.

The eMite Lite Analytics solution, together with specific management reporting, is also designed to sit over-the-top of the SNARE system, providing a new analytical and reporting option for SNARE customers. This SNARE Analytics solution is currently being trialled ahead of an upcoming official release. It is expected that this expansion into analytics using eMite will provide many additional sales opportunities for both SNARE and eMite products.



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