13 December 2019

Chairman's Address to ASM

The 2019 financial year was a challenging period for Company, its management and the Board. This was particularly so in the first half of the financial year. However, in the six months to June 2019, the underlying financial performance of the Company improved as the changes in operating model introduced in 2018 started to kick in.

Despite this improvement in underlying performance, it was quickly apparent to the renewed Board that further significant changes to product strategy were required in order for the Company to leverage its core software and intellectual property in a way that would pave the way for growth.

Why is this so?

Firstly, while Finzsoft's current core product, Sovereign is well regarded by its customers, it is now a mature product in a marketplace that has rapidly changed and is continuing to change. Sovereign's richness of functionality is highly valued by our customers but, as a result, they are increasingly spending less money on enhancements to it other than for regulatory compliance or digital customer engagement.

Secondly, Sovereign is an integrated eco-system of software products, many of which are commodity like – for example document publishing - and it is not architected in a way that allows cloud deployment. This is inconsistent with the way that financial services companies, particularly banks and finance companies, are looking to buy technology services today.

As a consequence, sales of the Sovereign product to new customers have stalled in recent years and revenue growth from existing customers has slowed and is in decline.

At the heart of Sovereign is a functionally rich and valuable core banking system of record. However, to deliver sales growth in the world of today, this core system of record needs to be liberated from its current eco-system, be API enabled so it could easily work within other banking eco-systems and be re-architected so it can be deployed in the cloud, including the public cloud.

Earlier this year a product strategy was developed by Andrew Holliday and his team to do just this. It was tested with the market in May and June 2019 and found quick support. As reported, in July 2019 a work order and a contract were signed with major customer for this new product, which we have called Open Connected Core or OCC. I am pleased to report that the first phase of this work order was delivered to that customer earlier this week and they are extremely happy.

As noted in the Annual Report, this all requires funding beyond the ability of the Company to support or generate from normal operations. The board is actively working on this and currently expects to come back to shareholders with further information early in the new year. Unfortunately, the ongoing breakdown in the relationship between the Company's major shareholders is making the Board's exercise of raising funding, be that either debt or equity, more difficult than it should be.

Before I hand over to Andrew Holliday for the Managing Director's presentation, I would like to re-iterate my comment that the architect of the Company's new product strategy is Andrew.

In recent times I have been asked whether Andrew as Managing Director, continues to have the full support of his Board and I have responded that he does.

That answer is not just based on the fact that Andrew is championing the strategy to renew the Company's product in the marketplace. It is based on the voice of our key customers. A recent independently conducted pulse survey of those customers has evidenced their strong support for the Company and for Andrew and his team.

It is also based on the voice of our management team, who continue to let us know that they also support Andrew and his vision for Finzsoft.

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