

ASX Announcement

Sales update

2 May 2019

Key Highlights

- \$780k in new ARR signed in Q3 2019 (up 250% on Q3 2018)
- Abnormal attrition in Q3 due to consolidating sector focus
- First industrial win in European region – Tata Steel
- EVS world-leading Electronic Nose (e-nose) in Production

Environmental technology Company **Envirosuite Limited** (ASX:EVS) ('Envirosuite' or 'the Company') is pleased to provide an update to the market on Company progress for March quarter 2019. During the quarter the Company received new orders representing an additional \$780,000 in annualised recurring revenue. This compares with \$210,000 for the same quarter in the previous financial year. On a linear basis the result supports the run-rate required to achieve the additional \$3m target in new ARR for the FY19 year (to reach a total of \$6m by FYE).

Table 1 below contains the list of new sales added during the quarter.

Client	Sector	Region
Edmonton City	Composting	Canada
Renewi – second site	Composting	Canada
Morningstar	Food Processing	Canada
Kelowna	Landfill	Canada
Riviere du Loup	Regulatory	Canada
Metro Vancouver	Wastewater	Canada
Molymet	Heavy Industry	Chile
Sant Boi	Wastewater	Spain
TATA Steel	Heavy Industry	UK
Southern Water (3 sites)	Wastewater	UK
Welsh Water	Wastewater	UK
Boyd County Sanitary Landfill	Landfill	USA
Casa Familiar	Regulatory	USA
San Francisco	Wastewater	USA
Trinity River Association	Wastewater	USA

Table 1: New ARR wins and Upsells in January-March 2019

By the nature of the Company-adopted ARR metric, any client attrition means that the ARR is adjusted downward by that amount. During the Quarter due to one-off factors outlined below there was a much higher than normal attrition rate of 9% of ARR. (This is the total attrition year-to-date). This equates to a reduction of \$450,000 in ARR that has dampened the otherwise solid result. Adjusting for this, total ARR at end March is just under \$5m.

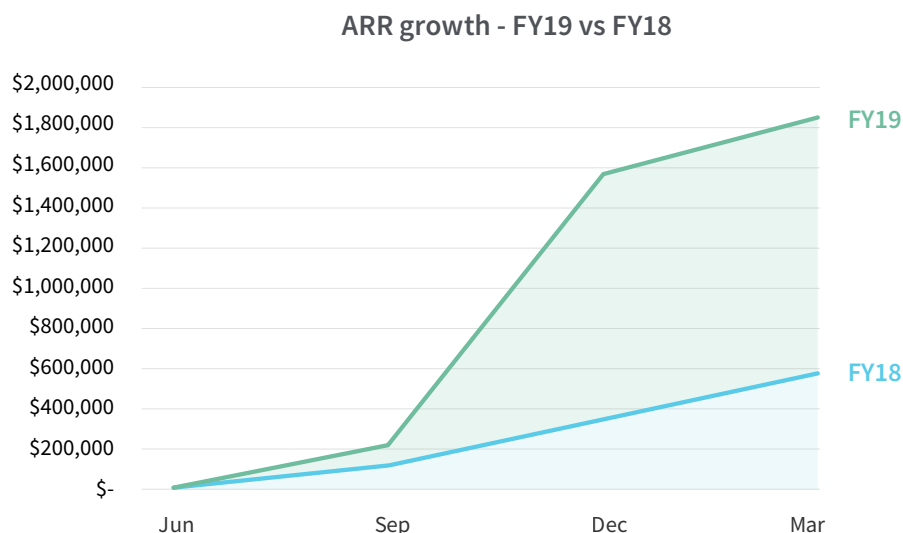


Figure 1: FY19 ARR Growth

Notwithstanding this abnormality, the Company is seeing the anticipated underlying increase in the average ARR growth and reaffirms its management target of \$6m ARR for FY19 and \$12m ARR by FYE20.

CEO Update

After a strong performance in the December 2018 quarter (where ARR increased by \$1.3m) it was pleasing to see the Company continue the new business run-rate required to hit our target ARR this year. The amount of new sales this quarter equated to \$780,000, which is aligned with our yearly target of \$3m new ARR. The consolidation of focus in our key sectors of mining, wastewater and smart cities together with three project closures resulted in one-off attrition.

In September last year the Company took the strategic decision to stay very focused on the mining and odour-related industries and to test the smart-city market. This decision to reduce focus on the regulatory market in California was partly driven by the lack of uptake and use of the EVS platform by these regulatory clients. These clients did not utilise the platform's real time capability (ie within a few minutes of receiving data), only requiring data every few hours. This is due to the fact that they wish to perform quality assurance procedures on the data before release (due to the potential exposure to external litigation). Operating in this manner diminishes the power of the EVS platform as it is designed for the rapid assimilation of data followed by corresponding action in real-time. The Middle East regulators by contrast require information to be provided within 3-4 minutes of measurement. This one-off loss equated to half of the 9% attrition.

It is important to note that we will still work in the regulatory sector, but only where clients use the platform in real-time and where there is an overlap between the regulator and a need for a smart city functionality.

We were also impacted by three client projects coming to a conclusion or being halted for external reasons. This has happened occasionally in the past but not to this extent. These projects equated to another quarter of the attrition. When we started expanding internationally, we understood that the attrition rate would be higher for the first years of rapid growth as we decided to test the platform in different vertical industries. As we move back to our core focus areas we expect this rate to drop in the coming year.

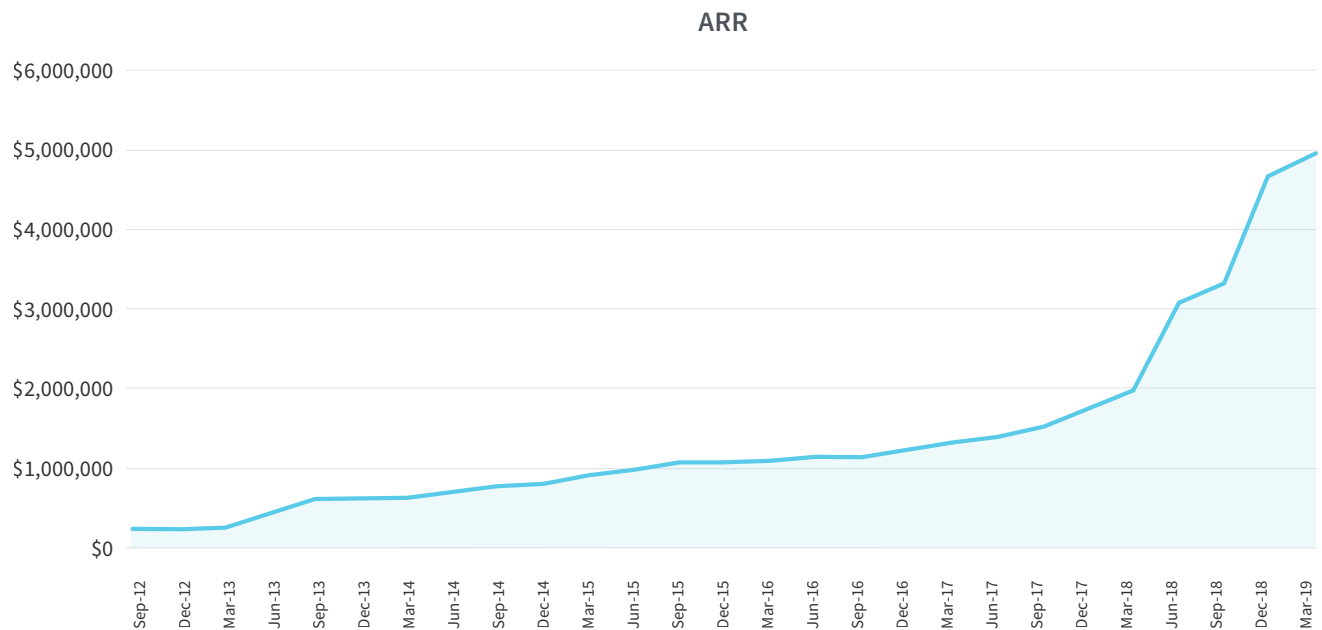


Figure 2: ARR Growth since FY13

As is seen from the graph above we have seen rapid growth over the past 7 quarters since the sale of the consulting business, and we are very focused on continuing this growth. We are maintaining our management target of \$6m ARR this year which has now been made much harder but which we believe is still achievable.

In other areas we continue to invest in creating a scalable Company. We have hired people in operations and support both centrally and in the regions to help improve our local response capability, and we now have all our operations teams reporting under a Global Operations Manager.

Likewise, we are now turning our focus to start again growing our market share in the local ANZ and then Asia Pacific market. We have hired local sales resources to perform this. We also expect to hire a new resource focused on strategic sales, being more complex smart city and multi-site (corporate) opportunities. We see these sales as a key driver for our growth next year.

During the Quarter we established an entity in Colombia to help us address the mining sector in Latin America. With offices in both Chile and Colombia we have a good geographic coverage across Latin America. I visited Colombia for the launch of the new entity and took the opportunity to visit our team based at the Cerrejon mine in northern Colombia. (Cerrejon is a JV between BHP, Anglo-American, and Glencore). The response from Cerrejon was very positive and their senior management there have agreed to be a reference for EVS within their three shareholder companies.

Overall the Company is adjusting well to the challenges that rapid growth in a global environment is creating.

R&D Update

R&D activities in the past quarter have included continuing work on a fast-solving complex flow model, machine learning techniques, and forecasting upgrades.

Our complex flow modelling capability is a hybrid technique and is a world-first technical development that combines two different but complementary modelling techniques. The result will enable Envirosuite to rapidly determine the likely source of a locally measured or reported air quality event in locations where there are complicated effects on the wind flow due to buildings or other obstacles. This method then sits seamlessly within a ‘standard’ wind field model that can cover a wider area, and the combined system operates in near real-time. It is ideal for situations where, for example, an industrial complex lies within a larger urban area where there are multiple sensitive locations and monitoring sites.

To date, the hybrid model has been executed successfully on initial test runs and work is being done to continue to test and refine it to ensure that it is robust and a fit for routine applications. We have been working with the United States EPA at an industrial complex to test both the ‘standard’ and hybrid model, with an expectation of more research-level collaborative work over the coming year.

The initial results have been very encouraging in terms of accuracy. Both our hybrid and standard methods are highly suited to the next generation (NextGen) of EPA industrial air quality regulation, which is aimed at fence-line detection and real-time identification of problem emission sources. This regulatory trend is very well aligned with the types of issues Envirosuite is well suited to, i.e., dust, odour and other so-called ‘fugitive’ emissions from stockpiles, wastewater ponds, landfills, mobile sources, agricultural spraying and industrial process leaks, etc.

We are continuing to explore the application of machine learning techniques to forecast air quality, and train electronic noses (e-noses) to identify specific odours. The work on e-nose fingerprinting is expected to accelerate in the near term.

Other recent work has been done on refinement of forecasting methods and work will begin in the next quarter on developing an automated validation process for our weather model applications.

Envirosuite Hardware

EVS world-leading Electronic Nose (e-nose) in Production

As noted in previous releases, EVS is delivering two major projects monitoring and controlling odour for government clients in the Middle East (Kuwait and Qatar). Odour impacts are commonly amplified by very high temperatures in this region. The client organisations routinely receive complaints from residents about odours escaping from sewer networks, agricultural and industrial activities.

For these projects EVS had created a prototype of a scaled-down version of the Odotech electronic nose (e-nose) and sensor product line. During the Quarter EVS has now moved into production of commercial quantities of these smaller sensors. These projects will be delivered in the next month, with the Kuwait project requiring 90 sensors, and the Doha project requiring 40.

These sensors will face rigorous environmental conditions in the Middle East, with temperatures in summer reaching 60 degrees Celsius, and with hazardous events such as dust storms also occurring. Once proven in these demanding conditions EVS will quickly move to supplying these sensors to its clients worldwide, particularly those in the odour-related vertical industries.

The Kuwait project will form a dense monitoring network which is a precursor to an environmental “smart city” allowing for monitoring data from multiple environmental parameters including odour, dust and noise.

The Qatar project requires sensors to be deployed at street level. To help protect these sensors EVS are supplying them within a bollard which is part of the normal streetscape.

Testing for both of the deployed networks is proving the sensors to be highly reliable for detecting the presence of harmful pollutants in the air and successfully showing high sensitivity to very low concentrations of odour. They are also providing reliable data collection and present valuable and actionable information to each client.



- 1** Extensively optimised for power efficiency, allowing for relatively small solar panels and form factor
- 2** Modular design allows variety of proprietary and 3rd party sensors to be included
- 3** Robust and specifically engineered to operate in extreme climates, -20C to +60C and allowing for easy to deploy packages, reducing installation costs and delays usually linked with construction approvals



Pole mounted e-nose unit



e-nose within bollard

Case Study

TATA Steel

Proactive air quality management solution implemented at Tata Steel

Tata Steel has an integrated steel production plant in Port Talbot, West Glamorgan, Wales, capable of producing nearly 5 million tonnes of steel slab per annum. The operation is experiencing operational issues related to dust, odour and noise management.

Environmental and community obligations must be met to enable the plant to keep operating efficiently. The Operations team at Tata Steel need a solution to proactively manage and drive improvement in the air quality impacts of their operations.

Sixty existing real-time air quality sensors and three weather stations around the facility have been installed and now feed directly into the Envirosuite platform. Data collected from this sensor network will be analysed by Envirosuite's unique solutions for air quality management.

The Port Talbot staff will be able to use predictive insights from the Envirosuite platform to prevent air quality issues occurring at their operation. Operational and Environmental staff at the site can now better manage the quality of emissions and improve the relationship between Tata Steel and the local community. We are excited about this project's potential to be replicated across many operations within the global steelworks industry.

About Envirosuite

Envirosuite Limited is an environmental management technology company that has developed a leading Solution-as-a-Service offering which translates data into action in real-time.

Using proprietary algorithms built on more than 30 years of environmental consulting experience, the Envirosuite platform provides a range of environmental monitoring, management and investigative capabilities.

The Envirosuite platform is used worldwide by a range of clients in the mining, water and waste management, heavy industry, ports and agricultural industry sectors and as well by governments looking to regulate industry in accordance with community well-being.

To learn more, please visit: www.envirosuite.com