

## QUARTERLY ACTIVITY REPORT & APPENDIX 4C: 31 DECEMBER 2019

### CURRENT HIGHLIGHTS

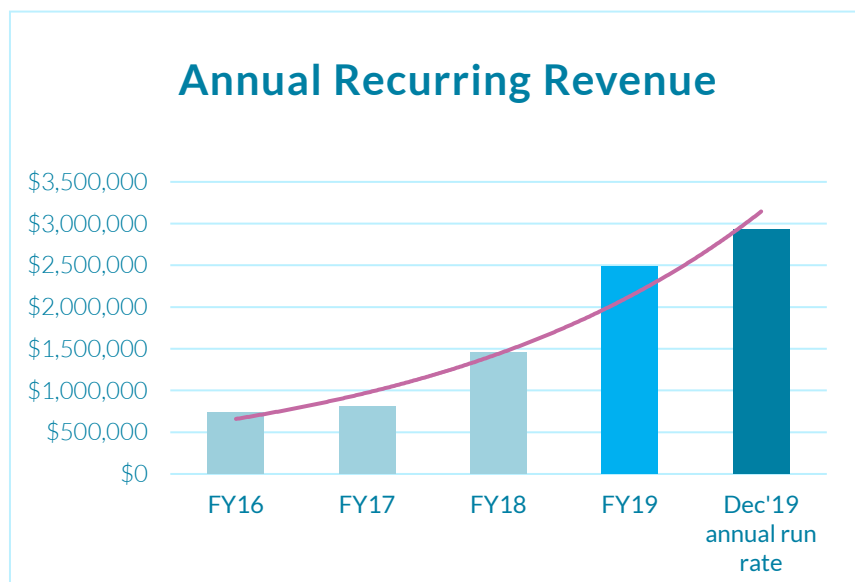
- **Recurring revenue model gaining leverage:** Knosys has a recurring revenue base of around \$3 million per annum as at December 2019 and therefore new customer acquisitions will ensure the Company is on the path to operational profitability.
- **Continued build of strong sales pipeline:** Knosys enters Q3 FY20 with a healthy sales pipeline with several enterprise level proposals under review and is focused on converting these into commercial sales in the second half.
- **Prudent cash management through the cycle:** Knosys' cash balance at the end of the quarter remains strong at \$2.8m placing the company in a good position for the remainder of FY20 and entering FY21. Knosys typically receives higher customer cash receipts in Q4 and Q1, due to large annual licence renewals, with lower receipts in Q2 and Q3. Positive net operating cashflow of \$807K in Q1 FY20 was offset by negative operating cashflow of \$886K in Q2 FY20 due to the timing of cash in-flows (\$0.5 million in cash receipts in Q2 vs \$2 million in Q1).

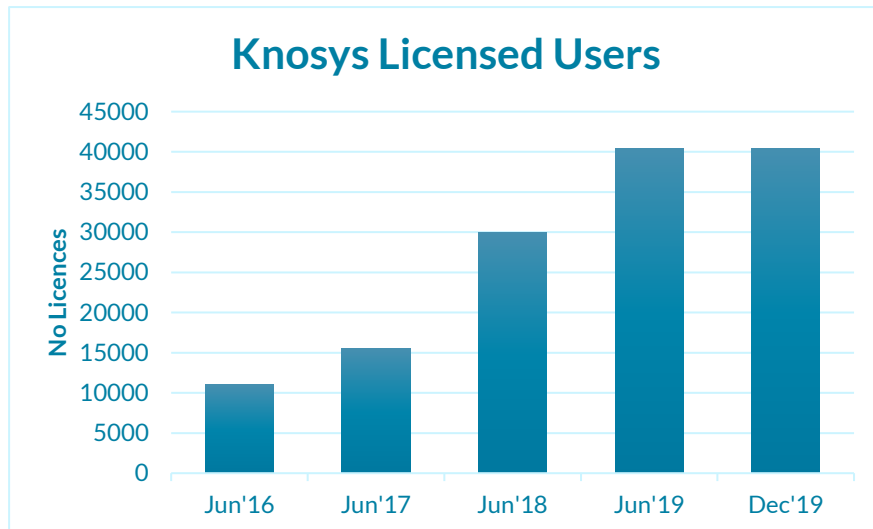
Knosys Limited (ASX: KNO) ("Knosys" and "Company") is pleased to report on its December 2019 quarter.

### Activity Report

#### Growth in Revenue Base and Licensed Users

The recurring revenue base increased 21% from December 2018 due to an increase in average price per licenced user in 2H FY19. The total license count at December 2019 was 40,470, up 5% over the same period. The annualised recurring revenue run rate stands at over \$2.9 million, and the Company is focused on building upon this in 2H FY20.





## Market Feedback

Over the past six months, we have increased our marketing activity through greater participation in a range of technology industry conferences in order to increase our brand awareness and explain our innovative technology solution. We continue to receive positive feedback that there is strong demand for knowledge management solutions amongst both Enterprise and mid-market companies who operate contact centres and support teams with the core value proposition being to enhance their customer's experiences and engagement.

Our target market includes companies in highly regulated industries, with dynamic information, that engage with customers through frontline and digital channels and we are looking to expand into new industry verticals in utilities, health and government.

Our new sales offices in Sydney and Singapore enable us to capitalise on opportunities throughout the Asia Pacific region. The new Singapore sales office will leverage the existing client base and actively pursue sales opportunities in Malaysia, Indonesia and Thailand and the Company is confident that there will be continued growth in this region in 2H FY20 and beyond.

## Sales Pipeline

The December quarter was very active in terms of new business opportunities both in the enterprise segment and the mid-market. The most active regions for us were Western Australia, Queensland and Singapore with several enterprise level opportunities transitioning through the pipeline into the proposal evaluation stage. Total pipeline opportunities have increased significantly compared to the previous quarter. The company is focused on generating new opportunities and converting those in the proposal stage to contracted sales in the next half.

Over the past six months, we have increased our marketing activity through greater participation in a range of technology industry conferences in order to increase our brand awareness and explain our innovative technology solution. We continue to receive positive feedback that there is strong demand for knowledge management solutions amongst both Enterprise and mid-market companies who operate contact centres and support teams with the core value proposition being to enhance their customer's experiences and engagement.

## Cash flow

The Knosys cost base is stable on a quarterly basis, however quarterly cash in-flows are cyclical due to timing differences in cash payments. In Q2 FY20, Knosys received \$0.5m in cash receipts from customers, principally from regular monthly invoicing activities. This is significantly lower than the \$2 million in cash receipts collected in the first quarter from large annual customer payments. Therefore, the positive net operating cashflow of \$807K in Q1 FY20 was offset by negative operating cashflow of \$886K in Q2 FY20. The cash balance of \$2.8 million as at 31 December 2019 is in line with the cash balance of \$2.9 million as at 30 June 2019, reflecting the focus of management on prudent cash management through the cycle.

Gross cash outflows included an increased spend on development, sales and marketing and wider regional activities, building off the new geographical foothold in Singapore. December quarter cash outflows also included \$100k of GST payments to ATO, relating to the large annual licence renewal revenues collected in the prior quarter.

The Company's revenue model has predominantly been based on billing customers annually in advance. This is reflected in the fluctuations in quarterly cash inflows. Higher customer cash receipts are typically received in the June and September quarters each year, due to large annual licence renewals, with lower receipts in the December and March quarters. The regular monthly licence and support fees from more recent larger customers provides some spread of cash inflows to Knosys across all quarterly cashflow periods. 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.

## Cash flow estimates

As required in Section 9 of the Appendix 4C, gross operating outflows for the March 2020 Quarter are estimated at \$1.25m, including continued investment for growth through sales and marketing activities and ongoing development expenses to enable integration and connectivity to major third-party platforms, such as Salesforce.

The Appendix 4C does not allow for estimates of operating cash inflows, however the Company estimates that gross operating cash outflows will be partially offset by contracted operating cash inflows in the March 2020 quarter of approximately \$0.4m, plus any new business cash inflows.

June 2020 quarter gross cash inflows from contracted monthly customer payments and the R&D tax refund are estimated to be approximately \$1.0m, with the potential for further upside from customer wins. In addition to this, contracted large annual licence renewals of over \$1.2m are due to be invoiced in May / June 2020, with payment due to be received in June / July 2020. June 2020 Quarter outflows are estimated to be in line with the estimates for the March 2020 quarter.

Knosys CEO John Thompson said, "We are continuing to execute on our four pillar growth strategy which includes new product development, greater usage from existing customers, new customers in existing markets and growth through acquisitions. We head into 2020 with confidence that this growth strategy will lead to new customer acquisitions through our healthy pipeline of demand for our unique knowledge management solution."

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## ABOUT KNOSYS

Knosys is a fast-growing Australian cloud software company that is simplifying enterprise knowledge to improve the productivity of employees and improve customer experience. Our KIQ Cloud service is the knowledge management platform transforming the digital workplace by ensuring all forms of knowledge are accurate, relevant to the user, compliant and easy to find. The KIQ Cloud knowledge management platform is intuitive and does the hard work. It uses the knowledge of real experts and the analytic power of machine learning to organise and share information for greater productivity. It is an organisation-wide solution for all industries, trusted by businesses and enterprises in the banking, telecommunications and government sectors.

For more information please visit: <http://www.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")**

31 December 2019

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	463	2,513
1.2 Payments for		
(a) research and development	(172)	(331)
(b) product manufacturing and operating costs	(107)	(199)
(c) advertising and marketing	(89)	(213)
(d) leased assets		
(e) staff and consultant costs	(678)	(1,379)
(f) administration and corporate costs	(351)	(530)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	12	24
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives (net)	36	36
1.8 Other	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(886)</b>	<b>(79)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(7)	(8)
(b) businesses (see item 10)		
(c) investments		

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
(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)		
<b>2.6 Net cash from / (used in) investing activities</b>	<b>(7)</b>	<b>(8)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	-	-
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	-	-
3.5 Proceeds from borrowings		
3.6 Repayment of convertible notes		
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (provide details if material)		
<b>3.10 Net cash from / (used in) financing activities</b>	<b>-</b>	<b>-</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of quarter/year to date	3,717	2,911
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(886)	(79)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(7)	(8)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	-

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>2,824</b>	<b>2,824</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	257	313
5.2	Call deposits	321	1,160
5.3	Bank overdrafts	-	-
5.4	Other – Term deposits	2,246	2,244
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>2,824</b>	<b>3,717</b>

**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

<b>Current quarter \$A'000</b>
107
-

Payments per item 6.1 include:

Non-Executive directors' and managing director's 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

<b>Current quarter \$A'000</b>
-
-

8. <b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	0	0
8.2 Credit standby arrangements	0	0
8.3 Other (please specify)	0	0
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. <b>Estimated cash outflows for next quarter</b>	\$A'000
9.1 Research and development	(150)
9.2 Product manufacturing and operating costs	(105)
9.3 Advertising and marketing	(90)
9.4 Leased assets	-
9.5 Staff and consultant costs	(665)
9.6 Administration and corporate costs	(225)
9.7 Other – Capex	(15)
<b>9.8 Total estimated cash outflows</b>	<b>(1,250)</b>

**Note:** Dec 2019 quarter estimated gross cash outflows are expected to be partially offset by estimated cash inflows from customers and grants of approximately \$0.4m.

10. <b>Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	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 January 2020

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.