

ASX Announcement

31 July 2020

June 2020 Quarterly Activity Report and Appendix 4C

Current highlights

- **Stable recurring revenue - annual run rate now at \$3 million**
- **19% year on year growth in licence and support fee revenues**
- **Positive net cashflow of \$0.4m for the June Quarter**
- **Strong cash position of \$2.3m at 30 June and \$3.7m at 31 July 2020**
- **Major \$0.8m enterprise contract awarded in June by ANZ Bank New Zealand**
- **Growth in sales by reseller Stellar, with first sales achieved.**
- **KIQ Cloud users increased by 500 in the Quarter from new mid-market customers**
- **Lower cost base in the June quarter**

Knosys (ASX: KNO), a leader in software as a service (SaaS) knowledge management solutions is pleased to provide its June 2020 quarterly activity report and update on the Company's operations, business and funding in the full context of the COVID-19 environment.

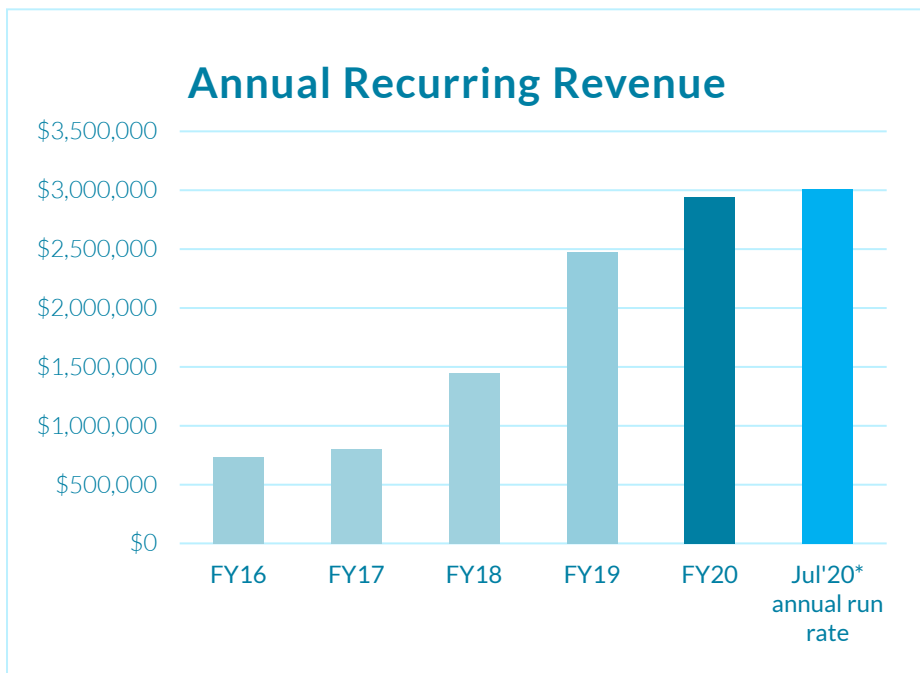
Knosys has continued to prioritize the safety and wellbeing of its staff and customers and the business has now settled into its remote working operating model. The Company continues to deliver its services to existing and new customers in a seamless manner without disruption, whilst managing the safety of its dedicated team of employees.

Business performance and market conditions

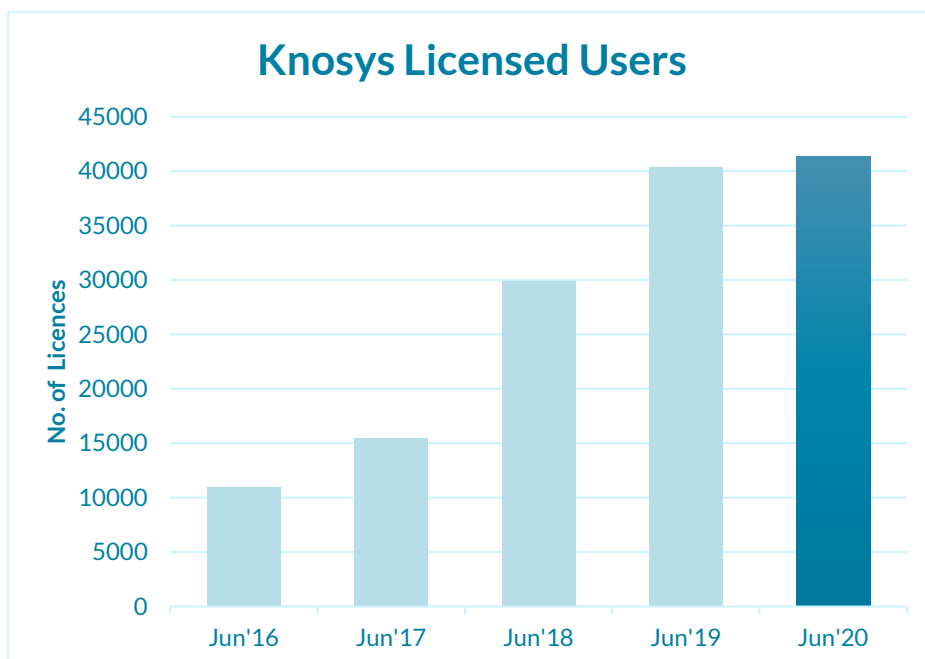
Knosys has continued its track record of delivering a stable and growing base of recurring revenue. The Company achieved a 19% year on year increase in licence and support fee revenues for the year to 30 June 2020 and currently has an annual run rate of \$3million, principally from long term enterprise customers on multi-year contracts.

In June Knosys announced the new substantial professional services contract with ANZ Bank New Zealand to deploy a standalone KnowledgeIQ system in country. This project commenced in June 2020 and project revenues of approximately \$0.84m are expected to be earned over a 9-month project period.

New business growth for the year was slower than anticipated due, at least in part, to potential customers deferring decisions or stalling projects in the second half of the year in light of the global pandemic. The business is however well insulated from the current unprecedented situation, is trading well and anticipates exiting this period as a stronger business.



* Jul'20 annual run rate is calculated as contracted licence and support fee revenue for the month, multiplied by 12.



The Company is well positioned to capitalise on the new paradigm of ‘working from home’ which it believes will continue in one form or another post-COVID. It believes its vision to be a significant SaaS information management company, delivering solutions designed to connect and engage employees and improve customer engagement is the correct growth strategy during this period and the future. Knosys therefore continues to focus on product innovation to support existing customers and attract new prospective clients.

Knosys has also intensified its scan of the market for additional SaaS businesses to acquire with complimentary offerings which tie into its vision. Whilst no prospect to date has met Knosys’ criteria, the company continues to evaluate opportunities. Interest from potential counter parties continues to be quite steady, perhaps because of pressures resulting from the COVID 19 pandemic.

Marketing activities

Knosys is currently investing in two key areas to support what it believes will be an extended COVID business environment which limits traditional in-person marketing activities. These include:

- Articulating the Knosys brand in a way that makes the brand stronger and its offer more distinctive. In the current environment, potential clients are scanning the market virtually entirely by digital means; brand awareness and the ability to articulate a winning value proposition is even more critical in driving new business.
- Developing a 12-month accountable marketing and content strategy for internal sales, channel partners, advertising and digital channels. The outcome from this work is to ensure the Brand story, elevator pitch and key messages is communicated with credibility and clarity across all marketing elements.

Other more traditional sales and marketing activities have been reduced or deferred due to the restrictions in place in the current environment.

Sales pipeline

The June quarter was active in terms of new business opportunities both in the enterprise segment and the mid-market. Knosys' new reseller, Stellar, was onboarded during the quarter and achieved its first sales through its sales channels. In the enterprise space the Company progressed discussions with two major prospects (banking and financial services) to commence pilots in the new financial year as means to evaluate the KnowledgeIQ platform for potential future deployment.

During the quarter in the mid-market, the Company onboarded a local government council and an Asia-based logistics company to our KIQ Cloud platform. Interest from potential customers is reasonably active despite the COVID 19 pandemic tending to delay purchase decisions. Knosys has witnessed a general increase in mid-market opportunities and been advised by several prospective customers that they will go to market in the new financial year to procure new knowledge management solutions.

Future focus

The Knosys Board and Management team are focused on continuing to build Knosys' position as a leading SaaS information management provider by achieving several important goals over the coming year:

- Grow organic revenue to \$5m in next 12 months
- Achieve a break even and cash flow positive position by June 2021
- Potential strategic acquisitions where they make sense
- Transition into a multi SaaS offering business

Appendix 4C cashflow report - released with this activity report

Knosys reported a positive cashflow for the June 2020 quarter. Net cash from operating activities for the quarter was an inflow of \$0.4m. The company had a healthy cash balance at 30 June 2020 of \$2.3m. This balance increased strongly to \$3.7m at 31 July 2020, due mainly to the receipt after year-end of over \$1.3m in contracted annual licence renewals.

During the quarter Knosys received \$0.6m in cash receipts from customers, comprised of \$0.44m in licence and support fees and \$0.16m in project revenues. These receipts were supplemented by government grants and assistance totalling \$0.7m, consisting mainly of an R&D tax rebate of \$0.6m with the balance being government assistance related to COVID 19, in the form of a Victorian payroll tax rebate and a Federal Government cash flow boost.

Gross cash outflows for the quarter included continued spend on research and development and sales and marketing initiatives. However, Knosys has cost-managed certain expenditure, such as reducing personnel expenses and marketing and travel activities to levels below previous quarters.

Cash outflows relating to the company's head office lease in Melbourne are accounted for in the Appendix 4C in accordance with AASB16, with the gross payments to the landlord treated as a financing activity. The interest paid component is disclosed in Cash flows used in operating activities and the repayment of liability component is disclosed in Cash flows used in financing activities.

The aggregate amount of payments to related parties, as disclosed in item 6.1 of the Appendix 4C, is comprised of director fees paid to the two non-executive directors and salary payments to the managing director, in accordance with contractual arrangements.

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 invoicing of licence and support fees for some large customers provides some spread of cash inflows across all quarterly cashflow periods. The appropriate portion of revenue from licence fees invoiced annually in advance is recognised each month in the financial accounts as revenue is earned evenly over a 12 month period.

Moving forward in the current climate

"The extended COVID environment has meant a paradigm shift towards remote working. As a result, demand for knowledge management has increased markedly. We aim to capitalise on this by driving new business initiatives and investing in the Knosys brand proposition over the coming 12 months," said Knosys Managing Director, John Thompson.

"In terms of existing customers, we continue to see strong engagement and remain confident that Knosys provides an important solution for companies seeking to manage their workforce and workflow more efficiently," said Mr Thompson.

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 solution 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>

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Knosys Limited

ABN

96 604 777 862

Quarter ended ("current quarter")

30 June 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	640	3,549
1.2 Payments for		
(a) research and development	(137)	(597)
(b) product manufacturing and operating costs	(103)	(417)
(c) advertising and marketing	(77)	(419)
(d) leased assets	-	-
(e) staff costs	(478)	(2,495)
(f) administration and corporate costs	(128)	(804)
1.3 Dividends received (see note 3)		
1.4 Interest received	6	43
1.5 Interest costs – ROU Lease liability	(5)	(20)
1.6 Income taxes paid		
1.7 Government grants and tax incentives	688	724
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	406	(436)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(23)	(31)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
2.2 Proceeds from disposal of:		
(a) entities		
(b) businesses		
(c) property, plant and equipment		
(d) investments		
(e) intellectual property		
(f) 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)		
2.6 Net cash from / (used in) investing activities	(23)	(31)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)		
3.2 Proceeds from issue of convertible debt securities		
3.3 Proceeds from exercise of options		
3.4 Transaction costs related to issues of equity securities or convertible debt securities		
3.5 Proceeds from borrowings		
3.6 Repayment of ROU lease liability	(28)	(109)
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (provide details if material)		
3.10 Net cash from / (used in) financing activities	(28)	(109)

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	1,980	2,911
4.2 Net cash from / (used in) operating activities (item 1.9 above)	406	(436)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(23)	(31)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(28)	(109)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,335	2,335

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	219	63
5.2	Call deposits	620	421
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	1,496	1,496
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,335	1,980

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
107
-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Quarterly cash flow report for entities subject to Listing Rule 4.7B

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other Right of Use lease liability (AASB16)	338	338
7.4 Total financing facilities	338	338

7.5 **Unused financing facilities available at quarter end** -

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	406
8.2 Cash and cash equivalents at quarter end (Item 4.6)	2,335
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	2,335
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	n/a

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: n/a

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: n/a

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: n/a

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.

Date: 31 July 2020

Authorised: By the board

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.