

## ASX ANNOUNCEMENT | MANALTO LIMITED

12<sup>th</sup> January 2017

### Report to Shareholders

At the Annual General Meeting (“AGM”) held on the 15<sup>th</sup> November 2016 for Manalto Limited (“Manalto” or “the Company”), the incoming Chairman Jim McKerlie (“the Chairman”) announced that the new board would:

- Lead a review of strategy, structure and operations
- Finalise commercial priorities for 2017
- Determine resource requirements
- Develop and propose an appropriate remuneration and incentive scheme for the management and executive team for 2017
- Determined funding needs
- Corporatise the operation model needed to support rapid growth

During December three Board members attended a company-wide strategic offsite in Washington DC, interviewed the global executive team, met with U.S. based team members, visited major strategic partners, met with corporate, legal and tax advisors as well as U.S. based capital market firms. This was an extensive review of the business and the environment in which it operates.

The Chairman separately spoke with several of Manalto’s key shareholders providing him with an understanding of their expectations and assessment of the Company’s performance.

This report summarises the key findings of the review and announces some immediate changes in the operation of the Company. This review has provided a roadmap for future developments and the immediate focus required.

The Board also recognises that previous communication and reporting may not have provided the clarity and insight required, given the complexity and rate of change of the industry in which Manalto operates. This report is intended to be a “plain English” report presented as a narrative, allowing shareholders to understand and assess the industry and opportunity.

#### Key Findings and Changes

##### 1. Social Media and businesses

The starting point of the review is to examine the ever increasing business opportunities evolving from the growth in social media. Is the Company pursuing a potentially profitable space?

There have been several significant game changing events in the history of communication. The Heidelberg press took the written word and by mass producing books, provided a base for universal education and learning. Gramophone and film provided a recorded library of entertainment content (previously the domain of live performance) that enlightened people everywhere and promoted the understanding of different cultures and ways of life. The telephone allowed the transmission of content (data [Morse code initially], voice and video) over distance, separating communications from transportation (i.e. rail, road, horse and ships carrying the mail) and allowing business to operate at a much faster pace.

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The most recent game changer is the Internet, which has created the “networked world” with the explosion of digital assets and the emergence of new community publishing platforms called Social Media.

Social Media provides scalable and accessible publishing that creates an enormous amount of online content. A fundamental change is the nature of content distribution which has gone from a one-to-many basis (e.g. television and print media) to a many-to-many basis, thereby democratising information and creating free commentary and new personal, business, community and political relationships.

Further to this, the Internet of Things, with the multiplicity of increasingly intelligent devices, is dramatically expanding the networked world, to the point where people can be online wherever and whenever they want. Smart devices themselves are now beginning to create content (such as a smart appliance, indicating which contents are running low in the refrigerator, where the best deals are to buy them and what other customers think of those suppliers).

Major social media publishing platforms include Facebook, YouTube, LinkedIn, WhatsApp, Twitter, Instagram, Snapchat, Pinterest and Tumblr, with new arrivals adding to this list regularly. More critically, social media has an exploding number of users. In 2010 it was estimated that there were just under 1 billion social media users in the world. In 2017 this has risen to 2.5 billion and is expected to exceed 3 billion users by 2020.

Facebook is experiencing enormous growth in the registration of Facebook Business pages, now surpassing 50 million registered pages. In excess of 5 million new business pages were added in the last quarter of 2016, with approximately 70% of Facebook users now connected to at least one Facebook business page.

The power, reach and economics of social media is becoming increasingly recognised by businesses as a core part of their marketing strategy. Spend on social media marketing is growing rapidly and in the U.S. it is estimated to be US\$13.5 billion in 2017. Beyond what is being spent on paid social media, social media platforms are being used to inform, engage, influence and access consumers, suppliers, regulators, policy makers, employees and investors.

The power of social media as a mainstream communications tool is well illustrated by two well-known political examples. Firstly, President elect Trump is significantly influencing America and the world from his Twitter account. Secondly, the use of social media in assembling and leading the disparate peoples across the Middle East during the Arab Spring uprisings. These are just two examples, and the opportunities for businesses to engage customers is equally obvious.

Whilst finding and influencing customers has been the initial focus of businesses using social media, the growing volume of traffic is allowing companies to use social listening tools to assess the sentiment of the commentary within their community and enable businesses to react accordingly. This is a powerful litmus test of customer feelings towards a brand and it is to be ignored at a business' peril.

The ‘management’ of social media is however a very new business process. The world is starting to recognise the power and importance of big data, data science and web analytics, but social media management is still considered by many to be the domain of millennials. In reality, it is a new management process and like all other business processes it can be refined and improved to better achieve business objectives.

Organisations are acquiring and developing a greater number of social media assets i.e. pages and accounts on social media platforms. It is not uncommon to see large, decentralised businesses supporting (badly in many cases) thousands of social media assets across their organisation. Social media marketing has advanced from being a fringe activity to a central part of any marketing plan.

Furthermore, social media is increasingly being used in other operational areas of a business, including customer service and employee engagement. The growth in the number and diversity of social media assets creates many business challenges including:

- Taking a significant amount of effort and resource to manage publications across social media pages, a cost that is not easily measured, is often underestimated but is definitely there

- Allowing deviations in brand representations and variations in messaging
- Providing difficulty in analysing the results of social marketing activities, rather than producing real time analytics
- Allowing poor content that fails to build awareness and engagement
- Without a governance framework there is no quality control on timing and placement of postings
- Failure to measure what is and isn't working and as such not getting the best ROI possible
- Without social listening businesses are missing the opportunity to actively listen to community dialogue and responsively engage in the conversation.

The business case for managing social media is clear, yet very few business managers have implemented any management process over their social media assets, despite the growth in their social media pages.

***The opportunity is enormous and first mover advantage is extremely valuable as the social media management solution that is first installed will be very sticky in most businesses. This space provides the Company with enormous opportunity.***

## 2. SaaS, Cloud and business?

There is a seismic change in the software industry as software users move to Software as a Service ("SaaS") as a more reliable, cost efficient and convenient way to procure and manage software. The success of Microsoft Office 365 as a SaaS product along with the enormous growth of many other software tools provided as SaaS products is evidence of this. Over 50% of software products now offered are done so as SaaS, and this percentage will continue to increase.

For SaaS to be possible there needs to be the cloud from which it is supported. The growth in cloud providers means now, in addition to software being provided as a service, infrastructure and many other forms of services are also being offered. The cloud has replaced the bricks and mortar based providers of IT products and services. The Cloud retailer industry achieved global revenues of US\$148 billion in 2016, a 25% year-on-year growth. Of this SaaS contributed US\$40 billion, representing 34% year-on-year growth.

This changing landscape has led to the disintermediation of some businesses, the transformation of others and the creation of new ones, all in the scramble for positions in the new cloud industry. The cloud industry is falling into the natural industry structure of manufacturers, wholesalers, retailers and consumers. This shall be referred to later in this report.

***SaaS as a media and the cloud industry is the undeniable future in software provision and the Company is a leader in the field.***

## 3. Product

The Company has developed two powerful social media management tools that have been strengthened and made more robust, particularly over the last six months. These are:

- Manalto's Enterprise Solution*** - a social media management tool aimed at organisations that have a centralised marketing function and a large number of distributed outlets, typically but not exclusively franchise systems. The Enterprise Solution targets organisations with 50 or more digital assets and at least 20 users.
- Sóshlr*** - a SaaS (Software as a Service) product designed for SME businesses who might have up to 50, but typically 10 to 20 digital assets and about 5 users.

There is a great deal of work being undertaken to further enhance these products including unique integrations with major software houses as follows:

- Microsoft Office 365 integration with Sóshlr. The Microsoft Office suite of products has been available under a SaaS platform for some time and the global business community is switching from MS Office to the cloud based Office 365. As the dominant SaaS product Office 365 has a commanding position on the desktop real estate of computer users around the world.

The Company has successfully integrated the SME Sólshlr product into Outlook which allows a user to see the social media activities from Outlook's Calendar. Development is continuing on this integration and in the near future users will be able to post directly from Outlook. It is also planned to integrate Office 365 with the Enterprise Solution in 2017.

This is a major point of difference to our competitors. Sólshlr is currently the only social media tool that has Office 365 integration.

- For many years IBM have been building an Artificial Intelligence system called Watson. This is a massive knowledge base that draws from information portals, web sites and digitised content. Watson is more than interpretive and predictive, it is cognitive and is an extremely powerful piece of software. This means it can understand the context of the information it accesses. AI is the major development in the IT industry and its use will have profound impact on business productivity. This is a major step up in functionality (i.e. it is significantly more powerful than Siri on your iPhone)

By March of 2017 Manalto will have integrated both the Enterprise Solution and Sólshlr with IBM Watson, which will give the Company's customers the opportunity to manage their social media campaigns and programs around a wealth of data. This, for example, would let a national clothing supplier to run a campaign in each regional area which offered pricing specials for items that people would want to wear that day based on the weather i.e. raincoats where it was raining, swimsuits where it was sunny, school uniforms where kids are going back to school and so on. Furthermore, the available analytics provided by IBM Watson combined with the social media platform analytics available in Manalto's technology would deliver valuable results of such a specific campaign, enabling management to measure and evaluate the ROI on each activity and campaign.

The further product enhancement is the integration of additional social media platforms is planned. These include, but not limited to, Instagram, Pinterest, YouTube, WhatsApp, Tumblr, LINE and kik.

***The two offerings Manalto has are already very competitive in the market place, and the integrations with Office 365 and IBM Watson provide significant feature enhancements. These two integrations are exclusive to the Company and make our offerings unique in the market place. Product distributors and end users are recognising the powerful advantages this offers.***

#### **4. Direct Sales Channel (Enterprise Solution)**

Manalto's Enterprise Solution is sold directly to larger groups like franchise systems, media companies and chain stores. There have been meaningful sales in recent months as the long sales cycles have come to fruition. Enterprise clients include The Dwyer Group, Rainbow International, The Grounds Guys, Mr Electric, Mr Appliance, Glassdoctor, My Rooter Plumbing, Airserv, The Woodhouse Day Spa, Travel Counsellors, Hairhouse Warehouse, ShowHomes, Mosquito Joes, Bush's Chicken, Go Vita, SafeWay all from the USA and Ray White Real Estate and Kwik Kopy in Australia. The pipeline of opportunities is growing and the Company is building a valuable base of reference clients and testimonials. Key aspects of the business model for the Enterprise Solution are:

- Direct sales of the Enterprise Solution are higher value and higher margin but require more "boots on the ground" resources and have a longer sales cycle.
- Enterprise Solution sales has a more intensive support and account management model.

***The Enterprise Solution was the original product offered by the Company. It took a back seat during the development of the Cloud distributed Sólshlr SME product but it will benefit enormously from the IBM Watson integration and has a significant future to play in the Company's service offering. A critical mass of clients has been achieved and can be built on.***

#### **5. Cloud Distribution Channel (Sólshlr SME)**

Identifying the opportunity provided by SaaS and the cloud, the Company developed the SME product called Sólshlr. A great deal of resources and commitment have gone into this part of the business. The balance of this section 5 describes the structure of the newly emerging cloud industry.

- The Company's role in the software supply chain is as a product designer and developer (the **manufacturer**).

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- The Company has established impressive distribution arrangements with cloud platform providers (the **wholesalers**). These businesses are not household names but in the software world they are the new gatekeepers. This is a relatively small number of organisations which have built massive server farms to create the cloud and house the myriad of applications being sold through the cloud.

The Company is currently integrated with Ingram, Odin, App Direct and WHMCS which gives geographical presence in North America, Europe and Asia Pacific. Plans are in place to build relationships with Rhiper, Synnex, AWS Market Place, Apple, IBM, Google Market Place, Tech Data, Connect Wise, Ensim and Microsoft Azure. This would cover the major cloud platform providers in the world. Observers predict some level of consolidation in this space as economies of scale is a major competitive advantage. The Company is picking its path through this world with care. As an end user we tend to simply think of the cloud as some omnipotent force that seamlessly provides what we want on demand. In reality behind the cloud is massive resource and capacity. (Consider a young child who looks at an ATM machine as the source of all their needs. Behind this point of sale interface sits a massive amount of infrastructure, commercial partnerships, products, governance and regulation. So it is with the cloud).

- These wholesale cloud platform providers need **retail partners**, like national supermarket chains, who have relationships with the consumer (the final end user of the software). The retail partners operate cloud retail stores by accessing the cloud platform provider's server farms, selecting what solutions they wish to offer to their customers and providing the selected offerings using a "white labelled" service provided by the cloud platform provider.
- The Company has retail relationships with Telstra (Australia), Luxcloud (Europe), Readyspace (Singapore), Site Dart Hosting (USA), Globe (Philippines), Dustin (Sweden), Blacknight (Ireland) and Plesk (Global). Significant activity has been and will continue to be underway to grow the number of retail partnerships.
- There are generally four types of businesses that are opening cloud retail stores:
  - i. Hosting companies who already offer online services like domain name registrations, web building tools, hosting services and security products e.g. Melbourne IT with its SME and Enterprise Cloud offerings. Hosting companies are in the online space already so adding SaaS products is a logical development for them.
  - ii. Telcos have added SaaS products to the online stores they have established e.g. Telstra and its Apps Market Place
  - iii. Major software houses whose brand position is substantial enough to warrant their own cloud store e.g. Apple, Microsoft, IBM and Google.
  - iv. Existing value added resellers who in the past provided hardware, software, support and maintenance services directly to the business community e.g. Computer Services Australia and its RedSky cloud offering).
- A cloud store retailer must determine which products it will sell and part of Manalto's job as the manufacturer is to make sure its product is "on the retailer's shelf". Significant effort is going into this activity as the number of cloud retailers signed up by the Company grows.
- Building the cloud distribution channel therefore involves integrating product into the cloud platform (i.e. wholesaler), and then signing up retail partners (e.g. Telstra) to place it in their cloud stores to be sold to the end customer.
- By doing this Manalto creates an addressable market, i.e. the number of customer that can be reached through this distribution system or to be more exact the number of customers a cloud retail store has. The Company's estimated addressable market is currently approximately 15m SME's with Manalto targeting an addressable market of 75 million SME's by the end of 2017.
- Importantly the Company offers the only Social Media Management Tool that has been certified and integrated with the major global cloud platform providers and is available in cloud stores and as such the Company has secured first mover advantage.

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- The Company recently commenced making sales of Sóshlr to end users through cloud stores retailers which have only gone live in the last month. It is however at a very embryonic stage. The integration with the cloud platform providers has been a critical step in building a cloud distribution channel, but the Company cannot make sales directly from this milestone alone. The addition of the agreements with cloud retail stores takes it a significant step closer to sales and as these have come on stream, sales have commenced.
- The Company is targeting to sell 1,000 Sóshlr licences in calendar Q1 2017 and in excess of 200,000 by the end of calendar 2017.
- The Company's focus to date, however, has been on building the size of the cloud addressable market. There have not been enough resources devoted to activating end users to achieve sales. This has been the correct focus to date as the distribution channels have had to be in place before end user sales can be made. This focus however is about to change.

***The creation of a cloud distribution channel has been a major accomplishment for the Company and is an extremely valuable asset given the seismic change in the software industry. We must now take advantage of it.***

## **6. Positioning, Marketing and Customer Support**

The challenge for Sóshlr to be addressed now is to enhance the strategy for driving sales from the cloud stores (retailers) for Sóshlr sales i.e. how to monetise the substantial and growing addressable market that has been achieved.

Strategies will include pull strategies bringing users into cloud stores to purchase Sóshlr. This is going to involve building a brand presence in the business community supported by search, social media and a broader digital footprint. There will also be push strategies where the Company will work with partnered resellers of cloud stores on placement strategies, sales incentives, product promotions, information and sales collateral, all designed to shift the product out to the end users.

The cloud distribution channel is relatively new and retail strategies are still to be developed and tested. However, it is clear bundling of products will be a valid retail strategy as an end user who is picking product from a list, if offered a bundle is more likely to be the bundled offering than select the products if offered individually. Consequently, Manalto is working on bundling opportunities.

The Company is at the stage where it needs to significantly elevate its digital footprint and social media presence. It has established a very good cloud distribution channel and will continue this effort over the medium term. However, it now needs to monetise the addressable market and a substantial ramp up of digital marketing is the way this will be done.

Our unique product enhancements (from Microsoft and IBM) give rise to opportunity to provide thought leadership in social media management. White papers and presentations will provide valuable positioning of the product within both the cloud platform and cloud store sectors of the supply chain as well as build profile in the broader business community.

With respect to Enterprise Solutions, Manalto needs to grow the sales force that services this segment. There are significant opportunities in the US where franchising and chain stores are a key part of the business environment. This is low hanging fruit and the good early success achieved will be followed up. In addition to the US market the Enterprise Solution has major relevance around the world and plans have been developed to build the US success and expand into other territories. Once a volume of end users (of both products) are generated the need to provide a strong level of customer support becomes paramount.

Acquiring customers is one half of the battle, minimising churn is the other. The first level of responsibility to support customers lies with the cloud stores. This is covered by the revenue share the Company gives to them. However, having manufactured a technical product it is the Company's responsibility to not only provide training and education to our partnered resellers with cloud stores, but to sit behind their support teams when dealing with more complex and difficult end user problems.

A full customer support team has been established in South Africa alongside the development team. Experienced management and a systemised, automated, agile and responsive team is in place to provide this function to all global users. Further recruitment and training of people is scheduled for early 2017. South Africa provides strong advantages with a sophisticated work force and a competitive cost structure. The placements of both the development team and client service and support team in South Africa is a source of competitive advantage.

***The Company has established a strong client service team and is actively working to build this up to industrial strength to take the load that will come with much higher numbers of end users. This is an area where the Company needed to invest slightly ahead of the curve to be ready for the growth is end users.***

## **7. Management**

The Company has experienced dramatic growth and in a very short period of time has developed a global footprint, a unique cloud distribution channel, and robust and relevant products. Success is now in front of the Company but the right plans and the right people in the right positions are needed.

Above all else time is the enemy in that a first mover advantage always has a short shelf life unless it is used to build a significant market position of strength.

Key management roles have been identified but it is acknowledged that the process of finding and placing senior people takes time and as the Company's needs are immediate two directors have stepped in with immediate effect.

Chairman Jim McKerlie has agreed to take an Executive Chairman role over the next six months to provide assistance to Managing Director Anthony Owen and allow him to focus on driving revenue.

Jim has extensive experience in running international software development businesses, digital marketing, capital management and business development.

Director Paul Gardner has agreed to provide his marketing, advertising and activation expertise over the next six months to move the company forward. Paul has an impressive career in advertising, marketing, branding, activation and business management. He will work with the existing marketing team on the pull and push sales strategy.

A robust and focused plan has been developed and accountabilities put in place. This has created a very sharp focus on revenue generation with the internal motto of "we are transforming from a manufacturing company to a marketing company".

***The Company has the benefit of a new directors which now gives the board depth and diversity in the areas very much needed by the Company. Management is strengthened with the shorter term greater involvement of two directors.***

## **8. Capital Management**

The company commenced a small capital raising late last year and this will shortly be completed. The intention was to provide the working capital needed until the new board could complete this review and determine a capital management strategy including assessing mid-term needs.

The Board is actively pursuing a range of longer term scenarios and will inform the market when these considerations are fully assessed.

Part of the plan for the next six months is to review the employee incentive scheme. The number of staff is growing and the management and retention of talent is a board priority.

***The Company will not reach positive cash flow in 2017 but under the plans put in place substantial revenue growth is expected on a quarter by quarter basis. Capital management consequently is a major priority.***

## **9. Conclusion**

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This review was undertaken to assess all elements of the business including the industry, software, team and commercialisation strategies.

Whilst the new board acknowledges the significant amount of work required to execute the commercialisation plan in place, it is excited by both the size of the opportunity and the quality of customers, partners, re-sellers and integrations now seeking to enter agreements with Company.

There are a number of key, but significant reasons, why the opportunity in front of Manalto remains so compelling which include:

- Social media for business continues to exponentially increase
- SaaS continues to exponentially increase
- Manalto is the only cloud enabled (certified) social media management tool
- Manalto is able to operate at scale
- Manalto is the only social media management tool integrated with Office 365
- Manalto is the only social media management tool integrated with IBM Watson, the most powerful artificial intelligence machine in the world
- Key re-seller partnerships are in place
- Existing est. addressable market increasing from 15 million SME's to 75 million SME's
- Continuing adoption of the Enterprise product

The board will continue in execution of the Company's commercialisation strategies and will update shareholders of all significant developments. 2017 will be a transformational year for the Company.

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#### **About Manalto Limited**

Manalto Limited (MTL.ASX) is a U.S. based global provider of cloud social media management solutions. Manalto's proprietary software delivers capability for the streamlined management of social media at scale – including controls to support organisational brand management, reputational risk management and efficiency in managing users, community engagement and analytics. An enterprise can centrally publish content and update brand assets across hundreds of its organisation's social media pages spanning multiple platforms – in just one click. Manalto offers a direct-to-market Enterprise Solution and a Business Application for Channel Partners to offer to SME's – 'Sóshlr'. Manalto is headquartered in Washington, D.C. with offices in the Netherlands, Australia and South Africa, and supports channel partners and customers globally.

For further information visit [manalto.com](http://manalto.com)

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