

**ASX ANNOUNCEMENT**

30 April 2018

**Market Update on Commercial Sales Pipeline and Announced Contracts**

“Virtual Mobile Communications” pioneer Norwood Systems Ltd (Norwood or the Company) (ASX: NOR) is pleased to provide an update on prospective and existing clients, strategic go-to-market partners and technology partners.

Norwood has achieved significant client progress in 2018 across its targeted key segments: Virtual Business Mobile Services (VBMS), Compliance, CRM, Cyber Security and Loyalty, with pipeline and contract negotiation activity advancing robustly in all segments.

**Introduction**

Norwood reports quarterly cash flow reports in accordance with ASX listing rules. For the past three quarters (i.e. nine months ending 31 December 2017), cash receipts from customers have averaged approximately \$60k per quarter. For the three months ending 31 March 2018, cash receipts from customers will be in line with this average at approximately \$57k.

Norwood acknowledges that shareholders would like to see cash inflow increase and management is focused on delivering improved results.

Accordingly, Norwood is focusing on building revenue-generating channel partner relationships, focusing on securing more cash flow upfront at contract commencement (in line with commercial SaaS billing conventions) and developing a sales pipeline that can support forward revenue expectations.

Norwood is pleased to provide further detail below for existing contracts and progress with major prospects and partners.

**Contract, Pipeline and Partner update**

**Oracle – strategic partnership**

Norwood has been developing a strategic relationship with Oracle over recent quarters, resulting in deep engagement with Oracle’s cloud sales and FinTech Sales teams, predominantly in the US and UK. Late last year, Norwood participated in a competitive screening exercise, run by Oracle’s North East US FinTech sales team, where up to 16 companies were invited to pitch their offers. Norwood was selected as one of the participants who were invited to enter into deeper “onboarding” activities with this sales organisation so that integrated offers could be presented to Oracle’s client base.

Norwood is pleased to advise that it has successfully completed the “onboarding” phase with Oracle’s North East US FinTech Sales team. As part of this onboarding, the Company has also achieved a new, major integration milestone with Oracle, by publishing Norwood’s real-time mobile voice recording & transcription Application Programming Interface (API) in Oracle’s Open Banking “APIary”.

As part of this onboarding activity, Norwood has been working with a potential new partner (an established AI specialist, introduced to Norwood by Oracle), who has used Norwood’s new published APIs to acquire metadata, voice recording and transcripts of World App mobile conversations in real-time, returning a detailed sentiment

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analysis of each conversation, which Norwood's Corona CRM platform then delivered back into Oracle's Sales Cloud CRM.

This "round-trip" real-time voice capture with associated sentiment analysis can be carried out live and in near-real-time. Norwood considers this to be probably the world's first example of mobile conversation capture coupled with real-time industrial strength sentiment analysis.

This capability has now been demonstrated several times to key Oracle stakeholders in the US over the past two weeks and is currently planned to be submitted as part of a response to a recently issued Request for Proposal from a UK-based utility provider, specifically requesting mobile sentiment analysis.

Norwood has also been invited by Oracle to showcase this capability at the upcoming Oracle OpenWorld 2018 event in San Francisco.

Advanced sentiment analysis on mobile calls and messages is a highly significant and valuable capability. Chief Marketing Officers for example can derive real-time measures of customer satisfaction for interactions with field personnel to immediately identify and rectify any "hot-spots" of poor customer service within their field sales and service teams.

Norwood is now actively working with Oracle's sales organisations on three continents and as noted above is seeing evidence that Norwood's propositions are being bid into live sales opportunities by Oracle's sales organisation.

#### **JMP – contract announced January 2018**

The Company is pleased to note that the San Francisco-based investment bank JMP Securities LLC has accepted delivery of the initial "Phase 1 Deliverables" comprising software licenses for Virtual Business Mobile, Corona CRM, Corona Compliance and World Secure. This was under the terms of a contract announced in early January 2018. Anticipated Average Revenue Per User is estimated to be approximately A\$55 to A\$58 per month per employee for a total estimated annual revenue of A\$33,000 to A\$35,000. This revenue amount assumes a total number of 50 employees being the target deployment level for Phase 1.

Following on from this acceptance, Norwood has recently invoiced the bank for approximately A\$20,000 or 60% of the anticipated Phase 1 year 1 revenue, comprising the annual upfront SaaS-based license fees for the above-mentioned Phase 1 services. The balance of the JMP Phase 1 year 1 contract revenue will be invoiced over the next twelve months for usage-based telco services, billed monthly in arrears.

Outside of further deployments by JMP beyond Phase 1, this deployment is also a significant proof point for the North American financial services market, in particular for mobile archival compliance services, which are currently in high demand by regulated financial institutions.

#### **Commsys – contract announced April 2017**

Norwood has successfully provisioned and delivered the necessary services related to its Commsys contract, which is for the supply of wholesale SIP Trunking voice services on Norwood's global federated voice network ("Norwood Interconnect"). The contract specifies that the customer would apply their "best efforts" at generating traffic on Norwood's Interconnect to achieve an average value of services delivered by Norwood of \$25,000 per month.

Since completing the Norwood Interconnect for Commsys, traffic delivery by Commsys onto Norwood's network has been lower than anticipated, levelling off in recent months at approximately 25% of the previously agreed target.

Whilst Norwood was previously confident that revenue from this agreement would increase, and has continued and will continue to work diligently with Commsys on developing further ways to grow traffic on the network, and revenue for both parties, until there is further take-up by Commsys's clients of their services using

Norwood's wholesale services, Norwood advises that the maximum revenue generated from this contract is anticipated to be \$7,000 per month.

#### **Oceaneering – contract announced in December 2016.**

Norwood announced in December 2016 a contract with Oceaneering comprising a roll-out of Corona to all of Oceaneering's Australian offices and was expected to generate A\$60,000 per annum when fully deployed. This network is fully deployed to most of Oceaneering's Australian offices, with billable charges currently running at an annualised run-rate of A\$42,000 per annum, or 70% of the originally anticipated revenue target.

Norwood is confident that this project will grow to 80% or more of the originally anticipated revenue target in the near to medium term when the final planned additional offices are brought online. The shortfall from the original target is primarily due to observed traffic levels in the deployed offices being lower than originally anticipated.

In recognition of Norwood's successful delivery to date of this Australian project, Norwood has been invited by Oceaneering's Houston-based HQ to discuss options for an expanded rollout of services beyond Oceaneering's Australian operations. Consequently, Norwood is currently engaging with Oceaneering's HQ-based IT services team to discuss prospects for a broader Corona rollout, potentially to the rest of their 10,000-strong workforce, delivering virtualised business mobile services linked to Oceaneering's Oracle Sales Cloud CRM platform. The Company advises that such discussions are still at a preliminary and investigative stage and therefore is not offering revenue guidance yet on any such potential expansion.

Norwood is also discussing a potential World Secure roll-out for the APAC-based team members within Oceaneering and will provide a further update when those discussions are further advanced.

#### **Cytec – contract announced in December 2016.**

The Cytec contract announced in December 2016 was estimated to generate approximately A\$36,000 per annum. The customer ceased using Norwood's services before the full revenue potential of this contract could be achieved, however the contract remains on foot. Due to the expected revenue to be derived from the contract being only \$3,000 per month, the suspension of the performance of this contract was not of itself deemed to be a matter requiring disclosure. In the Company's opinion, the suspension of the performance of the contract was largely due to the compression of roaming tariff rates with domestic calling rates as well as the availability of daily roaming packs in the geographies Norwood was serving Cytec employees, which together reduced the competitiveness of Norwood's roaming services offers. Therefore, Norwood does not expect to receive any further revenue from this contract.

#### **Loyalty partners – RAC and Visa**

In July 2017 Norwood announced a distribution agreement with RAC Travel Services Pty Ltd, which included forward looking information based on a number of key assumptions outlined in the announcement dated 4 July 2017 and a subsequent announcement on 5 September 2017. Norwood also disclosed a partnership with Visa on 21 November 2017. In the recent half year report dated 27 February 2018, Norwood commented that that results in the context of the Loyalty Partner sector have "*disappointingly been lower than expected*" and laid out the Company's response to addressing the situation. This statement was repeated from the earlier commentary accompanying the cash flow report for the quarter ended 31 December 2017. Commentary accompanying the September 2017 quarterly cash flow report first stated that take up of the RAC travel offer was slower than expected.

Both the RAC and Visa World Phone travel bundle propositions have been successfully rolled out, however end-user take up has been lower than forecast by both Norwood and its partners.

Norwood's current view of the reasons for this low take-up is that low-cost "voice as a travel service" using World Phone is subject to many substitutes, ranging from capped \$5 and \$10 travel packs from the local

Australian carriers to technological substitutes in the form of other Over the Top (OTT) voice services, such as Skype and Viber. The ready availability of such alternatives for roaming has sharply curtailed the motivation of consumers to opt for the World Phone offering as a roaming substitute.

As previously discussed in multiple announcements, Norwood's response to this "tariff compression" has been to focus on the productisation of the World Wi-Fi and World Secure Apps to replace World Phone as the Company's core offered loyalty benefits, as both have a much higher level of differentiation in the market and are not subject generally to existing competitive offers, compared to World Phone when used as a low-cost roaming voice solution.

Norwood is currently discussing how to refresh the offered services with both the RAC and Visa, but in advance of further progress being made with either partner on these new loyalty Apps, Norwood's ongoing guidance is to remove any revenue expectation for these two parties until such further revenue bearing contracts are agreed for either World Wi-Fi or World Secure roll-outs, which would provide greater clarity on commercial terms and revenue implications for Norwood.

#### **Loyalty partners – Affinion**

Discussions with Affinion continue pursuant to the initial agreement formed in January 2017, forecasting at the time the potential for an up to \$3 million annual revenue stream, which was based upon assumptions clearly stated at the time, in particular being subject to signing additional down-stream contracts with Affinion's client base. As disclosed previously in quarterly reporting and associated commentary however, Norwood has not yet secured a sign-up for its loyalty offerings with Affinion's client base, and accordingly progress towards such revenues have so far not been achieved.

Norwood understands that the core reasons for this delay are the same as for RAC and Visa, namely that World Phone as a roaming voice solution, even when delivered as a travel loyalty benefit, does not have enough differentiated value today compared to roaming travel packs, due to the effective compression of roaming tariff differentials over the past two years, as has been discussed in several prior market updates.

Affinion have nevertheless shown keen ongoing interest in working with Norwood, based on Norwood's forecast roadmap releases of World Wi-Fi and World Secure. The Company has been in continuing discussions with Affinion through all of 2017 and 2018 to date on deploying the World Wi-Fi and World Secure loyalty propositions with selected Affinion's clients. These discussions are showing considerable promise, and are particularly focusing on Norwood's cyber-security product, World Secure, as it is currently shipping on both iOS and Android platforms.

Norwood notes there is a level of inherent uncertainty for any first agreement with Affinion. Accordingly, Norwood's ongoing guidance is to remove any revenue expectation for the Affinion channel until a first revenue bearing contract is agreed for either World Wi-Fi or World Secure with Affinion and/or one of their clients, which would provide greater clarity on commercial terms and revenue implications for Norwood.

#### **Loyalty partners – other as yet uncontracted parties**

Norwood is currently continuing discussions with various businesses to add World Wi-Fi to one of these businesses' travel products. Contractual commercial terms for such a deployment have not yet been finalised, however Norwood expects that such discussions will conclude within the current quarter and will be able to report on material terms once contractual terms are agreed. Discussions are centering on an Australian roll-out initially, followed by a potential roll-out to the European parent organisation's client base once adoption in the Australian market has been demonstrated.

#### **Carriers – new uncontracted partners**

Norwood is currently in discussions with several virtual mobile network operators in Australia and overseas that have recently have expressed interest in licensing Norwood's suite of Apps to boost differentiation of the

services that they are currently offering to their customer base. Norwood advises these discussions are currently at an early stage and will provide an update to the ASX immediately upon any contractual terms being finalised.

### **Global Relay**

Norwood's relationship with Global Relay is continuing to develop, with Global Relay having recently introduced two of their US-based financial services clients in the hedge-fund sector to Norwood. Norwood's US-based account team is handling all initial sales interaction with any potential clients and others that arise in the course of our ongoing interactions with Global Relay.

### **Veritas**

Similarly, Norwood's relationship with Veritas is continuing to show promise, and a first proof-of-concept potential client, an existing Veritas Enterprise Vault client, has been identified. Norwood's Sydney and US-based account teams are handling all Veritas prospects at this stage, and Norwood will report on progress as the opportunity develops.

### **AddCom**

The Company is pleased to announce that the **Corona Compliance** Proof of Concept (PoC) deployment, conducted in partnership with AddCom was successful. The Company is hopeful that the positive feedback received from this PoC will support both companies' efforts to secure the first reference **Corona Compliance** site in Australia. Norwood will report on progress as the opportunity develops.

### **Virtual Business Mobile Services**

Norwood is continuing to see encouraging development and progress in sales interactions with small, medium and large Australian firms, including significant financial services firms, for the uptake of Norwood's core B2B offering and will report when material progress has been made with prospective clients for this service.

### **Outlook**

Norwood remains confident in the ability of its suite of products and services to deliver on the Company's long-term objectives, particularly given the interest shown by major international partners such as Oracle and Veritas. In particular there are a number of opportunities for near term upfront revenue, both on the loyalty side and on the enterprise side, that the Company considers to be highly encouraging evidence that its refreshed portfolio of virtual mobile services, Corona CRM, Corona Compliance, World Secure and World Wi-Fi is gaining traction in the market.

The feedback that Norwood has received in its recent interactions with large potential and prospective partners is that they are drawn to Norwood due to the perceived strength and spread of Norwood's portfolio of differentiated and novel mobile services. Norwood is greatly encouraged by this feedback and is re-doubling its efforts to convert it into secured deals with meaningful upfront and ongoing revenue.

The Company undertakes to report further commentary in future Appendix 4C quarterlies that provides clear updates in respect of disclosed revenue targets, whilst maintaining compliance with the ASX Listing Rules and the Company's continuous disclosure obligations.

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## **About Norwood Systems**

Norwood Systems Ltd (ASX:NOR) is revolutionising mobile voice, messaging, data and cyber security services through its pioneering award-winning virtual mobile services platform, Corona® and its award-winning Apps, World Phone®, World Message™, World Secure™ and World Wi-Fi™.

The Company's breakthrough offerings deliver Over the Top (OTT) connectivity, knowledge and intelligence services. Norwood's products and services are targeted at a broad spectrum of prospective customers from individuals through to large enterprises and government agencies.

Norwood has delivered services to more than 6 million customers since launching its platform in mid-2014, servicing people in 200+ countries & territories and 5000+ cities worldwide and has achieved a 4+ App Store rating on all published Apps.

Norwood Systems listed on the ASX in June 2015 and trades with the stock ticker NOR.

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