ASX Release

Investor briefing questions

4 September 2020

Envirosuite Limited (ASX:EVS) advises that following the release of its FY2020 results on 28 August 2020, CEO Peter White and CFO Matthew Patterson presented a series of presentations and webinars with investors and analysts. For the benefit of those unable to attend, EVS provides the following summary of questions received by investors and the accompanying responses along with other questions put to the Directors and management.

What is the sales pipeline?

Currently it's over $30 million, which is growing steadily. This excludes China where we are tracking an individual budget and pipeline to measure against the revenue hurdle of $10m by 31 December 2021.

Are you still on track for $10m in China by December 2020 as previously announced to the market?

Yes, very much so. It is also worth noting that we also expect margin growth in our China projects as we introduce our new software solutions to our new and existing clients in that market.

How do you bridge the gap from a $18m loss to profitability in nine months?

Last year (FY20) included a number of significant one-offs that dominate the end loss position including non-cash items. Excluding those one-off and non-cash costs, the EBITDA loss was ~10m or ~12m when you exclude capitalisation of product development costs. In addition, the FY20 result was impacted by duplicate cost base from the EMS business, including duplicate senior positions within Corporate. The Company has previously announced that there was $8m of costs to be removed from the business with an additional $3m identified from operational synergies. The combined business for FY20 included only four months of EMS and our net burn is steadily tapering.

When you look at your pipeline in terms of what's in play, are your proposals and conversions increasing?

Yes. Our sector level understanding of the product/market fit is quite sophisticated now as we continue to add new sites in each industry vertical and our marketing and sales focus is really sharpening at a time when we now have the resources to capitalise on this knowledge. With positive feedback loops we're continually evaluating our pipeline and the effectiveness of our sales activities to increase conversion along the entire sales cycle.

How much revenue is exposed to airports?

Approximately 65% of the revenue with the balance in mining, waste and wastewater. There seems to be a market misconception that we work with airlines when in fact our customer is the airport, which operates as a near monopoly in the markets in which it operates. The recurring revenue streams from this sector of our portfolio has proven resilient despite COVID with a churn rate of only 1.5%. Our airports business is consistent, resilient and primed for rapid growth. The regulatory requirements that we address for our airport clients remain regardless of flight volumes. We are observing and continue to expect higher noise complaints post-COVID and as such our new community engagement solutions will be valuable to airports. We're also looking to significantly grow wallet share in the airport market through assisting in their digital transformation initiatives.

What were the respective organic growth rates for the EVS and EMS businesses pre the acquisition?

EVS was at 100%pa from a lower base and EMS pro forma was at 8-10%pa.

What growth are you forecasting?

The initial $100M target is based on business-as-usual compound growth of 20% pa excluding events that may include major commercial partnerships and opportunistic acquisitions. Our new water solutions – AqMB and SeweX will be deployed globally in the course of FY21.

So does the path to $100m require further acquisitions.

No, any acquisition would be assessed on the degree it adds to this. We have proven ourselves over the years to be a very good acquirer and we will remain opportunistically reactive if we see targets that may complement and propel our commercial growth further either technically or geographically.

Where do you think the share price can get to?

We cannot predict that however I note that the board do not see any meaningful value from our personal incentives until the share price is well over 50c and higher.

With the added capabilities in water, noise and acoustic vibration what is the addressable market for Envirosuite?

The addressable market is most likely in the tens of billions per year. We have so far clearly identified potential revenues of $2.3bn p.a. using a bottom-up market approach identifying individual sites that could use our solutions multiplied by our current average subscriptions. We are still working on this exercise such that the estimated potential revenues will continue to grow.

How are you tackling your markets?

We have tried several approaches since launching into the global market several years ago and we are very conscious of maximizing the efficiency of our sales team that has grown from 6 to 27 following the acquisition. For the first time we also have a strong marketing team that is highly focused on lead generation. We are running monthly webinar campaigns to promote our solutions to industry that are typically yielding over 400 qualified leads that our sales team then work through following a defined process through to conversion.

Obviously your pipeline is direct. What targets are being set and how are they remunerated?

EVS has a direct sales team of around 27 people located around each of the 5 regions. The direct sales team is complemented with marketing driven lead generation and sales enablement tools. We recently held a webinar which resulted in over 400 new qualified leads. Each sales person has ARR targets and their pay structures vary though generally we seek to retain our people on a ratio of 55% base and 45% performance commissions.

How much more do you need to expand the sales team to grow?

We are already growing rapidly with the existing team that has really only been crystallised since 1 July 2020 on completion of the integration. With the appointment of our COO I can now be even more focused on driving new business. As we identify new market opportunities and initiatives we will resource appropriately to capitalise on the opportunities.

What do you call recurring revenue? What are the contract lengths?

We generally define recurring as revenue from contracts with term of at least 12 months that is recurring in nature. Airport contracts are typically 3-5 years whereas as most others are on normal rolling twelve-month SaaS arrangements.

Your margins appear very low for a SaaS driven business. Can you please explain?

We reported gross margin of 31% which includes direct variable costs connected with the revenue (e.g. AWS and Azure costs) as well as an allocation of internal overhead costs (employment costs, building costs, etc.) connected to parts of the business that support our customers, including customer support teams. The contribution margin for our recurring revenues, which is based on excluding only the direct variable costs, is ~82% which means that for every $1 we sell, $0.82 is available to fund operating costs and provide a return to shareholders. The Company is focused on reducing the operating costs through the cost-out initiatives of $11m already announced and leveraging the platform to maintain control over the operating costs through automation as the Company continues to grow.

Management expects that EVS should be able to maintain a contribution margin of ~80% on recurring revenues as the Company heads towards $100m of total revenue and beyond, while being able to maintain control over the operating cost base, which is forecast to be approximately $50m for FY21.

Can you please give us a view of cash burn?

Operating cash outflow after departure of the roles already announced as redundant is less than $1m per month and management is forecasting that EVS should be generating positive operating cash flow by the beginning of the 4th quarter of FY21.

How long is your current cash going to last you and when do you expect to raise next?

We don't anticipate a need for further capital raisings. EVS had $24m in the bank at financial year end, though some of that has already been allocated to normal working capital cash payments in connection with the EMS acquisition, the acquisition of AqMB and termination cash payments that has been provisioned in full at 30 June. Excluding these items, EVS has $11.8m of cash available to fund operations with an additional $2m reserved for cash backing of performance guarantees on potential new contract wins (assuming banking facilities are not set-up) and $1.6m reserved for potential increase in working capital requirements.

Cash burn is decreasing and it is worth noting that there is more than an additional $30m in potential funding on a diluted basis if the options on issue that are priced between 15c and 40c are exercised.

When you've been doing the rounds, what's the point of most resistance from the institutions?

We've had very positive feedback generally and as always people hold different opinions about how well we will execute. On that front we are much better positioned to succeed both internally and externally than we ever have been before.

Authorised for release by the Board of Envirosuite Limited

For further information contact investors@envirosuite.com or visit www.envirosuite.com