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Investor Update Conference Call

Leading Australian headquartered global cyber security company, **FirstWave Cloud Technology Limited (ASX: FCT) (FirstWave)**, released a Q3 FY2020 Investor Update on Wednesday 22 April 2020. The FirstWave Chairman and the Chief Operating Officer's speeches on the presentation are outlined below.

SLIDE 1 - Introduction – NEIL POLLOCK

Hello and welcome to the FirstWave Cloud Technology's (FirstWave) Q3 FY2020 Market Update.

My name is Neil Pollock and I am the Chief Operating Officer of FirstWave Cloud Technology.

Joining me today is our Executive Chairman, Mr John Grant.

Our objective today is to report the progress FirstWave has made in Q3 of FY2020 and update you on the Company's response to COVID-19.

The presentation we are about to give you has been lodged on the ASX portal or emailed to the address provided with your registration.

We will refer during the presentation to the slide number we are talking to.

SLIDE 3 – Agenda and Format

We will commence today's presentation with an update from John followed by my update which will include:

- our COVID-19 response;
- our path to revenue momentum;
- platform and partner progress;
- evolution of our line of sight to annualised recurring revenue; and
- a new product offering – the Remote Worker Cyber Security bundle launched in the last month.

I'll finish up with the Q3 financials and a Quarter on Quarter (QoQ) view of revenue prospects to FY2022 before handing back to John to summarise the key take-outs.

We will then open the lines for Q&A.

Let's begin.

SLIDE 4 – Chairman's Introduction

I'll now hand over to our Executive Chairman, John Grant.

Thank you Neil and welcome to our shareholders.





SLIDE 5 - Chairman's Update – JOHN GRANT

When I first spoke to shareholders and investors in August last year, I provided commentary on the formula I thought gave FirstWave the greatest opportunity for success as a global security services company.

Firstly, I proposed that the product must be world class as it has to win against the biggest and the best, and that it must appeal to a very large global market it can actually address.

I suggested, given FirstWave Limited's financial capacity, that the only way it can successfully get the product into end customer hands globally was via partners to whom the product is important, in a leveraged channel model – one partner to many partners to many more end customers – that can ultimately drive exponential growth.

I said at this time that forecasting revenue prior to scale was challenging but was offset by the leveraged channel, describing it as a numbers game – the more partners in the channel, the more certainty of sustained growth in revenue.

I also mentioned that it's not sufficient to get partners on board and for them to get customers signed up. There must be a global delivery platform of cloud infrastructure and onboarding and support capability for our partners end customers, 24 x 7.

And finally, I said building a global business takes time and money – likely more than expected.

The Company has been executing to this formula applying its scarce resources as well as it possibly can.

Let me give you my view as to where we are now.

SLIDE 6 - Chairman's Update

FirstWave's Cloud Content Security Platform (CCSP) is world class as validated firstly by the partnerships it has put in place with global players, and secondly by the results of the independent proof of value trials we conduct against products from the big global players for many of our partners and larger end user customers. It's no mean feat to have Cisco fly ten of its product and engineering people into Sydney, as occurs every quarter, to review progress on the work we are doing with them.

With the introduction of our new Remote Worker Cyber Security offering, we've updated our addressable market opportunity for FY2020 to \$1.88b. The calculations supporting this are included in the Appendix to the pack.

It's also worth noting that this offering took only ten days from inception to launch.

That's extraordinary particularly as it brought two new products from Cisco and Trend Micro onto CCSP.

This demonstrates the speed and integrity with which new offerings can be delivered to end customers of our largest Telco partners, and points also to the Company's ability to tactically pivot to new opportunity very quickly in response to drivers of our partners' revenues.

With this new offering and the increasing number of partners in our channel – 130 up from 108 at the end of Q2, 26 of whom are now billing – we've also updated the annual recurring revenue we have line of sight to through the partner channel to \$60m from \$45m.

For those of you who do the calculation of revenue per partner, the average is low.





But that is only indicative of the fact that CCSP is tightly integrated into our partners management and operating environment and they start with very few users, in some cases internal only, until such time as they're comfortable the integration is doing what is intended. Clearly, we expect this to grow.

And also, to clarify, by line of sight we mean the revenue available for conversion to booked revenue from our partners over the mid-term, i.e. around 3 years.

With 11 platforms around the world and a 24 x 7 support facility through a partner in India, we now have the global delivery model we need to scale.

And finally, it remains true that the Company needs more time and more money to get to scale – but not that much more of either we think.

On this, Neil will be providing some detail on work we have done to give you a sense of the revenue prospects we consider possible for the Company over the short to mid-term.

As you'd expect, we've made a bunch of assumptions he'll detail to do this, but we are well placed to make a judgement as to how momentum can build, and we think you need to know that. But he will say, and I will also say now, this is not a forecast and not guidance – it's our best judgement based on everything we know.

The other important thing you will see in this section is the commitment of around \$1.7m through until June 2021 from the Board, executive team and senior managers in the Company by way of an exchange of a percentage of remuneration for shares.

This will be subject to a new Share Appreciation Rights Plan that we'll put up for approval by shareholders at the AGM.

We don't expect any problem with this as it will be similar to plans in most listed companies and will directly address the dilution issues of the current share option plan.

My final comment for now is that I remain of the view that if FirstWave is able to continue to execute on the formula, it can be a global success. Time and money of course will tell.

I'll now hand you back to Neil to take you through the operating update

SLIDE 7 – COO Update - NEIL POLLOCK

Thank you, John.

SLIDE 8 – COVID-19

I have to admit, when I took on this role two and half months ago, I didn't think I'd be talking in April with the world in various stages of lockdown or quarantine due to a pandemic the likes of which my generation has never seen...but sometimes these things happen and so it is today!

Firstly, I want to cover the topic of the virus – COVID-19. It has impacted business across the world not to mention our daily lives.

It is potentially one of, if not THE, most important business events in history.

For FirstWave, the COVID-19 situation is the point where 'preparedness meets opportunity'. This is a quote from a Board member of one of our partners' customers.





As a result of the efforts we've made over a long time now and especially in the last six to nine months, we were well-prepared to not just manage the risk but to leverage the opportunity presented by the onset of COVID-19.

Let me explain what I mean.

[I am going to run thru this slide in a clockwise direction from the bottom left-hand corner of the slide]

Firstly, the Market (the bottom left hand corner of slide 8):

- the rapid move to remote working has created well-publicised and documented significant additional cyber security risk for businesses;
- it has expanded our directly addressable market to, conservatively, \$1.88b;
- it has also increased our line of sight over the mid-term (the two to three-year horizon) to annual recurring revenue from \$45m to \$60m. That's a 30% increase; and
- with the growth in our product portfolio, we have more to sell to a bigger market and material revenues are within sight.

Secondly, to our Partners (top left section of the slide):

- our leveraged channel model now comes into its own as it is positioned to deliver exponential growth;
- our partners on the path to revenue have progressed from 108 to 130;
- our billing partners have doubled from 13 to 26. Why is this important? It is important because as John has often said, this is a numbers game...our billing partners are a key lead indicator of future revenue flows. It's our billing partners which generate revenue and while the revenue may be a trickle to start with, as they sell more the revenue accelerates – it's a compounding effect and our subscription-based annuity revenue model delivers compounding growth month on month; and
- our immediate and near-term sales opportunity pipeline has grown from 45 two months ago to 55 at the end of Q3. This is also important because these sales opportunities are the ones which we work to convert to revenue.

All of this in a quarter which was effectively four or five weeks long...from the time everyone came back from Christmas and New Year break in mid-January, to the time COVID-19 really started to bite in mid-Feb ...

COVID-19 has made our partners hungrier for new revenues and more committed to FirstWave and our CCSP.

Thirdly, Product: In the last month we've seen the real power of our platform and product offering:

- We were prepared and we delivered.
- We completed the current phase of platform roll outs such that we now had 11 platforms deployed across almost every geography and in the right place locations for our partners and their customers
- We launched a new Remote Worker Cyber Security product bundle comprising email security upgrade, web security and end point security with an option for multi-factor authentication – from inception to global release in under two weeks.





- We were in the right place, at the right time with the right tech; we were ready with our platforms and our product offering and we seized the opportunity.
- First orders have been taken and provisioned but more on that later.

Finally, for this slide the Financials:

- COVID-19 has hit and we are not immune. Our partners, while enthusiastically embracing CCSP and seeking ways to address their own and their customers' needs, have had to sure up their own businesses and so while our international recurring revenue grew, the trajectory has flattened. We exited Q3 with IARR of \$265k from \$232k at the end of January.
- On the cost front, we continued to meet our cost out commitments for FY2020 and have planned potential additional cost out opportunities.

I hope this gives you a feel for how we responded to and how we are dealing with the COVID-19 situation.

A testament to the talent in FirstWave is we did all of this at the same time we moved all our staff to remote working, made every effort to ensure that they and their families were safe and secure from the virus and continued to meet and exceed our partner's expectation with regards service levels.

SLIDE 9 – Path to Revenue Momentum

Our partner's progress and momentum on the path to revenue continues.

We have 20 active opportunities in the pipeline under the Cisco OEM Agreement; line of sight to over 2.8m email seats.

Our other international partners are also on the move; DWS has brought on three additional partners; NTT Data has taken up the RWCS offering with gusto and SHELТ has also seen completion of a number of deals in Africa.

The 11 platforms deployed across the globe now are all carrying either billable or test traffic – that's not traffic testing if the platform works, that's traffic testing their internal processes and systems to make sure they are ready to go to market! And, it is a precursor to revenue turn on...

We are also about to deploy our first sovereign platform outside Australia, and we expect completion either Q4 FY2020 or early Q1 FY2021.

Finally, our foundation partner Telstra has launched the SOHO/Micro/Small cyber bundle and we've received our first orders and revenue. Existing customers are taking up email and firewall upgrades picking up our offer to assess their cyber security posture.

Our Telstra subscription revenue model is giving us a sure footing of annuity revenue to confidently address the COVID-19 opportunities.

We see continued solid progress along the path to revenue across the globe.

SLIDE 10 – CSSP Platform Deployment

We now have 11 platforms deployed across the globe to meet our partners' needs and, as a result...





SLIDE 11 – Partner and End Customer Growth

We are seeing continued partner and end customer on-boarding and pipeline growth across the globe and it is indicative of the strength and maturity of our global partners...

SLIDE 12 – Line of Sight to \$60m ARR

The next slide, slide 12, will be familiar to some of you but I want to highlight three key data points on this slide as it brings them together:

- One: with the addition of end point security, our market opportunity in the current year has grown to about \$1.88b;
- Two: our mid-term line of sight has grown from \$45m to \$60m ARR, a 30% increase; and
- Three: our partner ecosystem (reflecting the power of a channel model) is growing exponentially.

What this means is, as our partner ecosystem and product offerings expand concurrently, so too does our addressable market and LoS to revenue.

SLIDE 13 – Remote Worker Cyber Security offer

I now want to cover our remote worker cyber security offering. If there was ever the right offer at the right time, this is surely it.

Sometime, as storms hit, clouds appear which have a silver lining and with RWCS, the combined cross functional FirstWave team found one.

In ten days, as the reports of the significant increase in cyber-attacks and the risk of remote working spread like wild fire, the FirstWave team put a product offering the market in response to our partners' requests which enabled them to address both their own internal gaps and those of their customers.

Ten days and it's been ordered, provisioned and is generating unsolicited positive feedback. Our partner NTT Data (UK) is on the record thanking us for what we've achieved.

It's a commercially flexible, simple to provision offering which, at the end of the day, will generate between \$3-\$5 revenue per user per month at maturity.

SLIDE 14 – FY2020 Q3 Financial Summary

Onto the Q3 financials:

- Despite COVID-19 impacting from mid-Feb 2020 our QoQ revenues held flat;
- The YoY decline in domestic revenue was flagged at the AGM and is a result of the churn of some larger accounts and end of life of the previous web product in the domestic market; and
- Product investment maintained and directly targeted at revenue.

SLIDE 15 – FY2020 Q3 Revenue

For revenue:

- In the Domestic market first revenues from the SOHO/Micro/Small cyber security initiative have been received.





- As I flagged earlier, International revenues have flattened from their previous trajectory as a result of COVID-19 impacting from mid-Feb and shortening the Q3 sales window to four weeks.

SLIDE 16 – Operating Expenditure

Our operating expenditure is reducing in line with advice at the AGM:

- the Q3 \$3.7m includes \$138k termination costs;
- Corporate Headcount has been further reduced;
- a plan to exchange cash salary for equity is being implemented in Q4; and
- incremental investment in global platform deployment is now substantially complete.

Slide 17 – Cash Outflow

On cashflow:

- the \$600k reduction in Q3 includes a \$200k deferral of Telstra CoGS payment into Q4 to align with cash receipts from Telstra; and
- the Q4 forecast also includes our annual prepaid product purchases such as advance purchase of email licenses.

SLIDE 18 – Initiatives to Extend the Cash Runway

At the AGM, the Chairman advised we would have sufficient cash to see out the financial year. Through specific cost out measures, we would get to June 2020. Today I am reporting we will actually get to July 2020.

In order to extend the cash runway through to beyond July, the Company has initiated two additional cost out measures including:

- a Board, Executive and Senior Management salary exchange of cash for shares to deliver an additional \$1.5-\$1.7m cash saving through to June 2021; and
- additional non-labour cost out initiatives of approximately \$100k per month representing a further 23% reduction in non-labour expenses.

There is a critical note to make here.

We are taking out significant additional costs. This is not without risk and the Board has been very clear that I am not to implement any measure which will impact the business to the point where we lose key talent and thereby lose IP or partner relationships or in other ways devalue the business.

It's a very fine balancing act and one which is at the front of my mind. We reduced costs significantly in the last nine months and that has resulted in some considerable pain in some parts of the business...to do more is a risk.

Slide 19 – Prospects: NEIL POLLOCK

The final section in the presentation deals with the Board and management's view of the financial prospects for the business. As the Chairman has commented previously, we are by choice selling through a channel model to our partners who then sell to theirs and then to end customers. Revenue is notoriously hard to forecast in this model but is offset by leverage that has proven for all time can deliver exponential revenue growth.





However, with the level of maturity of our partners increasing every day, we now believe we can provide shareholders with our best view of forward prospective revenues.

Slide 20 – Prospects

The background to the next two slides is

- COVID-19 has disrupted the global economy; and
- the recovery timeframe and market conditions in a post-COVID-19 world are uncertain.

So, we have framed the revenue prospects using a number of assumptions.

It is assumed:

- business will be back to business at pre-COVID-19 levels in Q2 FY2021 that is, from October 2020;
- our partners will apply their resources to taking CCSP to market at least as they did pre-COVID-19;
- Cisco, in particular, remains at least as committed to FirstWave post COVID-19 as they were pre-COVID;
- FirstWave's level and location of resources will remain as they are now;
- a new share appreciation rights plan will allow the Board, executives and the leadership team to exchange \$1.7m in fees and remuneration for shares as previously detailed in this presentation will be approved by shareholders; and
- the required funding will be available.

The note here is:

- the detail provided here is not a forecast or guidance; rather
- it is the Company's best judgement to quantify the potential conversion of line of sight revenue to booked revenue in the short term in an uncertain market.

Slide 21 – QoQ Prospective Revenue

The graph on slide 21 highlights the following:

For FY2020E:

- Revenue of \$8.3m down 6% on pcp
- Exit June 2020 IARR of \$875k

In FY2021:

- Revenue of \$11.4m up 37% on pcp
- Exit June 2021 IARR of \$12m

And in FY2022:

- Revenue of \$26m up 134% on pcp
- Exit June 2022 IARR of \$22m





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Thank you.

I will now hand back to John to summarise with the key take-outs.

John...

Slide 22– Summary – Key Take-Outs: JOHN GRANT

Let me summarise.

COVID-19, with all its issues, has what Neil referred to a silver lining for FirstWave.

It has brought attention to information security at the individual level within all organisations large and small, across the world. And with CCSP allowing FirstWave to get a new remote worker offering into market in response in 10 days, it has elevated us in the eyes of our partners as they urgently look for new revenues to replace those that are gone.

This can only add to the credibility of the Company and the continuing growth we are seeing in the partner channel and the pipeline.

Our prospective revenues for FY2021 represent growth of around 37% on our estimates for the full FY2020 year and if achieved, represent June exit annual recurring revenues of around \$20m of which \$12m would be international.

And can I close by reassuring shareholders that we have paid a lot of attention to reducing costs and are now operating at the lowest viable cost without compromising the business' ability to execute, or without devaluing the intellectual property that is at the heart of the future value of the business.

Thank you for listening and Neil and I would be delighted to take your questions.

– ENDS –

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About FirstWave Cloud Technology Limited (FirstWave)

Australian headquartered global cyber security company, FirstWave, has delivered Security as a Service (SaaS) solutions since 2004. FirstWave provides safety through the most accessible and adaptive cloud-based cyber-security solutions that are affordable, easy and fast to implement enabling SaaS. Its unique proprietary cloud-platform orchestration is available for service providers and enterprises of any size, anywhere. In an increasingly vulnerable digital world, FirstWave believes that safe business is good business and that all companies should have access to enterprise-quality cyber-security. FirstWave's infrastructure, management and security processes are certified to ISO 27001 Information Security Management System Standard and ISO 9001 Quality Management System Standard.



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