



Monthly Operating Review – May 2019

June 14, 2019

Monthly Operating Review Meeting Agenda

- ➔ **Executive Summary**
- ➔ Financial Review
- ➔ Governance Reporting
- ➔ Appendix

Hits

- Record bookings at \$5.2m with invoiced sales at \$4.7m, compared to target of \$3.5m.
- Record subscription sales at \$830K compared to target of \$577K
- Record month for order volume – 1033 (trending up from 900 in Apr-19)
- Record month for new customer adoption – 267 (trending up from prior month's 233)
- Large orders from WeWork (\$482k), University of Illinois (\$167k) and McDermott (new customer, \$148K).
- MTD EBITDA – \$361k compared to target of (\$4k)
- Office remodel planning has begun – contractor bids have been received and we are working to gain cost savings
- Organization/Key Hires
 - Staffing by geo – Denver (91), US field (23), international field (14) = 129
 - Staffing by function – Tech (41), Sales (46), Marketing (12), Finance/Ops/HR (30)
 - Regional Sales Director for Australia, Jeff McDonald, starting 5/20/19
- Customer Adoption
 - Sales from existing customers – WeWork \$482K, University of Illinois at Urbana-Champaign \$7167K, McDermott \$148K, Creighton University \$140K, Major League Baseball \$138K
 - Land orders – JSerra Catholic High School \$80K, University of Lethbridge \$56K, North Central University \$56K, Harvard Law School \$30K
 - New deals – LA Care \$128, Brent Council \$90K, Parkland Fuel \$59K

Executive Summary (Continued)

Misses

- Staffing –
 - Mats Bergqvist, West Sales RSD – Resigned (involuntary, joined ActionTec a Taiwanese competitor)
 - 4.1 delayed until June 14 (2 weeks) due to issues related to HDMI-in, and HDMI-out

Key Go-Forward Actions

- Ongoing culture development with focus on effective new hire onboarding and assimilation with tenured staff, support of monthly employee team building gatherings and onsite wellness activities, and upgrading the functionality of the office space in Denver. Exploring initiative for Mersive University for internal product training.
- Phantom stock program – in planning
- With 4.0/G3 released we are reexamining a low cost Enterprise version of Solstice based on the G2i HW platform
- Flexera – need to update version based on subscription and maintenance data reporting requirements
- Revisit thinking around offering Solstice license software as part of a subscription pricing model

Executive Summary – Risks and Challenges

Description	Potential Impact	Plan to Address
<ul style="list-style-type: none"> G3 transition 	<ul style="list-style-type: none"> Sales shortfall Discounting on G2i margin impact Customer trade-in cost impact Inventory shortage Distributor inventory 	<ul style="list-style-type: none"> G3 based Pods over 55% of May sales Issues with packaging being investigated - resolved Still tracking policy changes including power supplies and HDMI cables as separate line items, bulk packaging – not hearing any issues Resolving HDMI-in issues with Inforce – resolved Investigating possible HDMI-out connector issues - resolved
<ul style="list-style-type: none"> VP Engineering hire 	<ul style="list-style-type: none"> Need to extend span of control and increase level of leadership in Engineering 	<ul style="list-style-type: none"> Initiating plans for outsourced QA and development to accelerate roadmap
<ul style="list-style-type: none"> AV industry 	<ul style="list-style-type: none"> Industry report exposes security vulnerabilities in Barco and Crestron products Competitors launching new products at Infocom but early feedback indicates we are still considered the technology leader Continued competitive pressure from Zoom Working on room system integration with Zoom 	<ul style="list-style-type: none"> Marketing programs and resources targeted at IT end users Target Zoom with specific marketing resources such as video, topic specific webinars and position papers Solstice VTC integration code name Relay demo'd at Infocom – very positive feedback
<ul style="list-style-type: none"> Improve margin/EBITDA while continuing to invest and grow 	<ul style="list-style-type: none"> Failure to take advantage of market timing and growth 	<ul style="list-style-type: none"> Reduce BOM by making PS optional, or charging where applicable (now that we have POE) – done Run margin analysis on G3
<ul style="list-style-type: none"> HR/Staffing/Comp 	<ul style="list-style-type: none"> We need to upgrade leadership to move from tactical/admin to strategic initiatives 	<ul style="list-style-type: none"> Hire VP HR in Q1 – done MBO program – done 401K match – done Phantom stock – planning stage
<ul style="list-style-type: none"> Sales Team Productivity 	<ul style="list-style-type: none"> Failure to hit FY target, exploit competitors weaknesses, leverage market growth and timing 	<ul style="list-style-type: none"> Hire Sales Ops Director - done Determine whether Salesforce or Netsuite is the right go forward for CRM and sales forecasting Investigating internal product training – Mersive Academy
<ul style="list-style-type: none"> Recurring revenue 	<ul style="list-style-type: none"> Impact on enterprise value Target incremental business with Opex model 	<ul style="list-style-type: none"> Investigate whether there are additional ways to increase current subscription attach rates Examine whether a subscription model for license software is viable given channel constraints and end user budget and firewall constraints Discussions with Deloitte, SEG, Appspace, other bankers, reseller partners, end customers

Executive Summary – Q2 OKR

	2019 Corporate Priorities	Corporate Quarterly Objectives - Q1 2019	Key Result - As measured by	Owner	% Achieved	Status
	Successfully Launch Gen3 Product	GTM Launch of Gen 3 / 4.0		Martin/Chris		MP: I'm assuming this whole priority (rows 2-4) goes away since we have already launched CI: Added certification work as it's still partially underway
		Meet supply chain timing & target for Gen3 Pods	Finalize international certifications, silkscreening	Dan/Rob/Chris	90%	
2	Scale Sales Organization	Optimize Lead/Cash Workflow	Implement initial set of email workflows for inbound touchpoints 5/6; Augment contact database with 3rd party data service 5/31	Martin/Rick	100%	MP: email workflows implemented. Agreement with ZoomInfo for contact database in place.
		Hiring - ANZ, inbound sales, Sales Ops Coordinator, Inside Acct Mgr, Nordics RSM, UK Channel Mgr, EMEA Support tech	Hire to plan and/or exception hires identified	Rick	80%	
		Hire Mid Atlantic RSD replacement	Hire to plan	Rick	100%	All hired except Sales Ops Coor and EMEA support Tech Complete
3	Ensure Product Roadmap Drives Market Adoption	Fulfill Q2 release milestones at agreed upon scope and timing	Release 4.1 at designated scope within 14 days of target release date of 5/29. Achieve RoomLink alpha milestone for Infocomm, no later than 6/7. Launch and evaluate Overlook (occupancy) accuracy with at least 3 enterprise customers.	Chris/Jon/Tae	90%	TK: 6/5 One last remaining issue on HDMI-out, likely existed in previous releases, in the HDMI driver, which is work dependent on Inforce, working with them to close. TK: changed 4.1 tolerance date from 7 to 14 days
		Improve Solstice Quality	10 P1 tech debt bugs fixed by end of Q2 (existing stability, automation, escalations, etc)	Jon/Tae	80%	
4	Scale Marketing and Support	Standardize branding / messaging	Complete brand architecture and messaging 5/31; Launch brand campaign 6/17	Martin	75%	MP: Brand architecture is complete (note: this will continue to evolve periodically, particularly with product releases). Brand video progressing on schedule: all shoots complete, now entering editing phase.
		Scale digital marketing	Launch revamped social strategy 4/1; Launch segment-customized website copy for account-based marketing 5/31	Martin	100%	
		Scale field marketing internationally	Execute 5 field events in April; Execute 7 field events in May including Solstice Engage Germany; execute 3 field events in June including Solstice Engage Italy	Martin	67%	MP: all events progressing to plan except Italy Engage (pushed to Sep to maximize attendance). InfoComm logistics progressing to plan; email response rates are materially better than last year's. MP: competitive campaigns have been scaled up. Customer success plan has been completed. Customer success manager (Shawn Bradley) is engaged with 8 accounts - formal launch pushed to end of June due to marketing and systems capacity constraints.
		Scale product marketing / support processes	Scale up competitive campaigns 5/20; Launch customer success process 6/17; Decide on recommendation on low-cost edition to present to BOD 6/28	Martin	67%	
5	Invest in our people	Rollout 401K matching program	All company presentation	Dan	100%	Enrollment meeting completed Michelle on board Program in place for Q2
		Hire VP of HR	On Board new VP of HR	Rob	100%	
		Implement Q1 OKR Program - depart only	Continue with Q2 OKR program	Dan	100%	
6	Improve business intelligence reporting	Develop Recurring Revenue Reporting	Include monthly reporting in MOR & Board deck	Dan	25%	Need Contract management module completed; on hold pending rev rec issue Preparing to upload data into sandbox; on hold pending revrec issue Several added; more to go
		Implement Contract Management in NetSuite	Complete and refine processes, procedures & policies	Dan	75%	
		Develop key operating metrics report - P vs A	Implement non-financial reporting metrics in Netsuite	Dan	50%	

Big Wins, Key Deals and Losses

Upcoming Key Deals

- **Accenture** – Contract complete. POCs ongoing. Miracast fix req
- **General Dynamics IT** – new GD opportunity on heels of HQ. \$100K+
- **FDIC** – awaiting order in June/July - \$100K+
- **Expedia HQ** – Evaluation for inclusion in new HQ – came to Engage
- **TJX** – came back to Solstice after selecting Cisco. Pilot pending in UK
- **Phoenix Union** – dumped Unite. Bidding on 1,700 rooms
- **CIBC** – Pricing provided and awaiting response...1200+ opportunity
- **CBRE** – 500 room potential in Q2 – require vlan tagging/Realtek fix
- **Comcast** - \$155K maintenance renewal + 70 Rooms in June/July
- **Northern Trust** – 300+ rooms by Q3
- **Shell** – in the lead for standardization project – 10K rooms over time
- **LDS Church** – Negotiating pricing. 200+ units over 2 years
- **Conoco** – AirMedia proving problematic – VTC req for 300 rooms
- **LA Rams** – 300 units opportunity for new stadium in Q4
- **EDF** – finalizing evaluation and appears we've won
- **IQVIA** – 100s of rooms in new HQ...working tech issues
- **Toyota** – looking for standard but need new approach to Airplay
- **Marathon Oil** – Solstice is in the spec for 149 room building

Key Losses/Delays

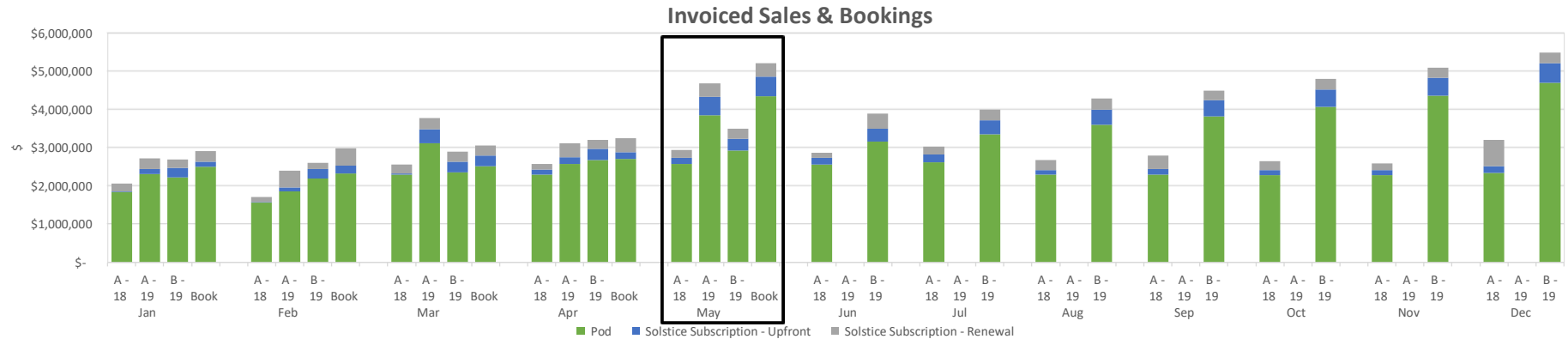
- **P&G** – stayed with AirMedia “standard” for IBG unit. Manufacturing still pursuing Solstice
- **Microsoft** – EBC moving on given Miracast challenges. Willing to test Gen3/4.1 when available
- **2K Games/Interactive** – Went to Zoom for room system requirements
- **Ministry of Presidential Affairs (Dubai)** – lowballed by Chinese screen mirroring solution
- **Oshkosh** – stayed with Clickshare standard
- **Nationwide Insurance** – need low cost solution

Big Wins

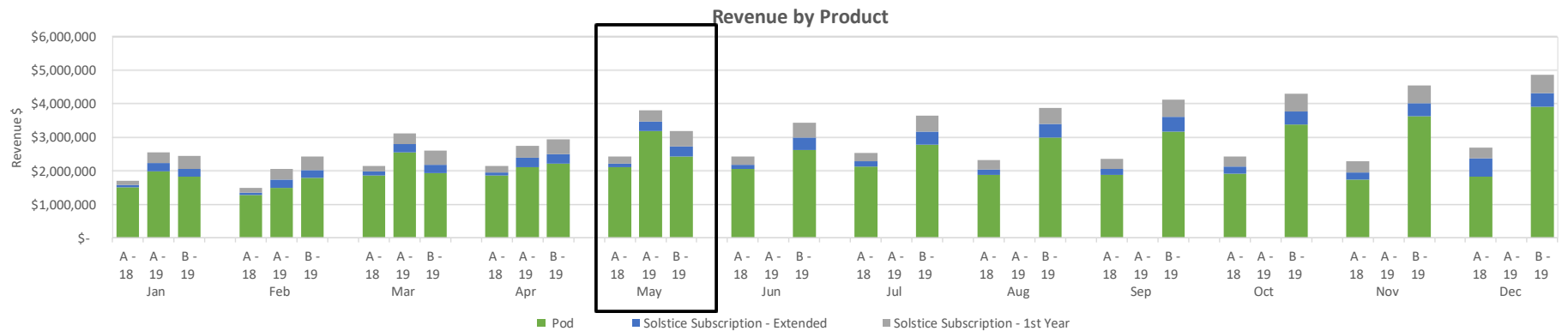
- WeWork - \$482K
- U of Ill - \$167K
- McDermott- \$148K
- Creighton U - \$140K
- MLB - \$138K
- LA Care - \$128K

- Penn State - \$93K
- Brent Council - \$89K
- Westfield Insurance - \$88K
- Jserra HS - \$80K
- Chappaqua HS - \$79K
- Nike- \$76K

Product Sales Metrics – Monthly Trend

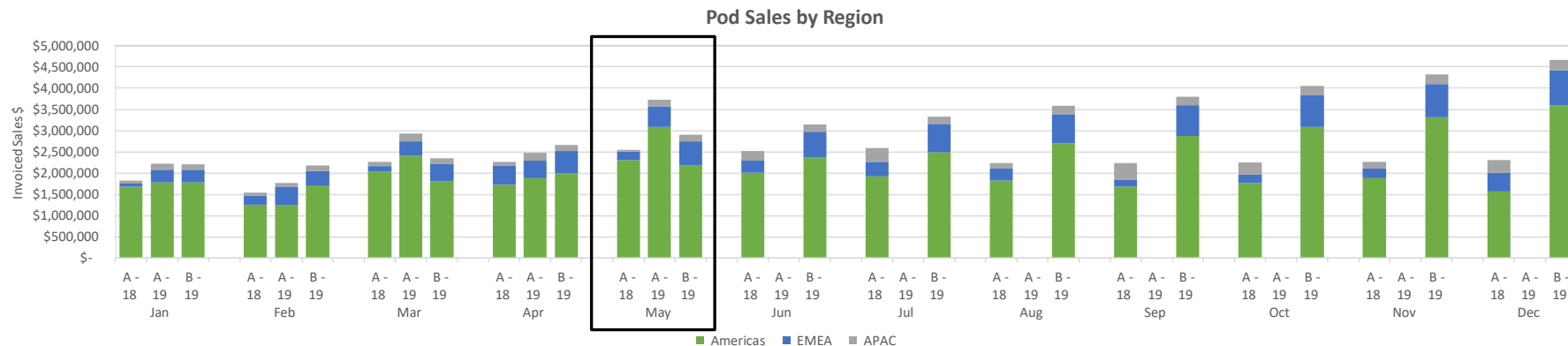


- Invoiced sales were \$4.7m compared to target of \$3.5m. Bookings were \$5.2m.

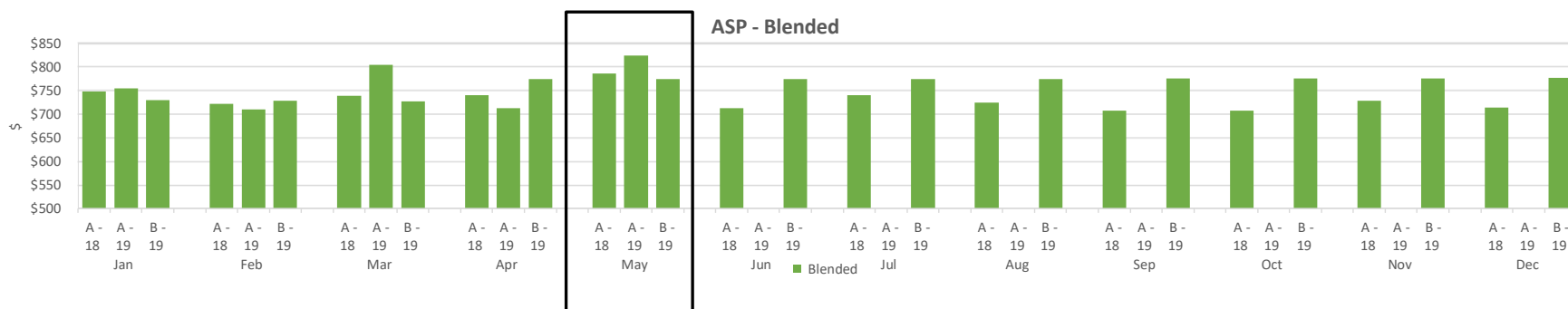


- Graph shows revenue comparatives by product type of '18 Actual, '19 Actual & '19 Budget.

Pod Sales Metrics – Monthly Trend



- May Pod sales were above budget primarily because of strong performance in the Americas region.



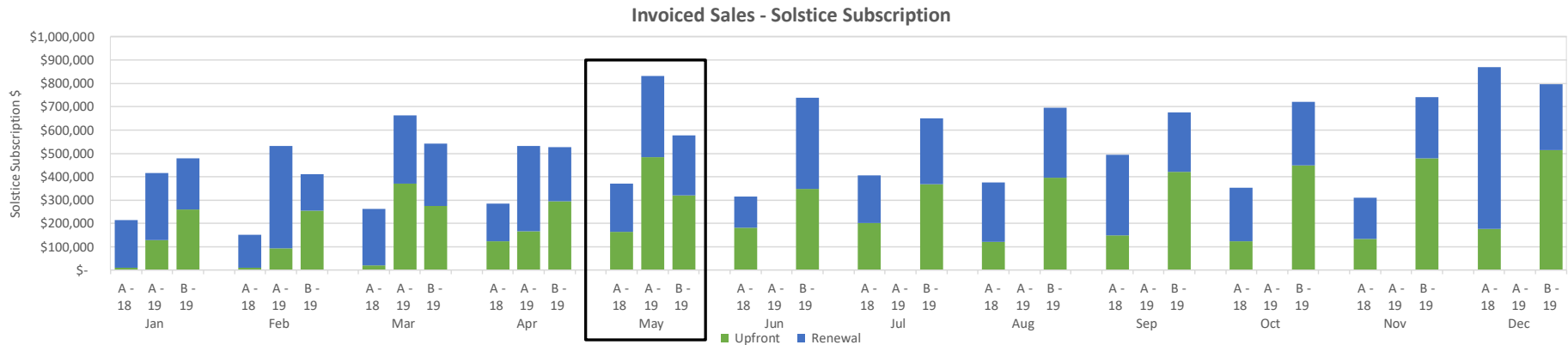
- Graph shows ASP by region historically and planned for remaining 2019
- Overall ASP across all regions was \$825, which is above plan of \$776 due to product and region mix.

ASP by Region – Monthly Trend

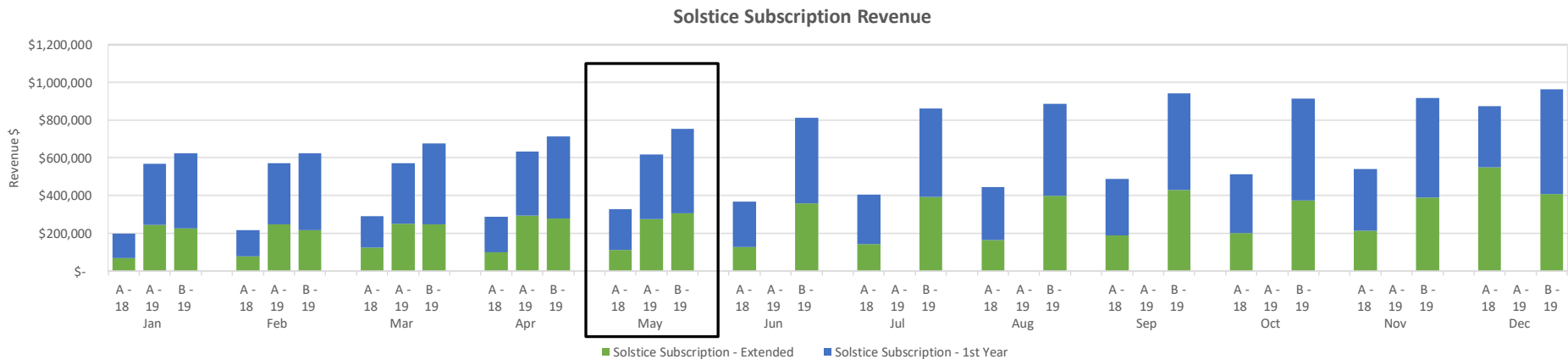


- EMEA and APAC have an overall lower ASP than Americas due to all sales are through distributor channel.
- ASP's for EMEA and APAC were below budget because we assumed 100% of sales beginning in April would be from Gen3. As it turned out, only about 50% of unit sales in APAC & EMEA were for Gen3 product.

Solstice Subscription Metrics – Monthly Trend

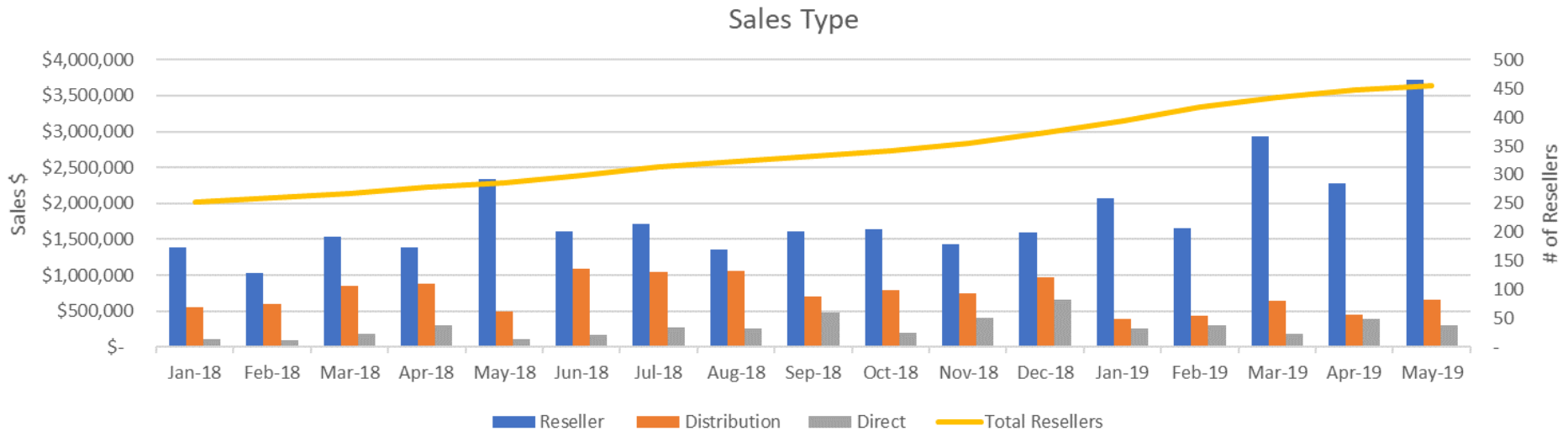
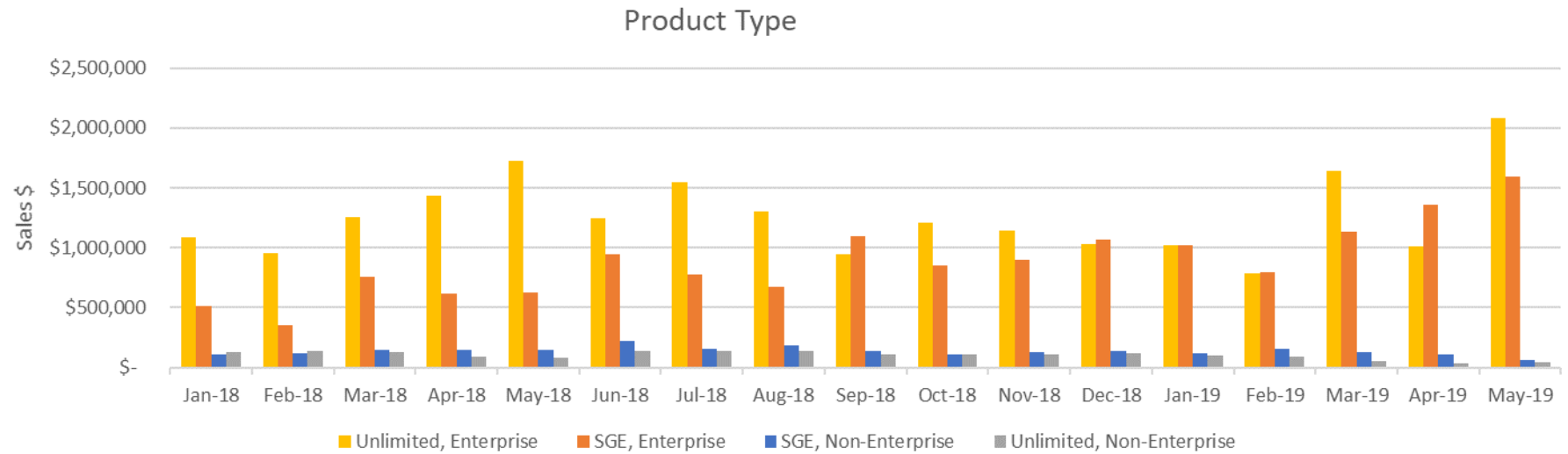


- May invoiced sales for Solstice subscriptions was \$831k vs budget of \$577k driven by gen3 upfront sales with large orders from LA Care and Penn State.

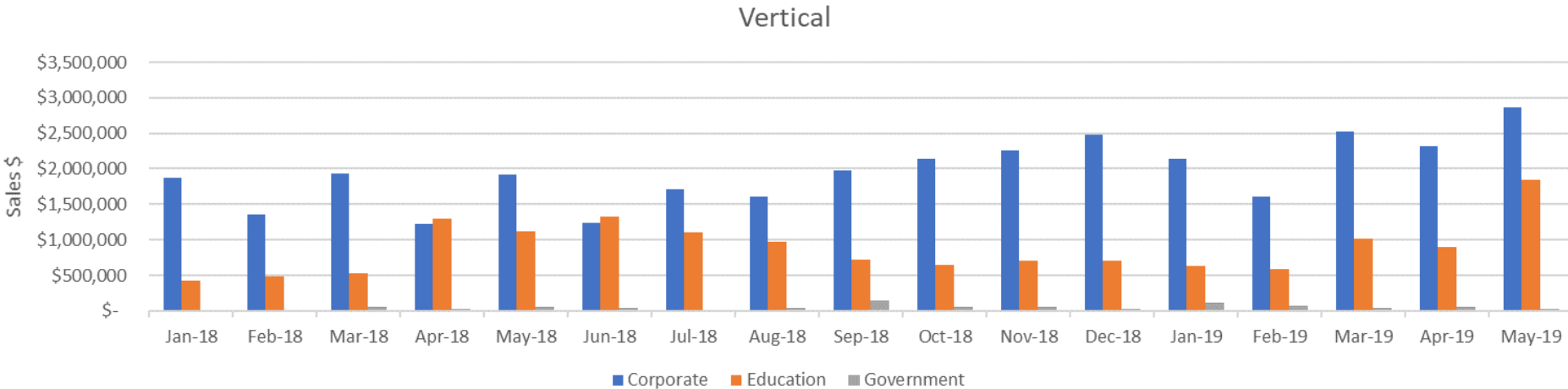


- Revenue in May decreased MoM and is slightly below budget. This is due to YTD audit adjustment true-up to catch up for co-terms where the license is post dated. Note there is no direct correlation between invoiced sales in a particular month and revenue. Revenue begins upon activation of pod following sell-through from distributor to end user.

Product Type & Channel Metrics



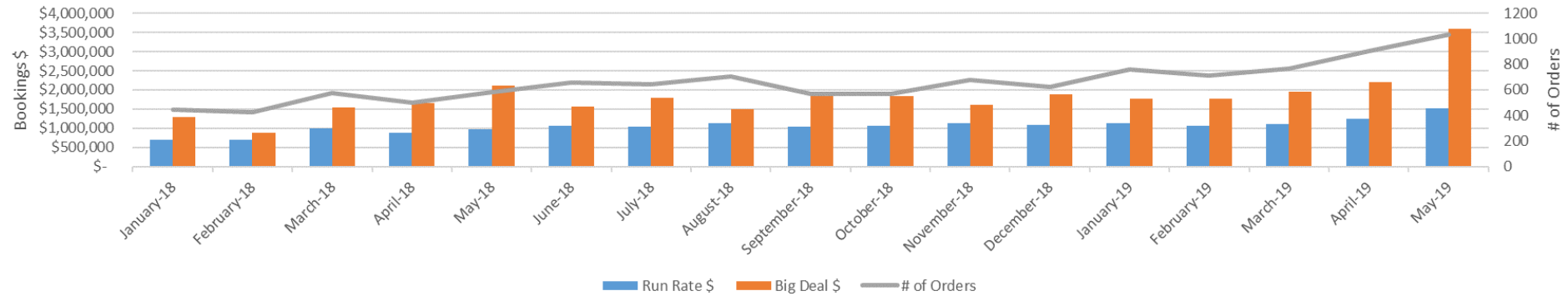
Customer Segment Metrics



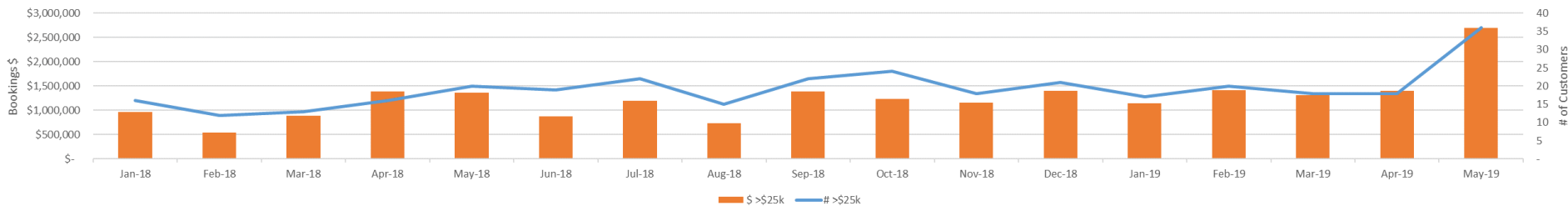
• Invoiced sales exclude stocking orders and include sales out

Big Deals and Run Rate Metrics

Big Deals vs Run Rate

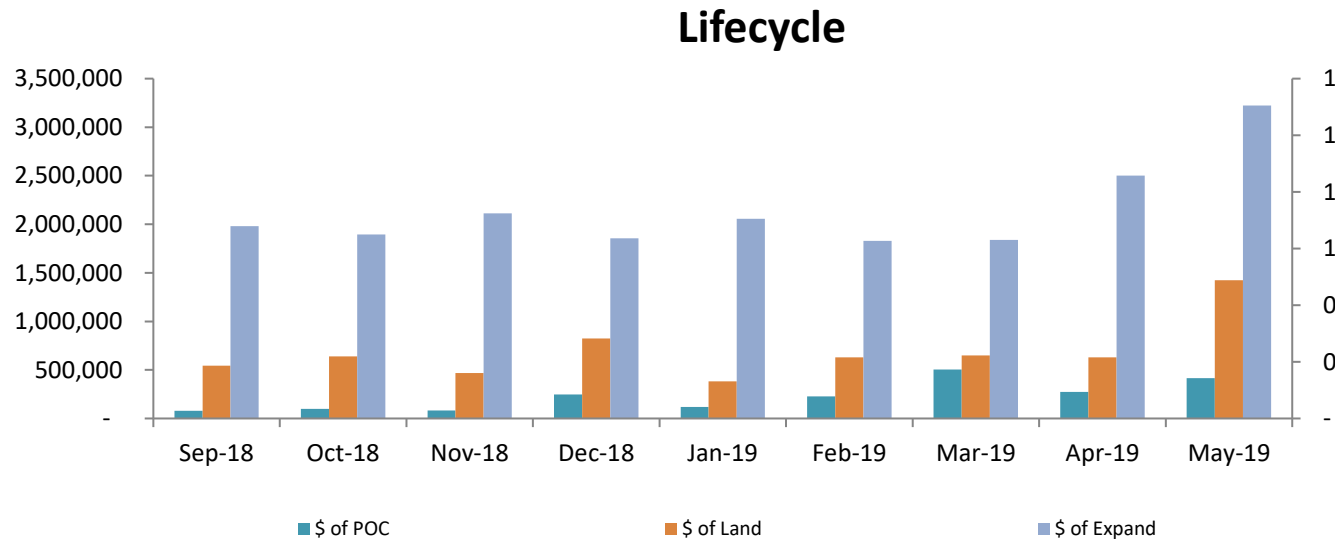


>\$25K



- Bookings exclude stocking orders and include sales out

End User Lifecycle Metrics



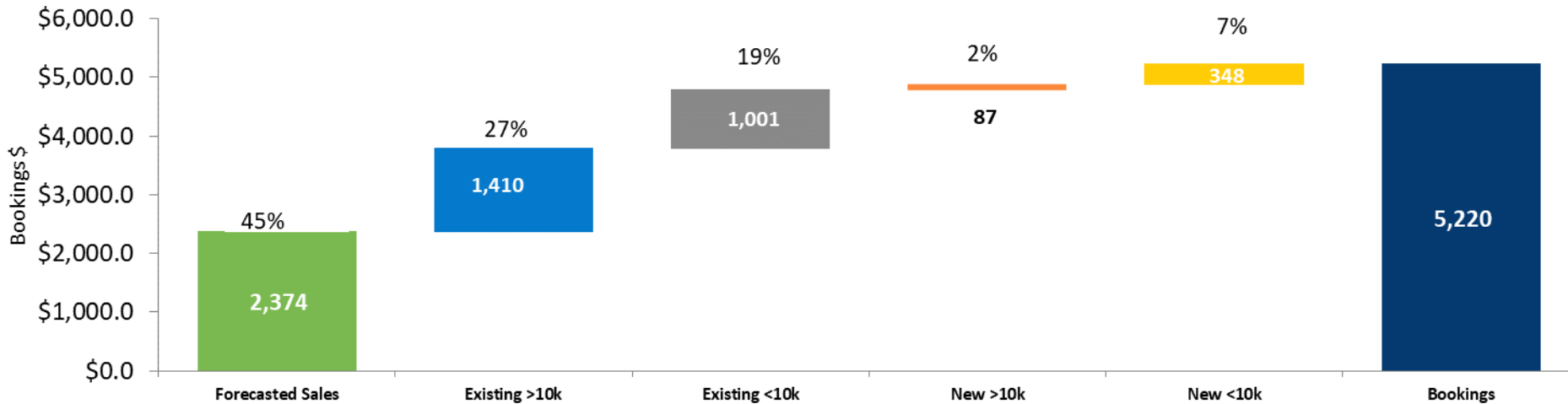
Lifecycle											
	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Total	%
\$ of POC	78,454	98,798	82,215	248,107	118,912	226,336	503,914	272,401	416,792	2,045,928	7%
\$ of Land	545,622	639,324	469,375	824,995	381,964	630,944	650,960	631,466	1,422,369	6,197,018	23%
\$ of Expans	1,979,358	1,896,181	2,112,443	1,854,519	2,055,559	1,829,387	1,837,827	2,499,749	3,221,062	19,286,085	70%
Total	2,603,434	2,634,303	2,664,032	2,927,621	2,556,435	2,686,667	2,992,701	3,403,617	5,060,223	27,529,031	100%

Top Customer Metrics

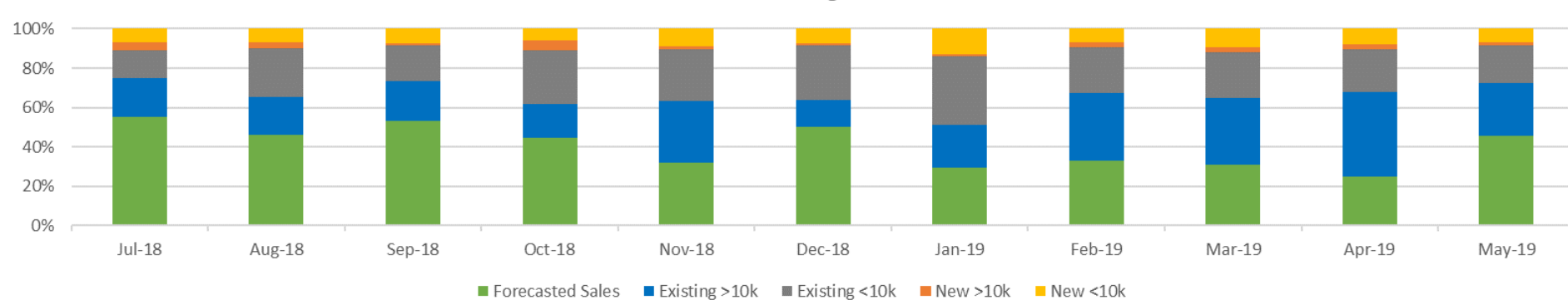
End User	May Amount	% of Total
WeWork	482,179	9%
University of Illinois at Urbana-Champaign	167,124	3%
McDermott	147,734	3%
Creighton University	139,532	3%
Major League Baseball	138,235	3%
LA Care	127,610	3%
Penn State University	93,309	2%
Brent Council	89,454	2%
Westfield Insurance	87,914	2%
JSerra Catholic High School	80,394	2%
Other Customers	3,546,262	70%
Total	5,099,748	100%

End User	LTM Amount	% of Total
WeWork	3,325,895	9%
Penn State University	746,426	2%
Time Warner	643,167	2%
Nike	427,854	1%
Charter Communications	427,137	1%
Kiewit Corporation	369,364	1%
Booz Allen Hamilton	336,949	1%
Mastercard	308,566	1%
University of Illinois at Urbana-Champaign	303,075	1%
Georgia Institute Of Technology	277,602	1%
Other Customers	29,853,248	81%
Total	37,019,282	100%

Bookings Attribution Analysis



Bookings



Management Discussion

- 45% of total bookings for the month were included in forecasted sales by the sales team for the month.
- Another 27% of bookings were from orders over \$10K from existing customers but were not included in forecasted sales for the month.
- 19% of bookings were from orders under \$10K from existing customers and which are not part of forecast.
- Remaining 9% of bookings were from new customers and not included in forecasted sales for the month.

Solstice Subscription – Attach Rate

Upfront

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	LTM 2019
Total Upfront Units Sold	76	142	203	616	873	954	848	597	801	853	648	682	549	355	1,395	565	1,680	9,927
Total Unit Sales	2,281	1,865	2,945	2,970	3,425	3,034	3,151	2,934	3,142	3,677	3,374	3,297	2,951	2,484	3,645	3,472	4,524	39,685
Upfront Rate	3%	8%	7%	21%	25%	31%	27%	20%	25%	23%	19%	21%	19%	14%	38%	16%	37%	25%

Renewal

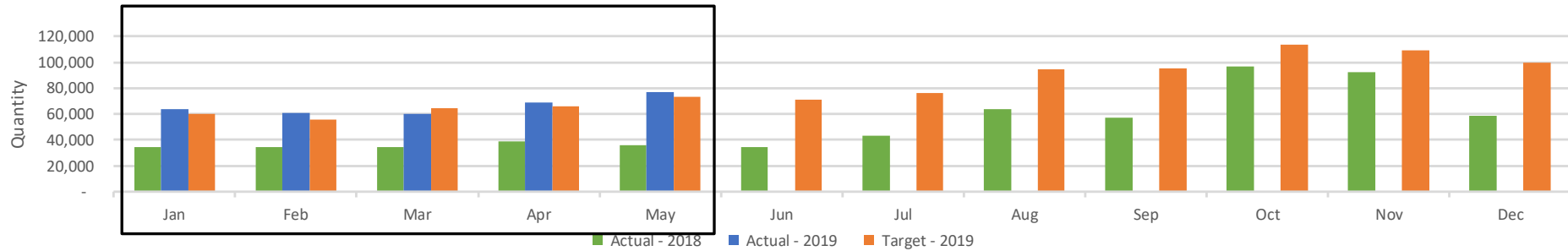
	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Pods w/ Paid solstice subscription	6,485	6,756	6,992	7,411	8,072	8,628	9,852	9,125	10,319	11,588	12,734	16,809	18,930	21,552	22,042	23,944	25,299
Total Pods, post-free solstice subscription	12,088	12,764	13,593	14,551	16,009	17,814	19,060	20,733	22,409	28,731	30,182	32,633	36,845	44,360	47,171	50,356	54,051
Renewal Rate	54%	53%	51%	51%	50%	48%	52%	44%	46%	40%	42%	52%	51%	49%	47%	48%	47%

Management Discussion

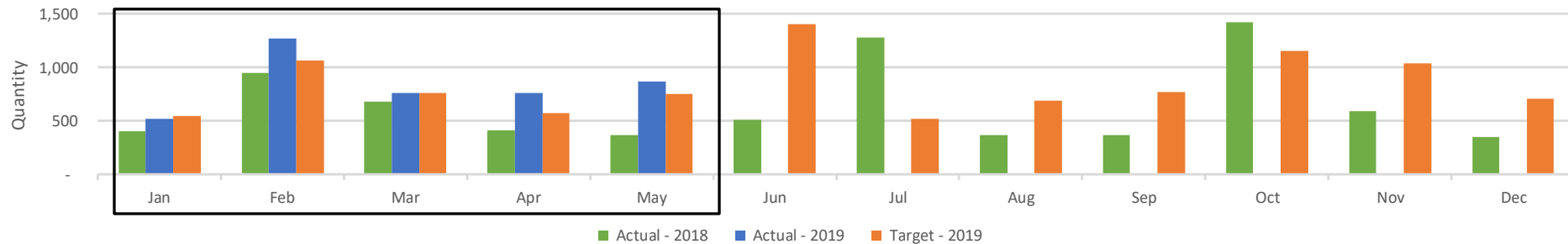
- Upfront attach rate increased in May to 37% below the target of 40%
- Renewal rate remained consistent during May at 47% consistent with the LTM average of 47%

Marketing Metrics

Sessions (Web Traffic)



Marketing Qualified Leads (MQLs)

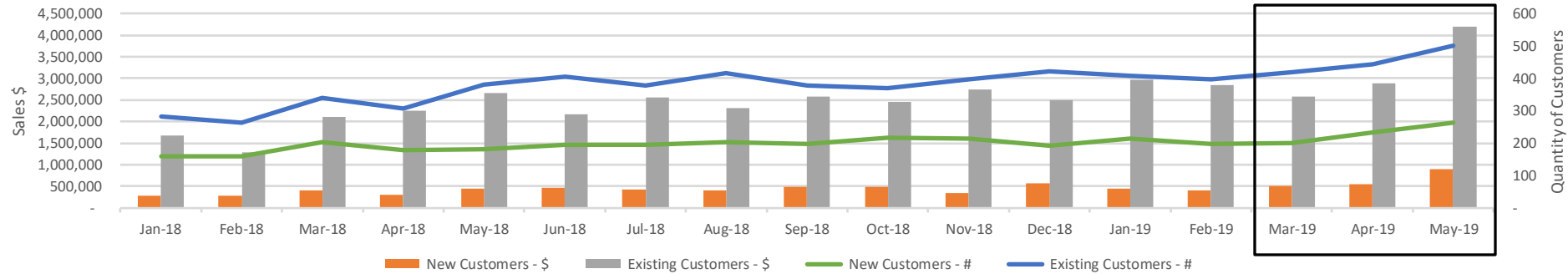


Management Discussion

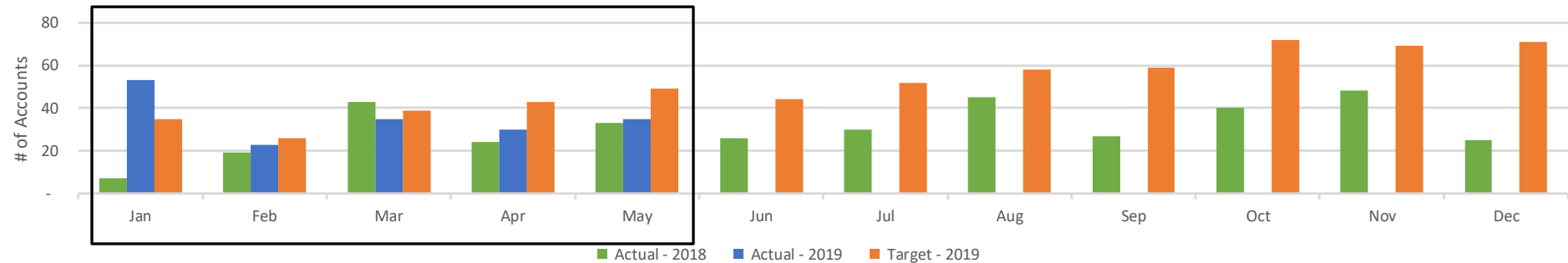
- MQLs are leads that have a HubSpot Score equal to 75 or greater
- Web traffic is 103% of plan YTD – all channels performing; Organic Search (SEO) and Digital Ad channels are ahead of plan
- MQL conversion rates are 117% of plan YTD with particular strength in Direct Traffic and Digital Ad
- MQLs are 117% of plan YTD across with all major channels at or above plan: SEO, Digital Ad, Direct, and Field

New Customer Metrics

Monthly New vs. Existing Customers



Marketing Attributed New Accounts

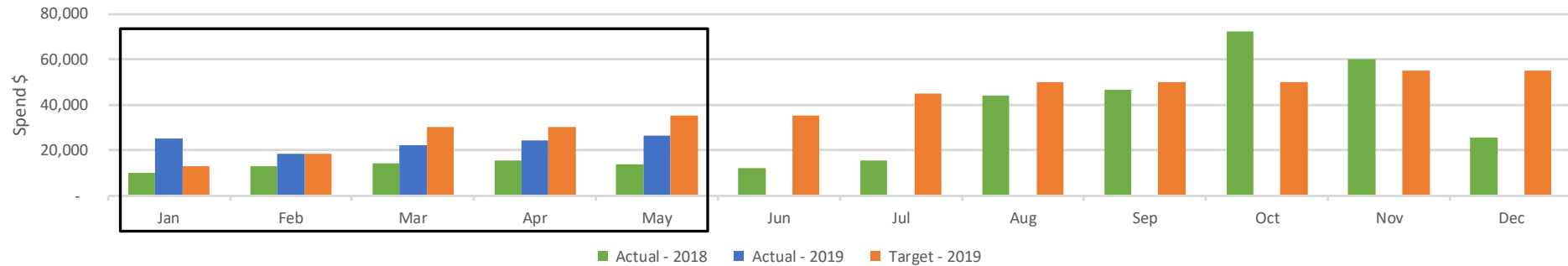


Management Discussion

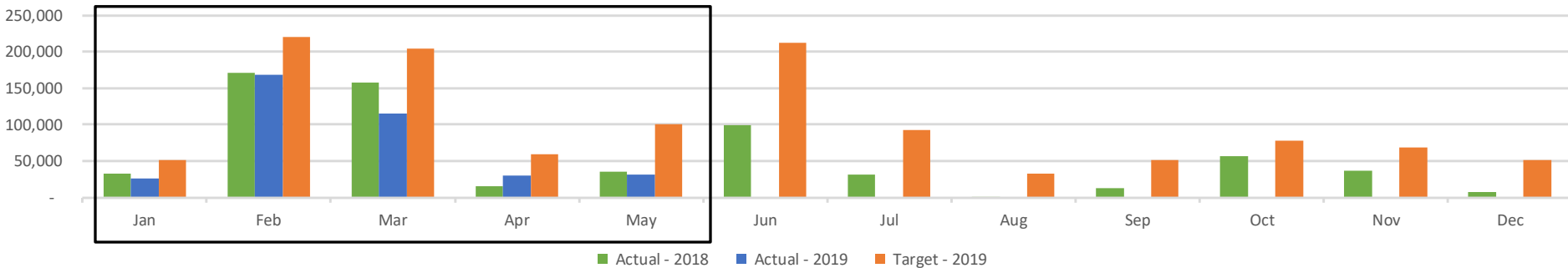
- Net new (NN) accounts and existing accounts placing orders reached all-time highs of 262 (+46% YOY) and 501 (+32% YOY), respectively
- Marketing-attributed NN accounts is at 92% of plan YTD (+40% YOY)
- Close rate from MQL to marketing attributed NN accounts is 69% of plan YTD – improvements being implemented: email / sales workflows with more targeted messaging and hiring additional inbound sales rep to improve coverage of MQLs
- Net New and Existing customers are calculated as bookings excluding stocking orders and including sales out.

Marketing Spend

Digital Ad Spend



Field Marketing Spend

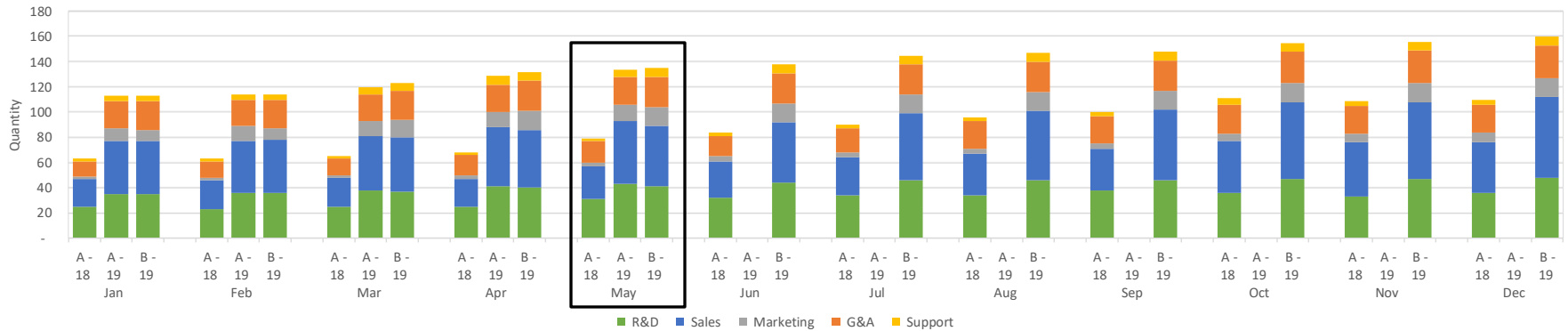


Management Discussion

- Digital Ad spend is at 92% of plan YTD.
- Field marketing spend is at 54% of plan YTD.

Staffing Analysis

Headcount by Department



Management Discussion

- Staffing is behind plan through May, due to G&A and Marketing.



			Replacement	Expected Start Date		
Department	Title	Month Opened	or Addition?	May	June	July
Technical						
	Technical Support Engineer - EMEA	November	A		1	
	Tier 1 Support Engineer	December	A		1	
	Front End Web Developer	March	R	1		
	IT Support Engineer	April	A	1		
	Senior Software Research Engineer	April	A		1	
	Tier 2 Support Engineer	April	A		1	
	Senior Software Engineer	May	A		1	
	Senior Product Manager	May	A		1	
	Senior QA	May	A	1		
Sales						
	Business Development Director	August	A		1	
	Channel Sales Manager - South East US	March	A		1	
	Inbound Sales Development Rep	April	A		1	
	Regional Sales Director - Nordic Countries	April	A	1		
	Regional Sales Director - NW	May	R			1
Marketing						
	Product Marketing Specialist	April	A		1	
	Business Analyst	May	A		1	
	Manager of Enterprise Applications	May	R		1	
	Content Marketing Manager	May	A			1
All Others						
	Controller	April	R		1	
	Payroll and Benefits Specialist	May	A		1	
	Logistics Clerk	May	A		1	
TOTALS			21	4	15	2

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- ➔ Governance Reporting
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Summary P&L

\$'000	MTD		Variance		PY MTD		Variance		YTD		Var		PY YTD		Variance	
	Act	Bud	\$	%	Act	\$	%		Act	Bud	\$	%	Act	\$	%	
Gross Revenue	\$ 3,822	\$ 3,185	\$ 636	20.0%	\$ 2,443	\$ 1,379	56.4%		\$ 14,350	\$ 13,612	\$ 738	5.4%	\$ 9,975	\$ 4,375	43.9%	
Adj. to Gross Revenue	(6)	–	(6)	N/A	(10)	4	(36.8%)		(50)	–	(50)	N/A	(38)	(12)	30.8%	
Net Revenue	3,815	3,185	630	19.8%	2,433	1,382	56.8%		14,300	13,612	688	5.1%	9,937	4,363	43.9%	
Material	966	793	174	21.9%	609	357	58.6%		3,323	2,856	466	16.3%	1,970	1,352	68.6%	
Labor	79	64	14	22.2%	35	44	127.5%		306	282	24	8.5%	183	123	67.6%	
Total COGS	1,045	857	188	21.9%	644	401	62.3%		3,629	3,138	490	15.6%	2,153	1,476	68.5%	
Gross Margin	2,770	2,328	442	19.0%	1,789	981	54.8%		10,671	10,474	197	1.9%	7,784	2,887	37.1%	
<i>Gross Margin %</i>	<i>72.6%</i>	<i>73.1%</i>			<i>73.5%</i>				<i>74.6%</i>	<i>76.9%</i>			<i>78.3%</i>			
R&D	600	572	28	4.9%	290	309	106.5%		2,579	2,618	(39)	(1.5%)	1,445	1,134	78.5%	
Sales & Marketing	1,162	1,156	6	0.5%	561	601	107.2%		5,142	5,515	(374)	(6.8%)	2,655	2,487	93.7%	
Administrative	648	591	57	9.6%	329	319	96.9%		2,908	3,093	(185)	(6.0%)	1,294	1,614	124.7%	
Other Opex	–	14	(14)	(100.0%)	–	–	N/A		–	42	(42)	(100.0%)	–	–	N/A	
Total Opex	2,410	2,333	77	3.3%	1,180	1,229	104.2%		10,629	11,268	(639)	(5.7%)	5,394	5,235	97.1%	
EBITDA	361	(4)	365	(8294.2%)	609	(248)	(40.8%)		42	(794)	837	(105.3%)	2,390	(2,348)	(98.2%)	
<i>EBITDA %</i>	<i>9.5%</i>	<i>(0.1%)</i>			<i>25.0%</i>				<i>0.3%</i>	<i>(5.8%)</i>			<i>24.1%</i>			
Net Income (Loss)	\$ (5)	\$ (430)	\$ 425	(98.9%)	\$ 181	\$ (186)	(102.6%)		\$ (1,913)	\$ (2,867)	\$ 954	(33.3%)	\$ 657	\$ (2,570)	(391.3%)	
Capex	\$ (32)	\$ (5)	\$ (27)	545.1%	\$ (36)	\$ 4	(11.4%)		\$ (258)	\$ (272)	\$ 14	(5.1%)	\$ (83)	\$ (176)	213.0%	

Management Discussion

- Invoiced sales were \$4.7m compared to target of \$3.5m, including \$831k of solstice subscription invoice sales recorded. Bookings were \$5.2m, resulting in backlog of \$538k at month end. May bookings of Gen 3 outpaced Gen 2i for the first time, with Gen 3 comprising 55% of total invoiced hardware sales. MTD invoiced sales mix by region: Americas 82% actual vs 75% budget, EMEA 14% actual vs 20% budget, APAC 4% actual vs 5% budget. YTD invoiced sales mix by region: Americas 81% actual vs 77% budget, EMEA 14% actual vs 18% budget, APAC 5% actual vs 5% budget.
- Revenue of \$3.8m includes approximately \$3.2m of pod revenue and \$621k of deferred solstice subscription revenue from prior months amortized into net revenue. Pod revenue of \$3.2m is 131% of budget of \$2.4m for the month. YTD revenue outperformance to plan largely driven by Pod sales and Solstice subscription renewals.
- Units shipped for the month were 4,524 vs budget of 3,556 and overall invoiced ASP was \$825 vs the budget of \$780. ASP overperformance to budget driven by the Americas region, \$877 invoiced ASP vs \$811 budgeted. Both EMEA (\$658 vs \$706) and APAC (\$601 vs \$618) invoiced ASPs were down versus budget.
- Renewal solstice subscription licenses sold were 2,137 compared to target of 1,768 resulting in invoiced sales of \$347k compared to budget of \$256K. YTD renewal invoiced sales of \$1.7m is \$600K above budget of \$1.1k. Increased focus by Inside Sales on co-term deals are having significant impact on outperformance.
- Upfront solstice subscription licenses sold were 1,680 compared to target of 1,426 resulting in invoiced sales of \$484k compared to budget of \$321k. Upfront attached rate was 37% compared to a budgeted attach rate of 40%. YTD upfront invoiced sales of \$1.2m is \$160k below budget of \$1.4m.
- Gross Margin % is slightly down to budget due to ASPs below budget for EMEA and APAC and a higher mix Gen 3 vs Gen 2i.
- MTD Opex higher than plan, largely drive by Recruiting, Equipment, and higher Rent cost than budgeted. YTD OpEx remains below budget due to being behind on hiring plan and marketing spend.
- Capex was higher than expected due to timing of IT additions relative to budgeted dollars.

Balance Sheet

\$'000	Feb-19	Mar-19	Apr-19	May-19		Variance
	Act	Act	Act	Act	Bud	\$
Current Assets						
Cash and cash equivalents	\$ 5,686	\$ 4,558	\$ 3,800	\$ 3,684	\$ 2,646	\$ 1,038
Short term investments	—	—	—	—	—	—
Accounts receivable, gross	3,949	5,444	5,940	6,816	4,833	1,983
Accounts receivable, reserves	(74)	(74)	(74)	(74)	(48)	(26)
Accounts receivable, net	3,874	5,370	5,865	6,742	4,785	1,957
Inventory, net	2,298	2,746	3,448	2,596	2,801	(205)
Prepaid expenses and other current assets	1,914	1,868	2,100	1,850	1,241	609
Total Current Assets	13,773	14,541	15,213	14,872	11,473	3,399
Non-Current Assets						
Property, plant & equipment, gross	1,044	1,106	1,134	1,166	1,183	(17)
Accumulated depreciation	(212)	(275)	(321)	(334)	(83)	(251)
Property, plant & equipment, net	832	830	813	832	1,100	(268)
Goodwill	20,675	20,675	20,675	20,675	20,675	(0)
Identifiable intangible assets, net	6,176	5,911	5,643	5,371	5,206	165
Deferred tax asset	6,488	6,488	6,488	6,488	6,647	(159)
Other non-current assets	292	327	334	407	275	132
Total Non-Current Assets	34,463	34,231	33,952	33,772	33,903	(131)
Total Assets	\$ 48,235	\$ 48,772	\$ 49,165	\$ 48,644	\$ 45,376	\$ 3,268
Current Liabilities						
Notes payable	3,500	3,500	3,500	3,500	3,500	—
Accounts payable	1,732	1,665	2,370	649	561	88
Accrued liabilities	337	259	251	381	164	217
Accrued compensation	1,075	1,284	1,321	1,534	1,331	203
Income taxes payable	694	694	694	694	—	694
Other current liabilities	333	324	338	374	242	132
Total Current Liabilities	7,670	7,726	8,473	7,132	5,798	1,334
Long-term liabilities						
Long-term unearned revenue	6,312	6,902	7,244	8,055	8,181	(126)
Deferred liabilities	154	154	151	163	165	(1)
Total Long-Term Liabilities	6,466	7,056	7,394	8,218	8,346	(128)
Total Liabilities	14,136	14,781	15,868	15,351	14,144	1,207
Shareholders' Equity						
Total Shareholders' Equity	34,099	33,990	33,298	33,293	31,232	2,061
Total Liabilities and Shareholders' Equity	\$ 48,235	\$ 48,772	\$ 49,165	\$ 48,644	\$ 45,376	\$ 3,268

Management Discussion

- Cash is trending downwards primarily driven by increased AR and drop in AP (see below and CFS).
- AR 'days sales outstanding' at 55 vs budget of 50. Increase driven by record invoice sales month. Allowance account unchanged as write-offs still not a business risk.
- Inventory 'days outstanding' at 77 vs budget of 99. Improved turnover related to record number of pod shipments, 4,254 vs budget of 3,566. Total ending inventory balance: Gen 2i - 6,500 pods, Gen 3 - 7,063 pods.
- Prepaid and OCA balances are higher than expected due to receivable from landlord, trade show prepaids, prepaid monitoring fees, and additional prepaids from various vendors.
- AP 'days payable outstanding' at 19 vs budget of 35. Decrease is due to payment of Inforce bills related to inventory.
- Accrued Compensation increased 200k and is over budget due to growth in accrued commissions and bonus due to significant sales growth.
- Income taxes payable was larger than expected due to taking a conservative approach with tax liabilities related to taxable income associated with invoiced solstice subscription. The liability will become a receivable as we have over accrued and over-paid our taxes in December. We anticipate reversing the accrual and recording a refund for overpayment that will be applied to 2019 estimated taxes.
- Deferred revenue is below budget primarily due to a change in deferred revenue assumptions related to ASC 606 revenue recognition. Large month over month increase driven by record invoice sales (Free Year Subscription)

Cash Flow Statement

\$'000	MTD			Var	PY-MTD	Var	YTD			Var	PY YTD	Var
	Act	Bud	\$				Act	Bud	\$			
Cash flow from operations												
Net Income (Loss)	\$ (5)	\$ (430)	\$ 425		\$ 181	\$ (186)	\$ (1,913)	\$ (2,867)	\$ 954	\$ 657	\$ (2,570)	
Depreciation, amortization and other	289	288	1		273	16	1,501	1,426	75	1,359	141	
Deferred income tax	–	–	–		–	–	–	(159)	159	–	–	
<i>Change in operating assets and liabilities:</i>												
Accounts receivable	(876)	(275)	(601)		132	(1,008)	(1,710)	194	(1,904)	(1,101)	(610)	
Inventory	852	114	738		553	299	(1,206)	(1,411)	205	(498)	(708)	
Prepaid expenses and other current assets	251	(15)	266		13	238	(745)	599	(1,344)	237	(982)	
Accounts payable	(1,721)	117	(1,838)		(110)	(1,610)	(251)	(94)	(157)	83	(334)	
Accrued expenses	343	(1,035)	1,377		187	156	218	(494)	712	(204)	422	
Accrued income taxes	0	–	0		–	0	(0)	(694)	694	–	(0)	
Other changes in operating assets and liabilities	824	329	495		493	331	2,202	1,299	903	1,799	402	
Other cash flow from operations	(36)	(4)	(32)		8	(45)	112	(618)	730	50	62	
Total Cash Flow from Operations	\$ (79)	\$ (910)	\$ 831		\$ 1,730	\$ (1,809)	\$ (1,792)	\$ (2,819)	\$ 1,027	\$ 2,383	\$ (4,175)	
Cash flow from investing												
Additions to property, plant and equipment	\$ (32)	\$ (5)	\$ (27)		\$ (36)	\$ 4	\$ (258)	\$ (272)	\$ 14	\$ (83)	\$ (176)	
Investment in intangibles	(4)	–	(4)		(350)	346	(43)	(40)	(3)	(100)	57	
Total Cash Flow from Investing	\$ (36)	\$ (5)	\$ (31)		\$ (386)	\$ 350	\$ (301)	\$ (312)	\$ 11	\$ (183)	\$ (118)	
Cash flow from financing												
Total Cash Flow from Financing	\$ –	\$ –	\$ –		\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	
	\$ –	\$ –	\$ –		\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	
Net change in cash	\$ (116)	(915)	\$ 800		\$ 1,343	\$ (1,459)	\$ (2,093)	\$ (3,131)	\$ 1,038	\$ 2,200	\$ (4,293)	
Beginning cash	3,800	3,561	238		3,333	467	5,777	5,777	–	2,476	3,301	
Change in cash	(116)	(915)	800		1,343	(1,459)	(2,093)	(3,131)	1,038	2,200	(4,293)	
Ending cash	\$ 3,684	\$ 2,646	\$ 1,038		\$ 4,676	\$ (992)	\$ 3,684	\$ 2,646	\$ 1,038	\$ 4,676	\$ (992)	

Management Discussion

- Cash continues to trend downwards as the business continues to invest for growth. As laid out in the budget, we expect cash to 'trough' in Q3 as a fully ramped sales team coupled with efficiently managed working capital pull cash back to an upward trend.
- Overall change in working capital right at budget for the month of May. 'Cash conversion' at 113 days vs budget of 114.
- Large variance in AR vs target the result of Invoiced Sales exceeding budget by \$1.8m (Actual of \$16.7m vs 14.9 Budget).
- Cash from changes in Inventory has exceeded both MTD and YTD as strong demand for Gen 3 has reduced days inventory outstanding vs budget expectations.
- YTD Prepays variance is driven by higher than expected receivable from landlord, trade show prepaids, prepaid monitoring fees, and additional prepaids from various vendors.
- Significant variance to budget MTD in accrued expenses is due to planned MIPs payment in May vs Q1 actual payment.

Monthly Operating Review Meeting Agenda

- ➔ Executive Summary
- ➔ Financial Review
- ➔ Full Year Financial Outlook
- ➔ **Governance Reporting**
- ➔ Appendix

Management Governance Report

Board of Directors

- Andrew Nikou
- Rob Young
- Chris Jaynes
- Rob Balgley
- John Case
- Paul Bridwell

Audit Committee

- Dan Hudspeth
- Paul Bridwell
- Shawn Haghighi
- Andrew Martinez

2018 Year End Auditors

- Deloitte

Anonymous Hotline

- Navex implementation complete; hotline is now live

Internal Control & Authority Matrix

- Adopted effective 2/27/18

Management Governance Report (Continued)

A)	Requests for waivers or out-of-the-ordinary course approvals under the Internal Control and Corporate Governance Matrix, Code of Ethics or any internal control:	Additional costs for Leasehold improvements related to new lease and facility expansion
B)	Any conflicts of interest or the appearance of any such conflict or potential conflict:	None
C)	Any actual or apparent weakness or inadequacy in the Company's policies of internal controls and financial reporting:	Deloitte has identified a lack of segregation of duties related to NetSuite. We will address revising roles upon hiring of Controller
D)	Any reports or complaints regarding accounting, internal accounting controls or auditing matters.	None

Monthly Operating Review Meeting Agenda

- ➔ Executive Summary
- ➔ Financial Review
- ➔ Governance Reporting
- ➔ **Appendix**

YTD Opex Analysis

\$'000

	YTD			Explanation of Variance				Variance Impact		
	Act	Bud	Variance B / (W)	One-Time / Non-recurring	Change in Timing	Run-rate	Other	Total Variance B / (W)	YoY Impact B / (W)	Annualized Impact B / (W)
Payroll	\$ 5,255	\$ 5,813	\$ (558)	\$ —	\$ (558)	\$ —	\$ —	\$ (558)	\$ —	\$ —
Benefits	739	786	(48)	\$ —	\$ (48)	—	—	(48)	—	—
Bonus	598	701	(104)	\$ —	\$ (104)	—	—	(104)	—	—
Commissions	592	574	17	—	17	—	—	17	—	—
Marketing	972	1,307	(334)	—	(334)	—	—	(334)	—	—
Travel and Entertainment	659	409	250	—	250	—	—	250	—	—
Rent and Facilities	544	388	156	—	—	156	—	156	156	156
Insurance	24	21	3	—	3	—	—	3	—	—
Professional Fees	433	306	127	—	127	—	—	127	—	—
Utl., Repair, Maint., & Sec.	125	176	(51)	—	(51)	—	—	(51)	—	—
Office Expense	82	20	62	—	62	—	—	62	—	—
IT	553	681	(128)	—	(128)	—	—	(128)	—	—
Other Expenses	53	86	(33)	—	(33)	—	—	(33)	—	—
Total Opex	\$10,629	\$11,268	\$ (639)	\$ —	\$ (795)	\$ 156	\$ —	\$ (639)	\$ 156	\$ 156

Management Discussion

- Payroll is under budget due to employee turnover and being behind plan on a \$ and quantity basis. Budgeted employee headcount was 134 versus actual of 135 as of May-19.
- Marketing is under budget due to timing of spending in field, content, and digital. Marketing T&E and consulting is also included in Marketing line, so netted together is only 181k under budget.
- T&E is primarily driven by being over budget in Sales by 95k and G&A by 86k.
- Rent is over budget primarily due to increased CAM.
- Professional Fees are over budget due to 1) higher than expected recruiting costs and 2) additional consulting hours related to systems improvements.
- IT is under budget due to timing of data related IT projects.

Operating Expenses Summary

\$'000

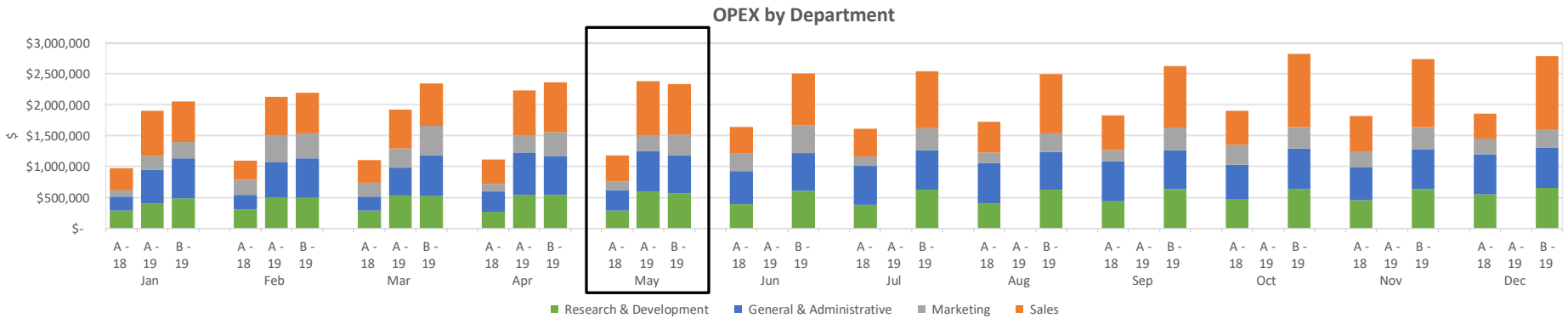
Opex Overview:

Payroll	\$ 1,153	\$ 1,261	\$ (108)	(8.6%)	\$ 623	\$ 530	85.1%	\$ 5,255	\$ 5,813	\$ (558)	(9.6%)	\$ 2,677	\$ 2,577	96.3%
Overtime	—	—	—	N/A	—	—	N/A	—	—	—	N/A	—	—	N/A
Benefits	157	165	(7)	(4.4%)	80	77	95.6%	739	786	(48)	(6.0%)	492	247	50.1%
Bonus	131	154	(22)	(14.4%)	105	27	25.6%	598	701	(104)	(14.8%)	219	379	172.9%
Commissions	155	145	10	7.2%	109	46	42.6%	592	574	17	3.0%	470	122	26.0%
Marketing	187	221	(34)	(15.6%)	79	107	135.5%	972	1,307	(334)	(25.6%)	587	385	65.7%
Travel and Entertainment	152	87	66	76.2%	51	101	198.7%	659	409	250	61.1%	244	415	170.5%
Rent and Facilities	132	78	55	70.6%	50	83	166.3%	544	388	156	40.2%	243	301	123.9%
Insurance	8	4	3	80.5%	5	3	49.9%	24	21	3	15.8%	20	4	18.9%
Professional Fees	86	61	25	40.3%	22	64	297.3%	433	306	127	41.6%	114	319	278.8%
Utl., Repair, Maint., & Sec.	23	35	(13)	(36.2%)	13	9	70.2%	125	176	(51)	(28.8%)	97	28	29.4%
Office Expenses	24	4	20	492.7%	19	5	23.7%	82	20	62	311.0%	90	(8)	(8.5%)
IT	187	102	85	83.7%	5	182	3584.8%	553	681	(128)	(18.8%)	44	509	1162.6%
Bad Debts	—	—	—	N/A	—	—	N/A	—	—	—	N/A	(3)	3	(100.0%)
Other Expenses	15	17	(3)	(14.8%)	20	(5)	(25.3%)	53	86	(33)	(38.8%)	100	(47)	(47.2%)
Total Opex	\$ 2,410	\$ 2,333	\$ 77	3.3%	\$ 1,180	\$ 1,229	104.2%	\$ 10,629	\$ 11,268	\$ (639)	(5.7%)	\$ 5,394	\$ 5,235	97.1%

Management Discussion

- Please see previous slide on expense analysis.

Operating Expenses Summary



Management Discussion

- Graph shows departmental spend comparatives for '18 actual, '19 actual and '19 budget.

AR and AP Aging Detail

\$'000

AR Aging				
Days	Mar-19	Apr-19	May-19	
0-30	\$ 4,851	\$ 4,768	\$ 5,612	
30-60	206	571	742	
60-90	283	328	311	
>90	104	272	151	
Total Gross AR	\$ 5,444	\$ 5,940	\$ 6,816	
Reserves	(74)	(74)	(74)	
Total Net AR	\$ 5,370	\$ 5,865	\$ 6,742	

AP Aging				
Days	Mar-19	Apr-19	May-19	
0-30	\$ 1,190	\$ 1,717	\$ 380	
30-60	323	217	141	
60-90	67	38	58	
>90	84	397	71	
Total	\$ 1,665	\$ 2,370	\$ 649	

Management Discussion

- AR increased due to increase in invoiced sales, especially due to increased sales at month end. Decrease in past due balances was due to BTX paying off their balance and increased focus on >45 days aged collection.
- Decrease in >30 AP is due to decrease in inventory payables and timing of other payments to other vendors.



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