



Monthly Operating Review – April 2019

May 21, 2019

Monthly Operating Review Meeting Agenda

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

Hits

- March bookings were \$3.25m and invoiced sales were \$3.1m, compared to target of \$3.2m.
- Strong Solstice subscription renewal results - \$366k against a target of \$234k.
- Overall Solstice subscription sales (renewal + upfront) was \$532k against a target of \$528k
- Record month for order volume – 900 (trending up from 770 in Mar-19)
- New customers – 233 (trending up for month)
- Large orders for WeWork (\$668k), Stony Brook University (\$73k) and Nestle (\$62K).
- Office remodel planning has begun – contractor bids have been received, need to reconcile against budget
- 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
 - Sales Engineers in France, Netherlands and Germany
- Customer Adoption
 - Sales from existing customers – WeWork \$667K, SUNY Stony Brook \$73K, University Iowa \$70K, Fifth Third Bank \$54K, University Pennsylvania \$40K, University Indiana \$39K, Chamberlain \$38K, Accenture \$37K, Time Warner \$32K
 - Land orders – Nestle \$61K, Town Centre Securities \$52K, Bucknell \$37K, General Dynamic \$20K
 - New deals – Unum Group \$40K, PLMJ \$34K, University of East Anglia \$21K, Brinker Group \$21K

Executive Summary (Continued)

Misses

- Upfront solstice invoiced sales of \$166k compared to budget of \$293k.
- MTD EBITDA – (\$295k) compared to target of (\$214k)
- Staffing –
 - Jason Parson, NW Sales RSD – Terminated (involuntary)
 - Bill Henry, Salesforce Admin – Resigned (involuntary)
 - Jackie Hustad, Manager of Accounting – Resigned (voluntary)

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.
- Investigate phantom stock program
- 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 were about 30% of sales in March and April but are running over 50% in May Issues with packaging being investigated Still tracking policy changes including power supplies and HDMI cables as separate line items, bulk packaging Resolving HDMI-in issues with Inforce Investigating possible HDMI-out connector issues
<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"> Transition from Jon to Tae now complete Tae has begin instituting changes
<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 lowering prices, financial issues at Barco, Plantronics/Polcom looking for buyer, Logitech pulls back bid on Plantronics - \$2B 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 Room Link (aka VTC integration) underway = objective is to have a prototype running at Infocom in June
<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
<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 - investigating
<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 (rows2-4) goes away since we have already launched
		Meet supply chain timing & target for Gen3 Pods	Finalize international certifications, silkscreening	Dan/Rob/Chris	90%	CJ: Added certification work as it's still partially underway
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	50%	MP: initial set of email workflows implemented. Progressing on contact database purchase
		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		Hired ANZ/Sales Ops Coordinator/UK Chjannel Mgr. Others outstanding
		Hire Mid Atlantic RSD replacement	Hire to plan	Rick		Complete. Start date 5/20
						JB: 5/7: 50% estimated completion
3	Ensure Product Roadmap Drives Market	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	50%	Overlook capability embedded into all Solstice clients along with enable/disable capability. JB: updated corporate objective and added key result language, added Tae, TK: changed 4.1 tolerance date from 7 to 14 days, this is one full regression cycle time at this point for a release. As testing times improve and we do more on-going intelligent testing, we'll get a better confidence measure
		Improve Solstice Quality	10 P1 tech debt bugs fixed by end of Q2 (existing stability, automation, escalations, etc)	Jon/Tae	60%	JB: 5/7: 60% completion update
4	Scale Marketing and Support	Standardize branding / messaging	Complete brand architecture and messaging 5/31; Launch brand campaign 6/17	Martin	50%	MP: Brand architecture nearing completion. Scripting and intial video work is under way for brand campaign.
		Scale digital marketing	Launch revamped social strategy 4/1; Launch segment-customized website copy for account-based marketing 5/31	Martin	50%	MP: revamped social strategy has been launched. Copy revisions for ABM are in progress. Note we deprioritized partner page updates to next quarter.
		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	50%	MP: all events progressing to plan.
		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	50%	MP: competitive campaigns have been scaled up. Customer success process in under development. LCE recommendation has not started and may get pushed to Q3.
5	Invest in our people	Rollout 401K matching program	All company presentation	Dan	100%	Enrollment meeting completed
		Hire VP of HR	On Board new VP of HR	Rob	100%	Michelle on board
		Implement Q1 OKR Program - depart only	Continue with Q2 OKR program	Dan	100%	Program in place for Q2
6	Improve business intelligence reporting	Develop Recurring Revenue Reporting	Include monthly reporting in MOR & Board deck	Dan	25%	Need Contract management module completed
		Implement Contract Management in NetSuite	Complete and refine processes, procedures & policies	Dan	75%	Preparing to upload data into sandbox
		Develop key operating metrics report - P vs A	Impliment non-financial reporting metrics in Netsuite	Dan	25%	Several added; more to go

Michelle's Reflections After 30 Days with Mersive

Initial Observations and Priorities from the CPO

The Good

- Most employees have expertise, intellect and passion
- The culture is strong, welcoming, respectful and diverse
- Employee turnover is relatively low
- The employees in HR are eager to step up their impact
- The issues that exist are stage-appropriate

The Challenges

- Current recruiting and onboarding processes won't scale
- HR team is inexperienced
- Many managers are not seasoned leaders
- Employees need more clarity, context, direction, and information
- Executives work largely independently of each other

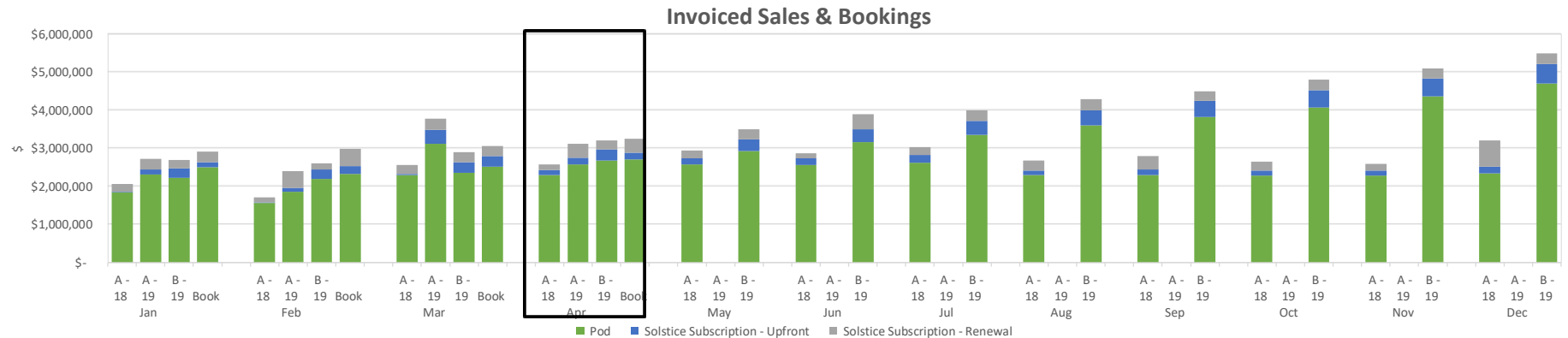
Priority Initiatives

- **Build and scale the HR function** – Hire experienced HR professionals, automate HR operations, document processes, cross train
- **Recruiting** - Scale processes, optimize resources, define Talent Brand, elevate visibility in Denver, train interviewers, ensure hires are scale-appropriate and culture "adds"
- **Onboarding** – Build beyond Day 1, streamline international hiring and onboarding
- **Manager effectiveness** – Create manager success profile, train, develop and coach managers, hire and promote based on management competencies, strengthen the effectiveness of the Executive team for the next level of scale
- **Imbed Accountability** - Articulate The Mersive Way, further develop role clarity company-wide, document decisions and practices, take goal-setting to the next level, and ensure rewards for performance
- **Employee Experience** - Expand and unify Denver's office space, ensure remote employees have the right resources and a sense of belonging, clarify career paths, establish a culture of appreciation and recognition, and amplify internal communications for context, alignment and understanding.

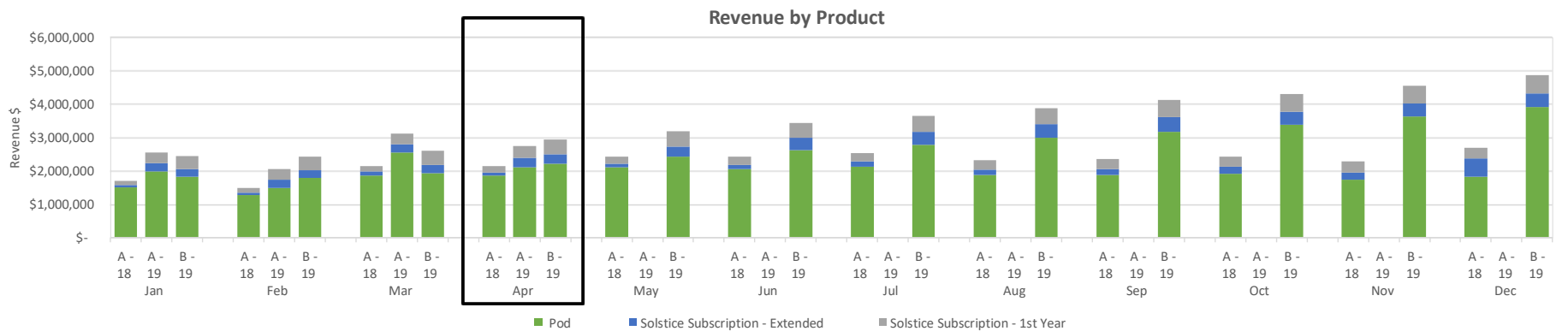
Big Wins, Key Deals and Losses

Upcoming Key Deals	Key Losses/Delays
<ul style="list-style-type: none"> • Accenture – Contract complete. POCs ongoing. Miracast fix req • General Dynamics IT – new GD opportunity on heels of HQ. \$100K+ • FDIC – awaiting order in Q2 - \$100K+ • Expedia HQ – Evaluation for inclusion in new HQ – came to Engage • P&G – In negotiation with procurement. Pricing will be issue • MLB – 150 units in NY HQ – Q2 • TJX – came back to Solstice after selecting Cisco. Pilot pending in UK • Phoenix Union – dumped Unite. Bidding on 1,700 rooms • CIBC – looking at 1,200 rooms. Network discussions • CBRE – 500 room potential in Q2 – require vlan tagging/Realtek fix • Comcast - \$155K maintenance renewal + 70 Rooms • 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 – In standard shootout. 100s of rooms in new HQ • Toyota – Back in after 2 yrs and pitching to replace AirMedia 	<ul style="list-style-type: none"> • QBE – on hold pending additional qualification • Altria – on hold pending additional qualification • KPMG – went with Pano but rumor has it they’re not happy. Circling back
Big Wins	
<ul style="list-style-type: none"> • WeWork - \$668K • Stony Brook - \$74K • U of Iowa - \$70KK • Nestle - \$62K • Fifth Third Bank - \$54K • Town Centre Securities - \$53K 	<ul style="list-style-type: none"> • KU Law - \$43K • UPENN - \$41K • Indiana U - \$39K • Chamberlain - \$38K • Bucknell U - \$38K • Accenture- \$36K

Product Sales Metrics – Monthly Trend

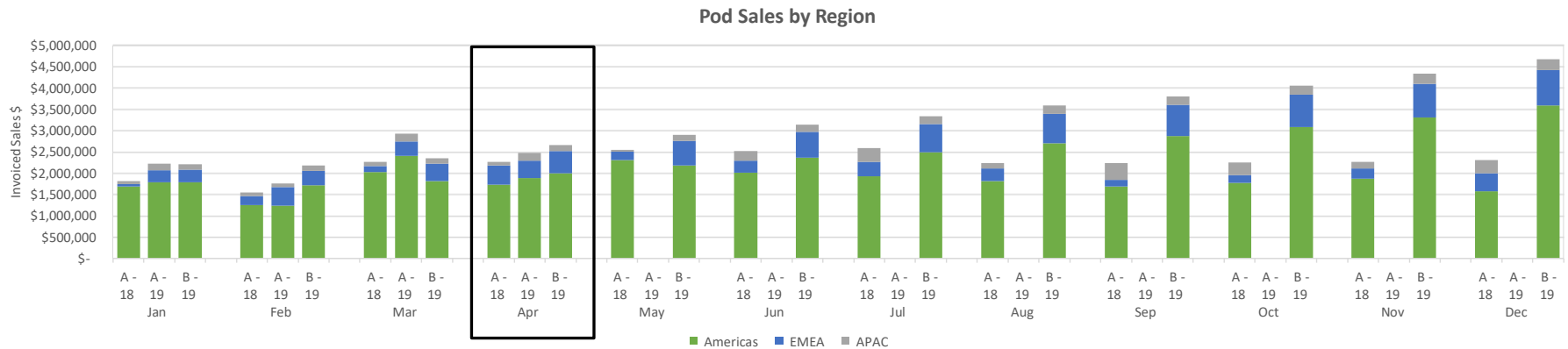


- Invoiced sales were \$3.1m compared to target of \$3.2m. Bookings were \$3.2m.

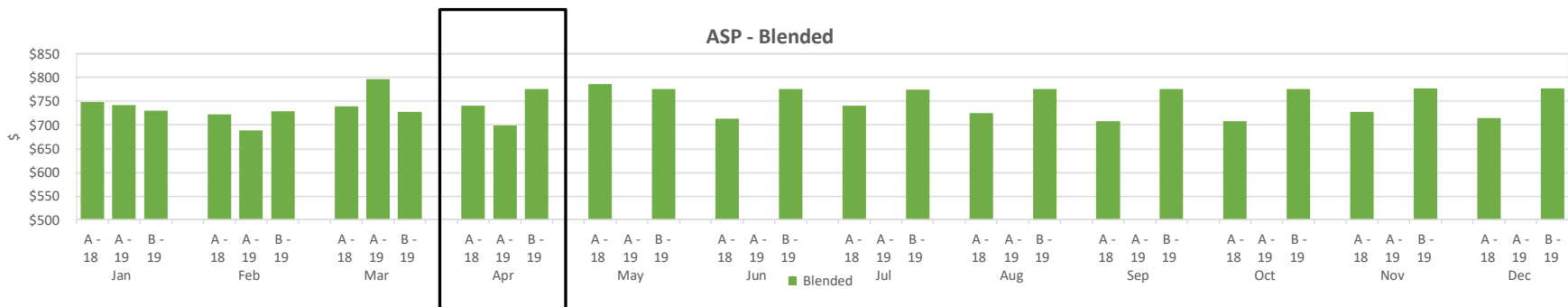


- Graph shows revenue comparatives by product type of '18 Actual, '19 Actual & '19 Budget.

Pod Sales Metrics – Monthly Trend



- April Pod sales were slightly below budget primarily because of underperformance in the Americas region.



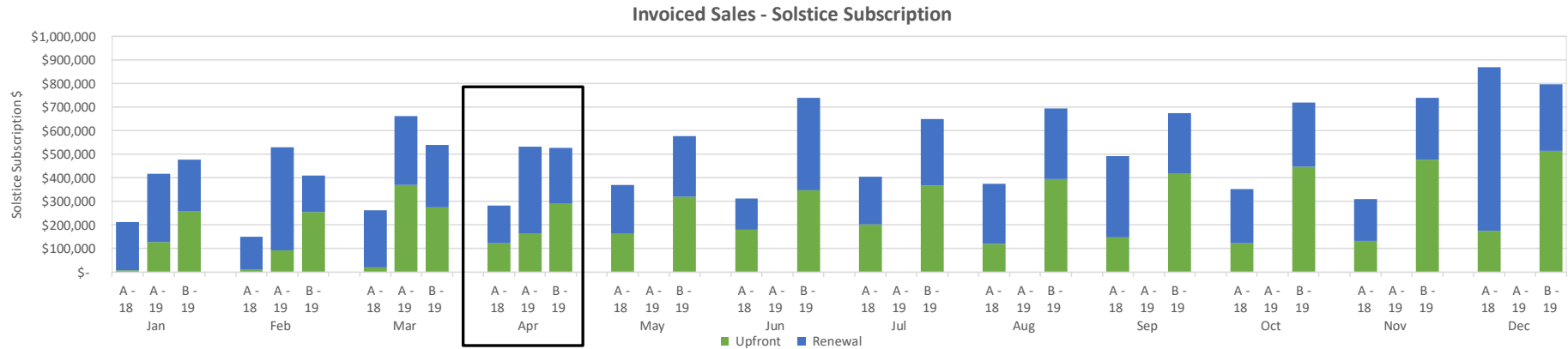
- Graph shows ASP by region historically and planned for remaining 2019
- Overall ASP across all regions was \$713, which is below plan of \$776 due to geographical (EMEA) and product (Wework) mix.

ASP by Region – Monthly Trend

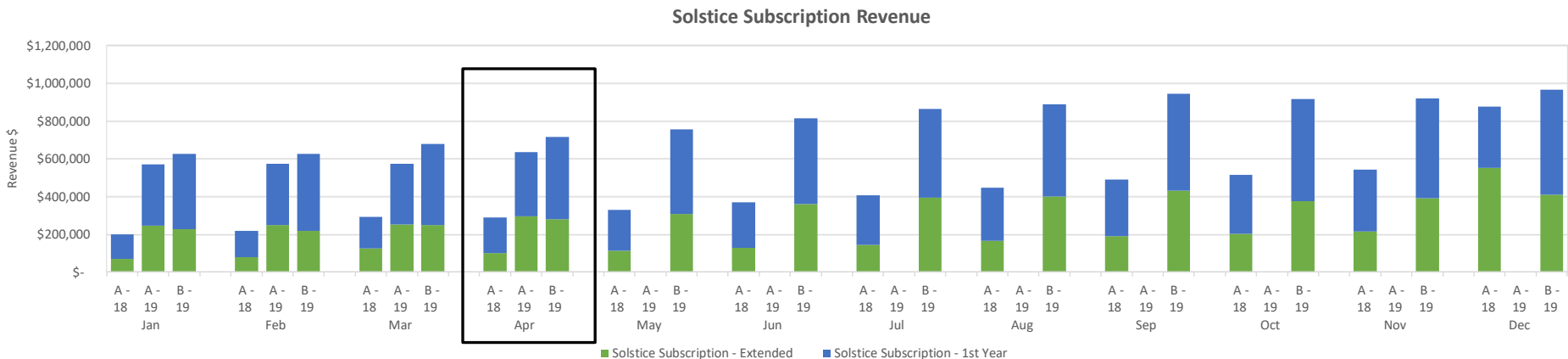


- EMEA and APAC have an overall lower ASP than Americas due to all sales are through distributor channel.
- ASP's for each area were significantly below budget because we assumed 100% of sales beginning in April would be from Gen3. As it turned out, very few sales in APAC & EMEA were for Gen3 product.

Solstice Subscription Metrics – Monthly Trend



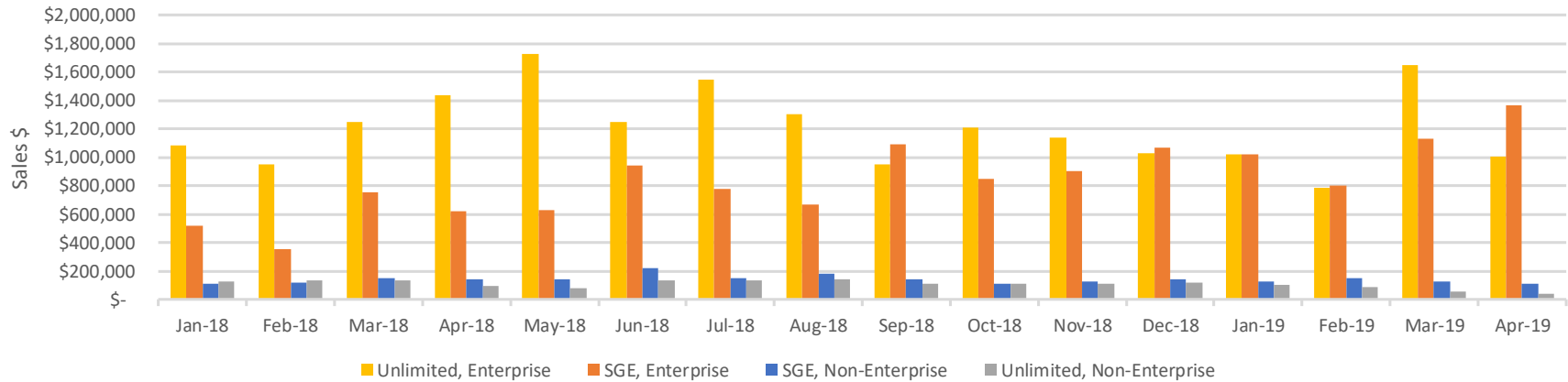
- April invoiced sales for Solstice subscriptions was \$532k vs budget of \$528k driven by renewal sales with large orders from UPenn and West Chester University.



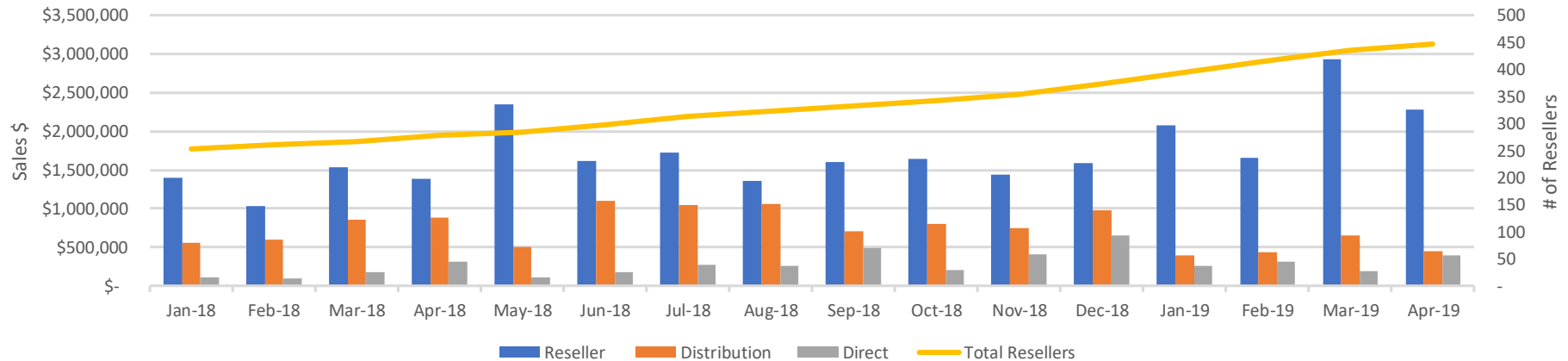
- Revenue in April is slightly below budget. Note there is no direct correlation between invoiced sales in a particular month and revenue. Revenue begins upon activation of pod following sell-through from distributor to end user.

Product Type & Channel Metrics

Product Type

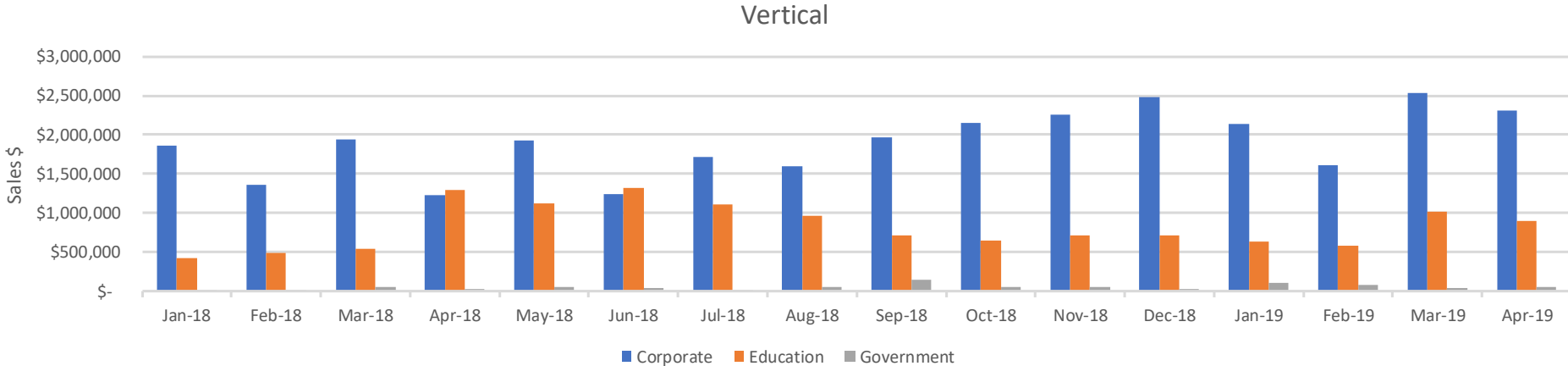


Sales Type



- Invoiced Sales
- Significant increase in SGE due to \$580k from WeWork in April.

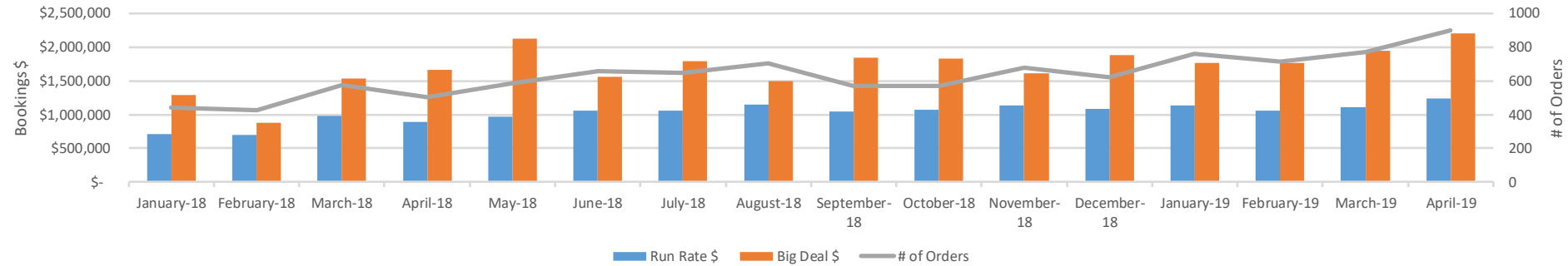
Customer Segment Metrics



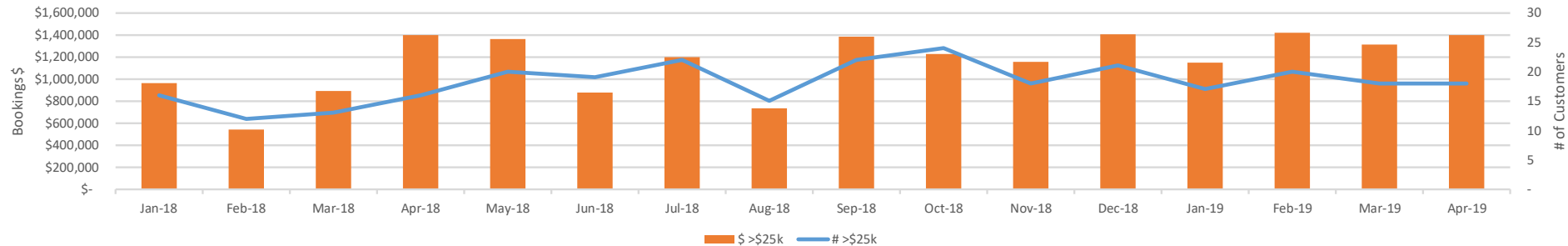
• Invoiced sales excluding stocking orders and including sales out

Big Deals and Run Rate Metrics

Big Deals vs Run Rate

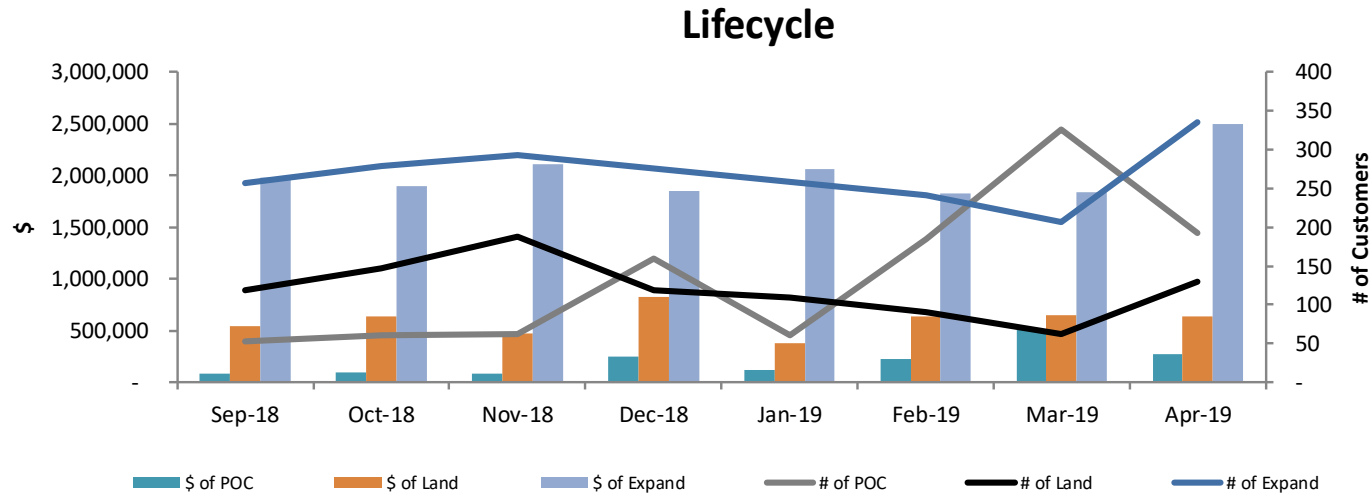


>> \$25K



- Bookings excluding stocking orders and including sales out

End User Lifecycle Metrics



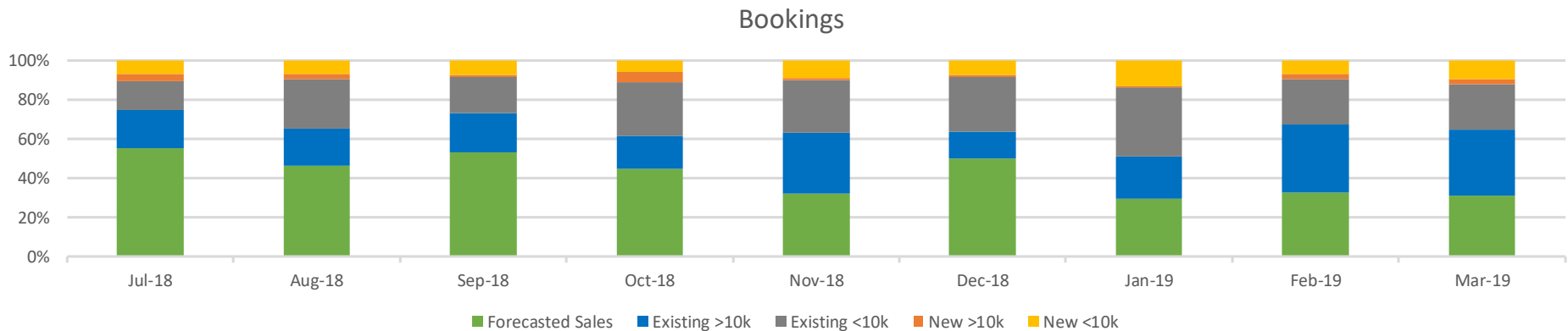
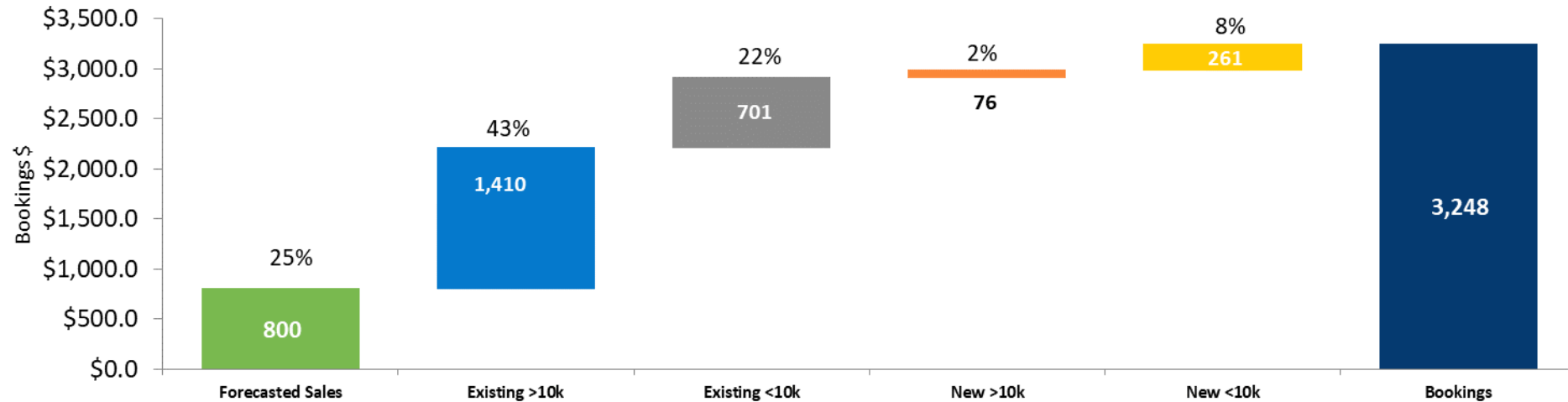
Lifecycle										
	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	Total	%
\$ of POC	78,454	98,798	82,215	248,107	118,912	226,336	503,914	272,401	1,629,136	7%
\$ of Land	545,622	639,324	469,375	824,995	381,964	630,944	650,960	631,466	4,774,649	21%
\$ of Expand	1,979,358	1,896,181	2,112,443	1,854,519	2,055,559	1,829,387	1,837,827	2,499,749	16,065,023	71%
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	22,468,808	100%

Top Customer Metrics

End User	Apr Amount	% of Total
WeWork	667,963	19%
Stony Brook University	73,274	2%
The University of Iowa	69,798	2%
Nestle	61,561	2%
Fifth Third Bank	54,257	2%
Town Centre Securities PLC	52,595	2%
University of Kentucky Law Library	43,192	1%
University of Pennsylvania - The Wharton Sc	40,730	1%
Indiana University	38,823	1%
The Chamberlain Group Inc.	38,215	1%
Other Customers	2,298,637	67%
Total	3,439,044	100%

End User	LTM Amount	% of Total
WeWork	3,325,895	9%
Comcast	746,426	2%
CCS Presentation Systems	643,167	2%
Time Warner	427,854	1%
Nike	427,137	1%
Penn State University	369,364	1%
Charter Communications	336,949	1%
Mastercard	308,566	1%
Booz Allen Hamilton	303,075	1%
Kiewit Corporation	277,602	1%
Other Customers	27,914,140	80%
Total	35,080,173	100%

Bookings Attribution Analysis



Management Discussion

- 25% of total bookings for the month were included in forecasted sales by the sales team for the month.
- Another 43% of bookings were from orders over \$10K from existing customers but were not included in forecasted sales for the month.
- 22% of bookings were from orders under \$10K from existing customers and which are not part of forecast.
- Remaining 10% of bookings were from new customers and not included in forecasted sales for the month.

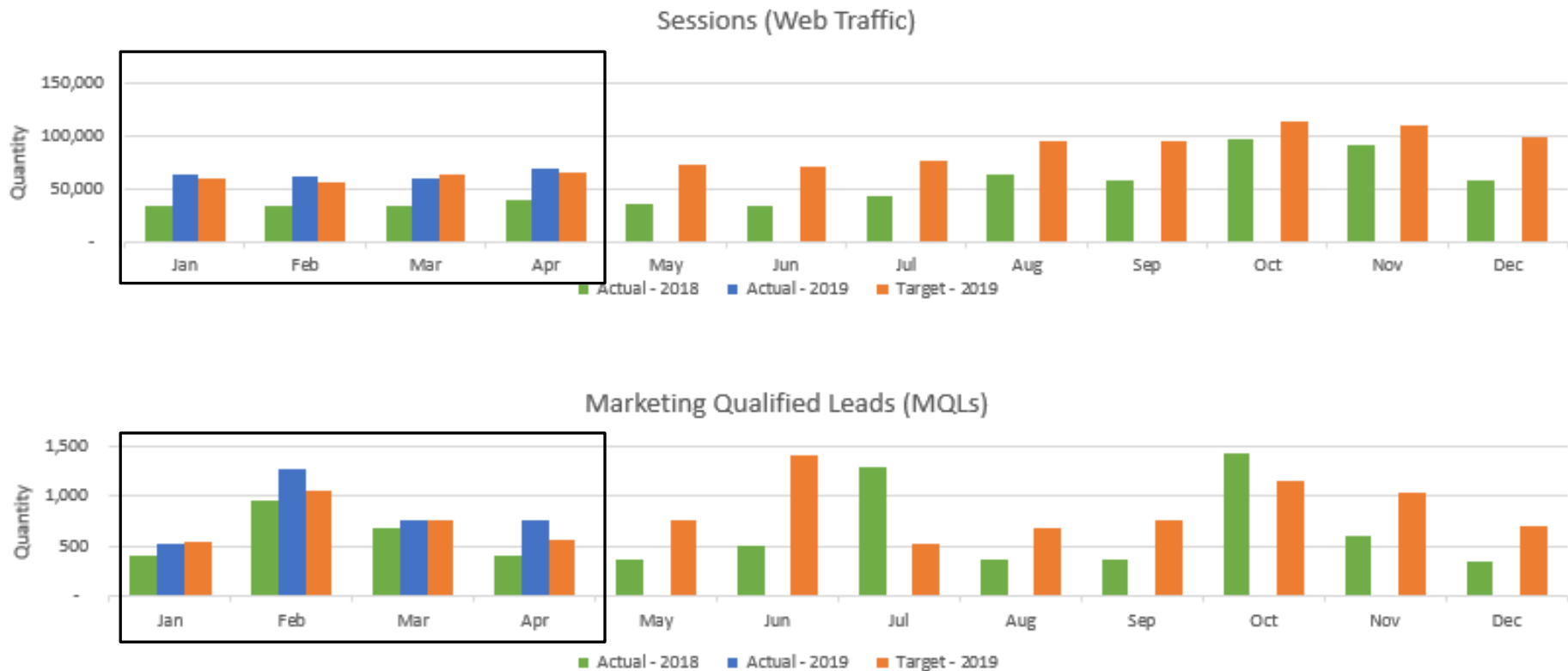
Solstice Subscription – Attach Rate

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	LTM 2019
Total Upfront Units Sold	76	142	203	616	873	954	848	597	801	853	648	682	549	355	1,395	565	9,120
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	38,586
Upfront Rate	3%	8%	7%	21%	25%	31%	27%	20%	25%	23%	19%	21%	19%	14%	38%	16%	24%

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	
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	
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	
Renewal Rate	54%	53%	51%	51%	50%	48%	52%	44%	46%	40%	42%	52%	51%	49%	47%	48%	

Management Discussion

- Upfront attach rate decreased in April to 16% below the target of 40%
- Renewal rate increased during April to 48% consistent with the LTM average of 47%



Management Discussion

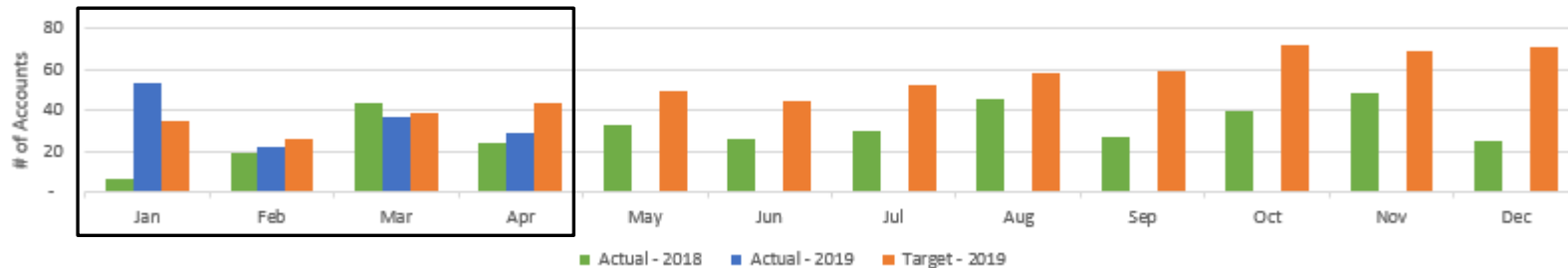
- MQLs are leads that have a HubSpot Score equal to 75 or greater
- Web traffic is 103% of plan YTD – all channels performing; Organic Search (SEO) and Digital Ad channels are ahead of plan
- MQL conversion rates are 120% of plan YTD with strength in Direct Traffic and Digital Ad
- MQLs are 118% of plan YTD mainly due to over performance in conversion rates noted above

New Customer Metrics

Monthly New vs. Existing Customers



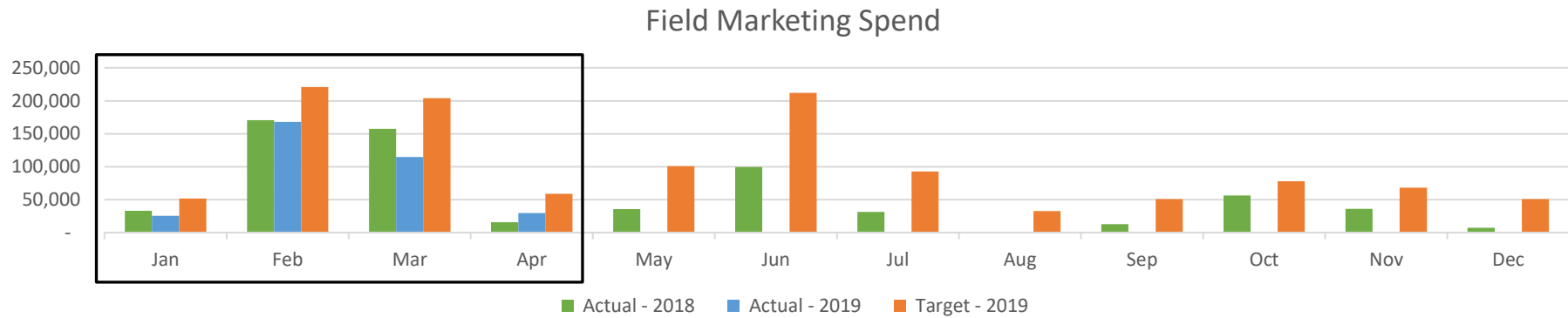
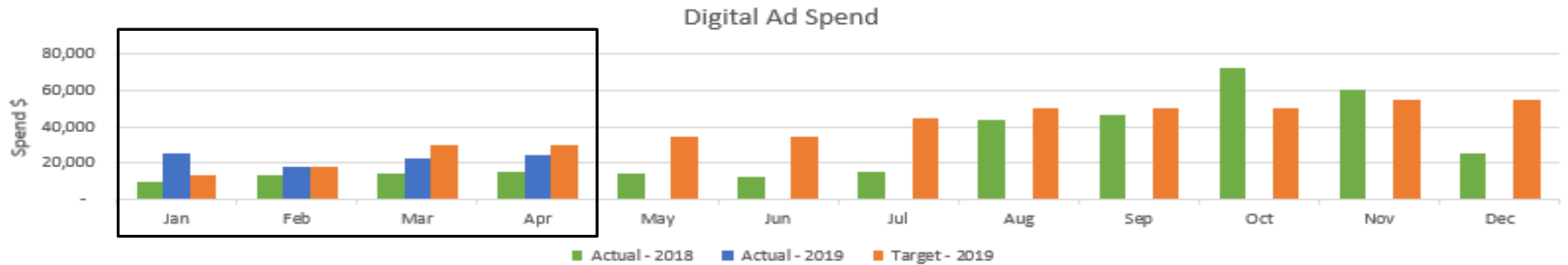
Marketing Attributed New Accounts



Management Discussion

- Net new (NN) accounts and existing accounts placing orders reached all-time highs of 233 (+30% YOY) and 463 (+51% YOY), respectively
- Marketing-attributed NN accounts is at 97% of plan YTD (+51% YOY)
- Close rate from MQL to marketing attributed NN accounts is 71% 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.

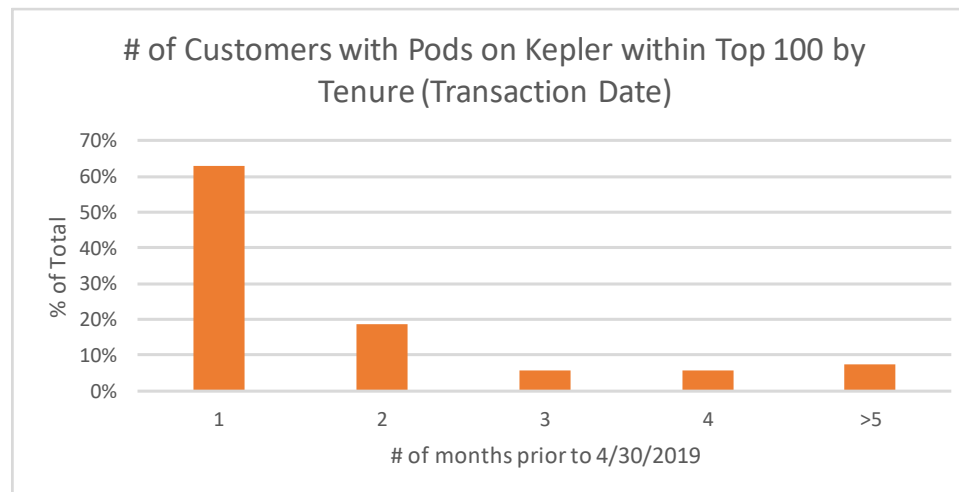
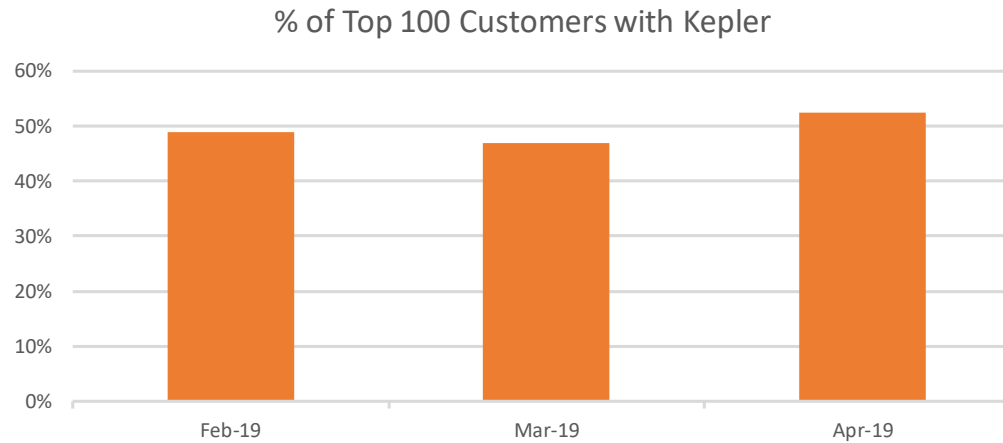
Marketing Spend



Management Discussion

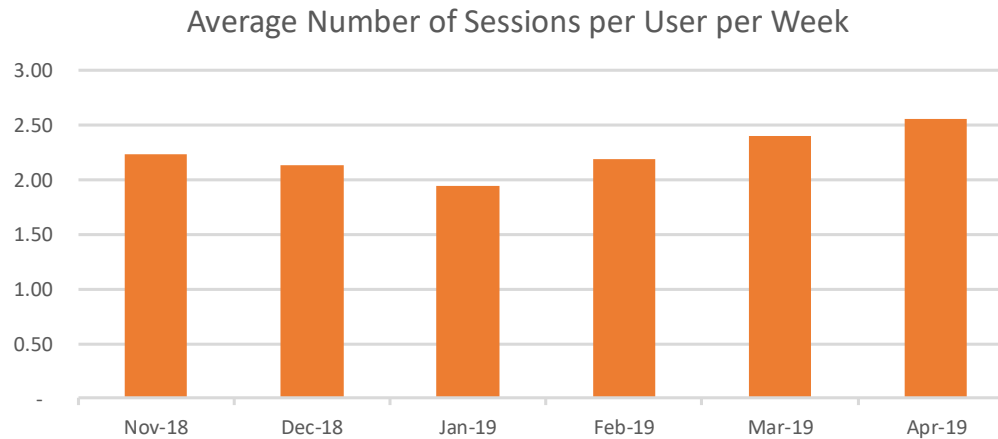
- Digital Ad spend is at 99% of plan YTD.
- Field marketing spend is at 63% of plan YTD.

Kepler - Adoption



Management Discussion

- % of top 100 customers (based on # of pods) with Kepler.
- # of Customers with pods on Kepler within Top 100 customers aged by last transaction date as a percent of total customers with pods on Kepler within Top 100 customers

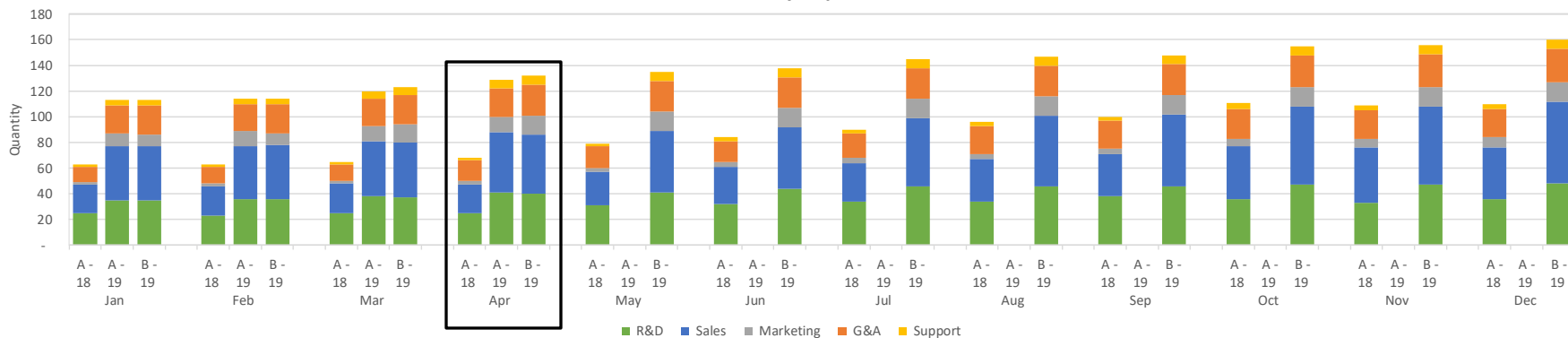


Management Discussion

- Average number of sessions per active user per week using Kepler.

Staffing Analysis

Headcount by Department



Management Discussion

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

Open Positions as of 5/8/19

			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	R		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

Monthly Operating Review Meeting Agenda

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

\$'000 Summary P&L

	MTD		Variance		PY MTD		Variance		YTD		Var		PY YTD		Variance	
	Act	Bud	\$	%	Act	\$	%	Act	Bud	\$	%	Act	\$	%		
Gross Revenue	\$ 2,758	\$ 2,937	\$ (179)	(6.1%)	\$ 2,160	\$ 598	27.7%	\$ 10,528	\$ 10,427	\$ 102	1.0%	\$ 7,532	\$ 2,996	39.8%		
Adj. to Gross Revenue	(18)	–	(18)	N/A	(9)	(9)	93.4%	(44)	–	(44)	N/A	(28)	(15)	54.4%		
Net Revenue	2,741	2,937	(196)	(6.7%)	2,151	590	27.4%	10,485	10,427	58	0.6%	7,504	2,981	39.7%		
Material	717	725	(8)	(1.1%)	436	281	64.4%	2,356	2,063	293	14.2%	1,361	995	73.1%		
Labor	77	64	13	20.5%	38	39	101.1%	228	218	10	4.5%	148	79	53.6%		
Total COGS	795	789	5	0.7%	475	320	67.4%	2,584	2,281	302	13.3%	1,509	1,075	71.2%		
Gross Margin	1,946	2,147	(201)	(9.4%)	1,676	270	16.1%	7,901	8,145	(245)	(3.0%)	5,995	1,906	31.8%		
Gross Margin %	71.0%	73.1%			77.9%			75.4%	78.1%			79.9%				
R&D	539	541	(3)	(0.5%)	273	266	97.5%	1,979	2,046	(67)	(3.3%)	1,155	825	71.4%		
Sales & Marketing	1,010	1,197	(187)	(15.6%)	519	490	94.4%	3,980	4,359	(379)	(8.7%)	2,094	1,886	90.1%		
Administrative	693	609	84	13.8%	329	364	110.5%	2,260	2,502	(242)	(9.7%)	965	1,295	134.2%		
Other Opex	–	14	(14)	(100.0%)	–	–	N/A	–	28	(28)	(100.0%)	–	–	N/A		
Total Opex	2,241	2,361	(120)	(5.1%)	1,121	1,120	99.9%	8,219	8,935	(716)	(8.0%)	4,214	4,006	95.1%		
EBITDA	(295)	(214)	(82)	38.2%	555	(850)	(153.2%)	(319)	(790)	471	(59.7%)	1,781	(2,100)	(117.9%)		
EBITDA %	(10.8%)	(7.3%)			25.8%			(3.0%)	(7.6%)			23.7%				
Net Income (Loss)	\$ (693)	\$ (639)	\$ (54)	8.4%	\$ 239	\$ (932)	(389.8%)	\$ (1,908)	\$ (2,437)	\$ 529	(21.7%)	\$ 476	\$ (2,384)	(501.3%)		
Capex	\$ (28)	\$ (10)	\$ (18)	180.5%	\$ (14)	\$ (14)	94.0%	\$ (226)	\$ (267)	\$ 41	(15.4%)	\$ (46)	\$ (180)	390.3%		

Management Discussion

- Invoiced sales were \$3.1m compared to target of \$3.2m, including \$532k of solstice subscription invoice sales recorded. Bookings were \$3.2m, resulting in backlog of \$134k at month end. Bookings Jan-Apr have shown steady growth month over month with April at a record. YTD Invoiced and Bookings both ahead of plan.
- Revenue of \$2.7m includes approximately \$2.1m of pod revenue and \$634k of deferred solstice subscription revenue from prior months amortized into net revenue. Pod revenue of \$2.1m is 95% of budget of \$2.2m. YTD revenue outperformance to plan largely driven by Pod sales and Solstice subscription renewals.
- Pods sold for the month were 3,472 vs target of 3,429. Pod ASP across all regions was \$713, which is lower than budgeted ASP of \$776. Overall ASP variance to budget is largely driven by product mix as well as selling primarily Gen2i at a lower ASP while we budgeted 100% of sales to be from Gen3, which have a higher ASP.
- Renewal solstice subscription licenses sold were 2,155 compared to target of 1,617 resulting in invoiced sales of \$366k compared to budget of \$234K. YTD renewal invoiced sales of \$1.4m is \$508K above budget of \$877k. Increased focus by Inside Sales on co-term deals are having significant impact on outperformance.
- Upfront solstice subscription licenses sold were 565 compared to target of 1,304 resulting in invoiced sales of \$166k compared to budget of \$293k. Upfront attached rate was 16% compared to a budgeted attach rate of 40%. YTD upfront invoiced sales of \$758k is \$324k below budget of \$1.1m.
- Gross Margin % down vs expectations, due primarily to average ASPs were 8% below budget due to significant WeWork order and geographical mix of more sales in APAC than budgeted, which has lower ASPs in general.
- YTD OpEx remains below budget due to being behind on hiring plan and marketing spend.
- Capex was higher than expected due to timing of furniture and computer additions relative to budgeted dollars.

Balance Sheet

	Jan-19	Feb-19	Mar-19	Apr-19		Variance
\$'000	Act	Act	Act	Act	Bud	\$
Current Assets						
Cash and cash equivalents	\$ 6,447	\$ 5,686	\$ 4,558	\$ 3,800	\$ 3,561	\$ 239
Short term investments	—	—	—	—	—	—
<i>Accounts receivable, gross</i>	4,513	3,949	5,444	5,940	4,556	1,384
<i>Accounts receivable, reserves</i>	(82)	(74)	(74)	(74)	(46)	(28)
Accounts receivable, net	4,431	3,874	5,370	5,865	4,510	1,355
Inventory, net	1,637	2,298	2,746	3,448	2,915	533
Prepaid expenses and other current assets	2,178	1,914	1,868	2,100	1,426	674
Total Current Assets	14,693	13,773	14,541	15,213	12,412	2,801
Non-Current Assets						
<i>Property, plant & equipment, gross</i>	1,026	1,044	1,106	1,134	1,178	(44)
<i>Accumulated depreciation</i>	(187)	(212)	(275)	(321)	(67)	(254)
Property, plant & equipment, net	839	832	830	813	1,111	(298)
Goodwill	20,675	20,675	20,675	20,675	20,675	(0)
Identifiable intangible assets, net	6,440	6,176	5,911	5,643	5,479	164
Deferred tax asset	6,488	6,488	6,488	6,488	6,647	(159)
Other non-current assets	214	292	327	334	75	259
Total Non-Current Assets	34,656	34,463	34,231	33,952	33,987	(35)
Total Assets	\$ 49,349	\$ 48,235	\$ 48,772	\$ 49,165	\$ 46,399	\$ 2,766
Current Liabilities						
Notes payable	3,500	3,500	3,500	3,500	3,500	—
Accounts payable	1,454	1,732	1,665	2,370	444	1,926
Accrued liabilities	410	337	259	251	189	62
Accrued compensation	1,821	1,075	1,284	1,321	2,340	(1,019)
Income taxes payable	694	694	694	694	—	694
Other current liabilities	269	333	324	338	247	91
Total Current Liabilities	8,148	7,670	7,726	8,473	6,720	1,754
Long-term liabilities						
Long-term unearned revenue	6,048	6,312	6,902	7,244	7,867	(623)
Deferred liabilities	154	154	154	151	151	0
Total Long-Term Liabilities	6,202	6,466	7,056	7,394	8,017	(623)
Total Liabilities	14,350	14,136	14,781	15,868	14,737	1,131
Shareholders' Equity						
Total Shareholders' Equity	34,999	34,099	33,990	33,298	31,662	1,636
Total Liabilities and Shareholders' Equity	\$ 49,349	\$ 48,235	\$ 48,772	\$ 49,165	\$ 46,399	\$ 2,766

Management Discussion

- AR increased due to increase in invoiced sales, especially due to shipping Gen 3 pods. AR is over budget primarily to spikes on Qtr end and month end sales activity.
- Inventory balances above budget due to timing of inventory shipments. We ordered additional Gen2i than planned and we sold few Gen3 units resulting in increased inventory levels.
- 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.
- Increase in payables driven by timing of in inventory payables and timing of other payments to other vendors. We budgeted lower AP to be conservative with cash.
- Accrued Compensation is below budget due to paying 80% MIPs during February compared to budgeted payment in May.
- 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. We need to reforecast deferred revenue using the revised FMV allocations recently computed for 2018 & 2019.

Cash Flow Statement

	MTD			Var	PY-MTD	Var	YTD			Var	PY YTD	Var
	Act	Bud		\$		\$	Act	Bud		\$	Act	\$
\$'000												
Cash flow from operations												
Net Income (Loss)	\$ (693)	\$ (639)	\$ (54)		\$ 239	\$ (932)	\$ (1,908)	\$ (2,437)	\$ 529	\$ 476	\$ (2,384)	
Depreciation, amortization and other	310	288	21		252	58	1,212	1,138	74	1,086	126	
Deferred income tax	—	—	—		—	—	—	(159)	159	—	—	
<i>Change in operating assets and liabilities:</i>												
Accounts receivable	(495)	204	(699)		(669)	174	(834)	469	(1,303)	(1,232)	398	
Inventory	(702)	(350)	(352)		(218)	(484)	(2,058)	(1,525)	(533)	(1,051)	(1,007)	
Prepaid expenses and other current assets	(233)	(17)	(216)		(226)	(7)	(995)	414	(1,410)	224	(1,220)	
Accounts payable	705	(18)	723		77	628	1,470	(211)	1,680	194	1,276	
Accrued expenses	29	26	3		(21)	50	(125)	541	(666)	(392)	267	
Accrued income taxes	0	—	0		—	0	(0)	(694)	694	—	(0)	
Other changes in operating assets and liabilities	339	277	61		401	(62)	1,378	970	408	1,307	71	
Other cash flow from operations	23	(4)	28		10	13	148	(414)	562	41	107	
Total Cash Flow from Operations	\$ (717)	\$ (233)	\$ (484)		\$ (156)	\$ (562)	\$ (1,713)	\$ (1,909)	\$ 196	\$ 653	\$ (2,366)	
Cash flow from investing												
Additions to property, plant and equipment	\$ (28)	\$ (10)	\$ (18)		\$ (14)	\$ (14)	\$ (226)	\$ (267)	\$ 41	\$ (46)	\$ (180)	
Investment in intangibles	(13)	—	(13)		250	(263)	(39)	(40)	1	250	(289)	
Total Cash Flow from Investing	\$ (41)	\$ (10)	\$ (31)		\$ 236	\$ (276)	\$ (265)	\$ (307)	\$ 43	\$ 204	\$ (469)	
Cash flow from financing												
Total Cash Flow from Financing	\$ —	\$ —	\$ —		\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Net change in cash	\$ (758)	(243)	\$ (515)		\$ 80	\$ (838)	\$ (1,978)	\$ (2,216)	\$ 238	\$ 857	\$ (2,835)	
Beginning cash	4,558	3,804	754		3,253	1,305	5,777	5,777	—	2,476	3,301	
Change in cash	(758)	(243)	(515)		80	(838)	(1,978)	(2,216)	238	857	(2,835)	
Ending cash	\$ 3,800	\$ 3,561	\$ 238		\$ 3,333	\$ 467	\$ 3,800	\$ 3,561	\$ 238	\$ 3,333	\$ 467	

Management Discussion

- Overall YTD net change in cash is in line with expectations. The primary driver of the change in cash flow for April and YTD is due to significant increase in payables related to timing of inventory receipts netted with increase in AR due to strong sales. Prepaids variance is driven by higher than expected due to receivable from landlord, trade show prepaids, prepaid monitoring fees, and additional prepaids from various vendors.
- Other changes in operating assets and liabilities (deferred revenue) and Other cash flow from operations (tax and commissions) are in line with expectations.

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		
	Variance			Change in				Total Variance	YoY Impact	Annualized
	Act	Bud	B / (W)	One-Time / Non-recurring	Timing	Run-rate	Other	B / (W)	B / (W)	Impact B / (W)
Payroll	\$ 4,102	\$ 4,552	\$ (450)	\$ –	\$ (450)	\$ –	\$ –	\$ (450)	\$ –	\$ –
Benefits	513	622	(109)	\$ –	\$ (109)	–	–	(109)	–	–
Bonus	466	548	(82)	\$ –	\$ (82)	–	–	(82)	–	–
Commissions	437	429	7	–	7	–	–	7	–	–
Marketing	854	1,086	(231)	–	(231)	–	–	(231)	–	–
Travel and Entertainment	507	323	184	–	184	–	–	184	–	–
Rent and Facilities	412	311	101	–	–	101	–	101	101	101
Insurance	17	17	(0)	–	(0)	–	–	(0)	–	–
Professional Fees	347	245	103	–	103	–	–	103	–	–
Utl., Repair, Maint., & Sec.	103	140	(38)	–	(38)	–	–	(38)	–	–
Office Expense	58	16	42	–	42	–	–	42	–	–
IT	366	579	(213)	–	(213)	–	–	(213)	–	–
Other Expenses	38	69	(31)	–	(31)	–	–	(31)	–	–
Total Opex	\$ 8,219	\$ 8,935	\$ (716)	\$ –	\$ (817)	\$ 101	\$ –	\$ (716)	\$ 101	\$ 101

Management Discussion

- Payroll is under budget due to employee turnover and being behind plan on a \$ and quantity basis. Budgeted employee headcount was 132 versus actual of 129 as of April 30.
- Marketing is under budget due to underspending primarily in field marketing spend, as well as digital. Marketing T&E is also included in Marketing line so netted together is only 180k under budget.
- T&E is primarily driven by being over budget in G&A by 65k.
- Rent is over budget primarily due to increased CAM and parking passes.
- Professional Fees are over budget due to recruitment fees and consulting.
- IT is under budget due to timing of data related IT projects.

Operating Expenses Summary

\$'000

Opex Overview:

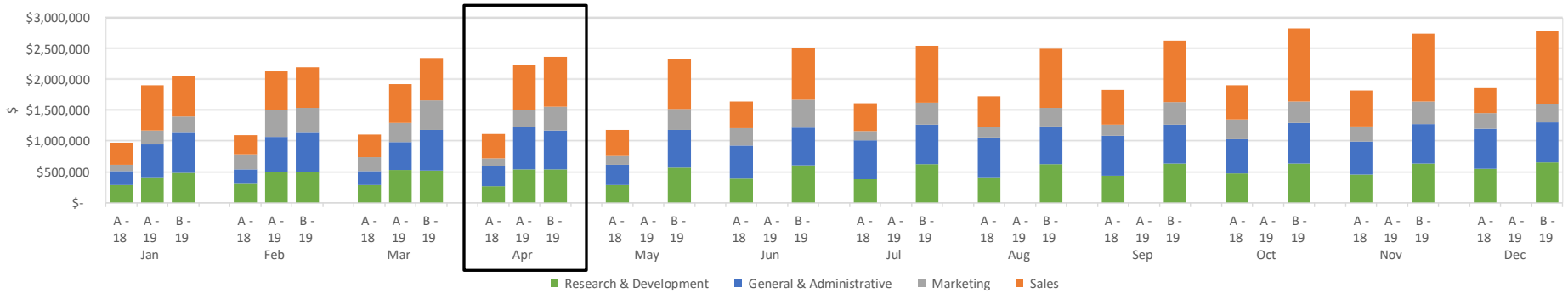
	MTD		Variance		PY MTD	Variance		YTD		Var		PY YTD	Variance	
	Act	Bud	\$	%		Act	\$	Act	Bud	\$	%		Act	\$
Payroll	\$ 1,056	\$ 1,219	\$ (163)	(13.4%)	\$ 543	\$ 513	94.5%	\$ 4,102	\$ 4,552	\$ (450)	(9.9%)	\$ 2,055	\$ 2,047	99.6%
Overtime	—	—	—	N/A	—	—	N/A	—	—	—	N/A	—	—	N/A
Benefits	140	187	(46)	(24.9%)	92	48	52.1%	513	622	(109)	(17.5%)	412	101	24.6%
Bonus	107	146	(39)	(26.5%)	33	74	227.4%	466	548	(82)	(14.9%)	114	352	307.7%
Commissions	96	126	(30)	(24.0%)	101	(5)	(4.6%)	437	429	7	1.7%	361	76	20.9%
Marketing	204	279	(74)	(26.7%)	67	137	203.5%	854	1,086	(231)	(21.3%)	508	346	68.2%
Travel and Entertainment	141	85	56	66.1%	79	62	77.6%	507	323	184	57.1%	193	314	163.0%
Rent and Facilities	107	78	30	38.1%	49	58	116.7%	412	311	101	32.6%	193	219	113.0%
Insurance	4	4	(0)	(1.4%)	5	(1)	(22.8%)	17	17	(0)	(0.4%)	15	1	8.7%
Professional Fees	164	61	103	168.1%	81	83	102.1%	347	245	103	41.9%	93	255	274.5%
Utl., Repair, Maint., & Sec.	22	35	(14)	(38.6%)	27	(6)	(21.1%)	103	140	(38)	(26.9%)	83	19	23.0%
Office Expenses	41	4	37	926.1%	15	26	168.9%	58	16	42	265.5%	71	(12)	(17.3%)
IT	146	120	26	21.9%	1	145	13946.5%	366	579	(213)	(36.8%)	39	327	845.2%
Bad Debts	—	—	—	N/A	—	—	N/A	—	—	—	N/A	(3)	3	(100.0%)
Other Expenses	12	17	(5)	(31.1%)	26	(14)	(54.9%)	38	69	(31)	(44.8%)	80	(42)	(52.6%)
Total Opex	\$ 2,241	\$ 2,361	\$ (120)	(5.1%)	\$ 1,121	\$ 1,120	99.9%	\$ 8,219	\$ 8,935	\$ (716)	(8.0%)	\$ 4,214	\$ 4,006	95.1%

Management Discussion

- Please see previous slide on expense analysis.

Operating Expenses Summary

OPEX by Department



Management Discussion

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

AR and AP Aging Detail

\$'000

AR Aging			
Days	Feb-19	Mar-19	Apr-19
0-30	\$ 2,995	\$ 4,851	\$ 4,768
30-60	396	206	571
60-90	279	283	328
>90	279	104	272
Total Gross AR	\$ 3,949	\$ 5,444	\$ 5,940
Reserves	(74)	(74)	(74)
Total Net AR	\$ 3,874	\$ 5,370	\$ 5,865

AP Aging			
Days	Feb-19	Mar-19	Apr-19
0-30	\$ 1,578	\$ 1,190	\$ 1,717
30-60	68	323	217
60-90	60	67	38
>90	26	84	397
Total	\$ 1,732	\$ 1,665	\$ 2,370

Management Discussion

- AR increased due to increase in invoiced sales, especially due to shipping Gen 3 pods. Increase in past due balances was due to BTX and limited collection efforts.
- Increase in >30 AP is due to increase in inventory payables and timing of other payments to other vendors.



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