



Quarterly Operating Review – June 2020

June 23, 2020

Quarterly Operating Review Agenda

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

Executive Summary



Hits

- MTD invoiced sales were \$4.4m compared to rfcst target of \$3.2m. Bookings were \$4.0m compared to a \$3.2m target. There was backlog of \$132k at month end. June 2019 invoiced sales were \$5.0m.
- MTD subscription sales at \$1.4m compared to target of \$827k. June 2019 was \$960k. Q2 subscription sales at \$2.8m compared to target of \$2.3m and PY Q2 of \$2.3m.
- MTD strong upfront attach rate of 57% and YTD of 40% compared to reforecast of 32%.
- MTD EBTIDA was \$314k compared to reforecast of \$6k.
- Solstice Conference is on schedule for a GA release on 7/22 – delayed to 8/5 due to beta feedback
- COVID-19 response – June sales results were significantly ahead of both April and May in part based on the strength of a \$1M order from UPS. Cash collections were up over May and ahead of plan. Other key business indicia were also up 30% +/-.
- Month of July is off to fast start

Organization/Workforce

- Safety
 - No new COVID-19 cases among workforce since 4/10/20.
 - RTO Task Force continues to evaluate and manage our slow and small return to the office over time.
 - Signed Informed Consent Form is now required of anyone who wishes to go into the office.
 - Request forms and health screenings remain in place.
- Employee productivity and sentiment remains high as we continue to effectively nurture connections among our distributed workforce, communicate frequently through multiple channels, and solicit feedback.
- Annual refresh of Discrimination and Harassment Prevention training rolled out
- Manager training conducted; *Employment Law Changes During the Pandemic – What a Manager Needs to Know*

Customer Adoption

- Existing customers – UPS (\$1.0m), Southeast Community College (\$125k), Capital One (\$113k), and SC Johnson (\$90k).
- New/Land orders – United Federal Credit Union (\$30k), Fort Wort ISD (\$21k), Alfac NI (\$18k)

Executive Summary (Continued)



Misses

- Release date for Solstice Conference has been delayed from 7/22 to 8/5 due to the need for additional code changes and testing
- MTD ASP \$778 vs reforecast of \$792 driven by increase in hardware upgrades
- Order and run-rate volume is down 50% during MTD period compared to MTD 2019
- WeWork monthly sales lowest in 2 years
- Denver tech job market is rebounding – increased sensitivity to staff retention
- Tractor Supply is threatening to pull order due to delays associated with Solstice Conference – Rob and Chris are directly involved. Update – we have been able to get Tractor Supply back on board and will deliver pre-release code on schedule on 7/22 for them to test
- Wrongful termination alleged from former employee in Italy. Risk to Mersive currently assessed at 'low.'
- Two voluntary departures; Director of Digital Marketing and Regional Sales Director for New England.

Key Go-Forward Actions

- Formalizing technology and marketing relationship with Logitech to help drive awareness for Solstice Conference – Logitech has agreed to be part of our launch activities, LG now participating alongside Logitech
- Expanding distribution in France and UK with two new partners – Exertis and Tech Data Maverick – TD Maverick has backed out of discussion – we are now talking to Ingram Micro.
- We have launched a channel marketing program featuring Solstice Conference which offers incentives in exchange for direct marketing to their customer database – 43 dealers have signed up thus far
- We have re-started our formal professional development program which was sidelined when the pandemic hit
- Implementing refactored 1H MBO payout to staff – personal portion only
- Continued strategic discussion around 'Return To Work' Solstice Cloud Management Module including room downtime notifications, calendar blocking, and camera detection for social distance policy enforcement

Executive Summary – Risks and Challenges



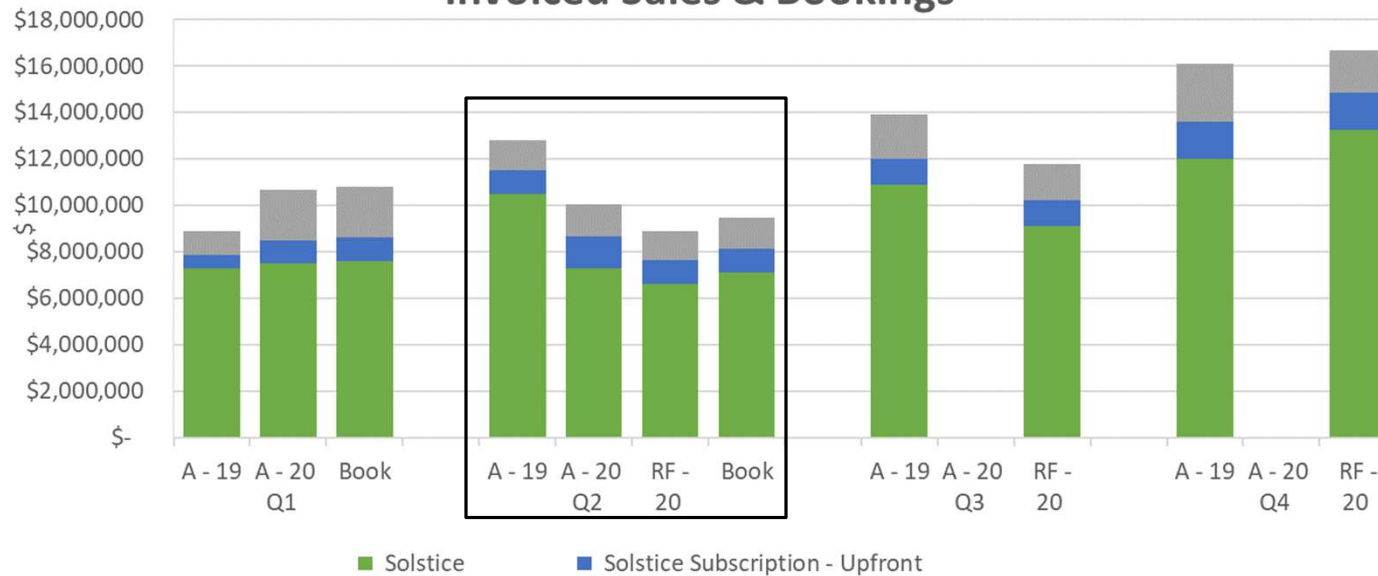
| Description | Potential Impact | Plan to Address |
|---|---|--|
| <ul style="list-style-type: none"> New Product Launches | <ul style="list-style-type: none"> Sales Shortfall Competitive Positioning Market Adoption Installed Base Growth | <ul style="list-style-type: none"> Version 5.0 release delayed from end of June to 7/22 – customer beta and field testing indicated the need for increased network reliability and broader camera support – update – delayed to 8/5 due to beat feedback from customers and SE's Limited 5.0 release to customers like Tractor Supply Moving forward with decision to bring Windows version of Solstice level with Android version to have a Zoom Room complementary product offering |
| <ul style="list-style-type: none"> Customer Operations | <ul style="list-style-type: none"> Cost savings Customer Satisfaction Deployment Friction | <ul style="list-style-type: none"> Continued focus on customer onboarding Improved RMA process - \$125K in credits Better inventory controls Operations as strategic differentiator Launched customer support portal |
| <ul style="list-style-type: none"> AV industry | <ul style="list-style-type: none"> 'Touchless AV' has become the hot topic as a result over COVID concerns Slack and Amazon announce partnership to combat Zoom | <ul style="list-style-type: none"> Ensure timely release of Solstice Video Conference Integration Continue to focus on channel mindshare Rehire and appoint Amelia Vrabel VP Channels |
| <ul style="list-style-type: none"> Improve margin/EBITDA while continuing to invest and grow | <ul style="list-style-type: none"> Failure to hit financial targets | <ul style="list-style-type: none"> Launch professional development training – launched update – relaunched formal structure Improve onboarding of new staff Renegotiate Solstice BOM cost - done RMA and inventory process improvements – done |
| <ul style="list-style-type: none"> HR/Staffing/Comp | <ul style="list-style-type: none"> Productivity OPEX Morale Restoration of employee benefits under consideration as Denver job market heats back up | <ul style="list-style-type: none"> Interview training Culture brand development Professional Development - launched Staff training Colorado WorkShare subsidy |
| <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"> Move faster to hire empty territories – much better continuity and coverage compared to '19 Improve onboarding Double down in 'hi-po' territories – Midwest, NE, UK Continued focus on sales enablement |
| <ul style="list-style-type: none"> Solstice Subscription Services | <ul style="list-style-type: none"> Impact on enterprise value Customer/technology scale | <ul style="list-style-type: none"> Expand customer success inside sales team Broad renewal/swap campaign Sales focus on sub 1000 customers yielding promising results – ongoing |

June '20- Big Wins, Key Deals and Losses

| Upcoming Key Deals | Key Losses/Delays |
|--|--|
| <ul style="list-style-type: none"> • Shell – Ongoing Q&A related to final decision – looking at SC • IBM – early evaluation for new HQ in Germany – need SC • Northrop Grumman – Land order in Q3 • BP – US pilot coming in July/August for 75 units • Morgan Stanley – evaluation taking place in UK...Miracast • Paypal – evaluation taking place for global standard • 7-Eleven – AirMedia swap out – 100+ units in Q3 • Grainger – about to standardize with a 100+ order - Q3 order • Raytheon – Acquiring UTC and may adopt UTC Solstice standard • DVAG Investments – in pilot for 100+ rooms • Exertis Stocking Order (UK) – \$1M stocking order should close in July • Grainger – standardizing with first order in July/August • WeWork – AirMedia swap out project in EMEA – 400 units in Q3 • WeWork – Airmedia swap out in N America – quantities TBD Q3/Q4 • Charter – 200 units for ad hoc order strategy • Warner Media – 300+ units for SoCal deployment pushed to 2H • Toyota – AirMedia swap out once back in the office • Semptra – Houston deployment basis for standard discussion • GE Aviation – Cincy project coming once lockdown lifted | <ul style="list-style-type: none"> • NYU – Moving to Zoom and Crestron Flex in all rooms • U of the South – lost to Wolfvision • Ferris State – lost to Wolfvision as they were existing standard • U of Oregon – Nike Building...sticking with Crestron standard • Maverick Stocking Order – Pan Euro requirement didn't play out |
| Big Wins | |
| <ul style="list-style-type: none"> • UPS - \$1.04M • Southeast Community College – \$125K • Capital One - \$113K • SC Johnson - \$90K • Northeastern University - \$80K • University of Richmond - \$63K | <ul style="list-style-type: none"> • St. Joseph University - \$60K • Accenture - \$58K • Austin Community College - \$57K • WeWork - \$55K • University of Northern Iowa - \$50K • Nike - \$48K |

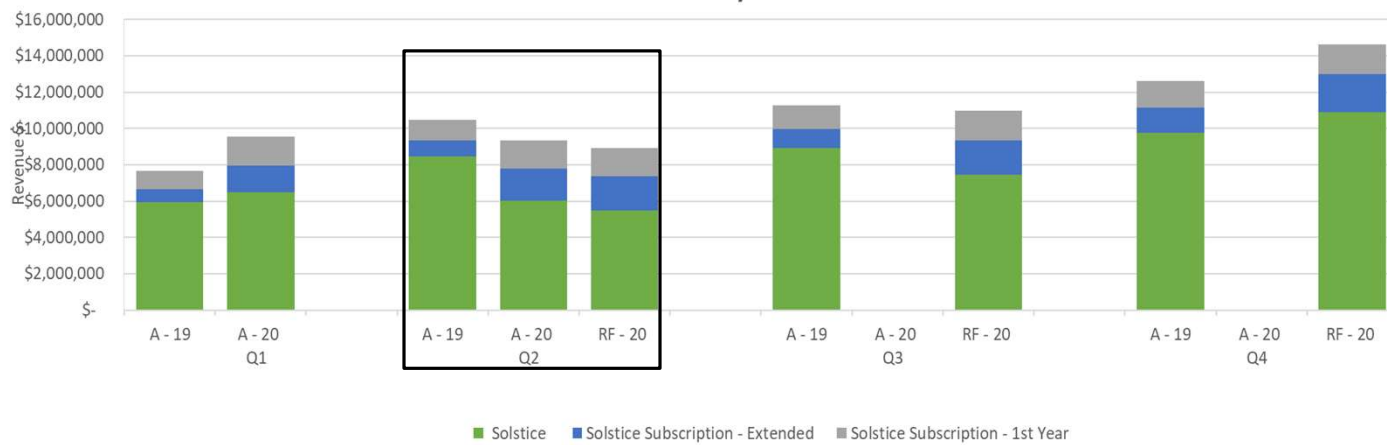
Sales Metrics – Q2

Invoiced Sales & Bookings



Q2 invoiced sales of \$10.1m is \$1.2M above reforecast of \$8.9M and \$2.7M below Q2-19 due to weaker Solstice Sales.

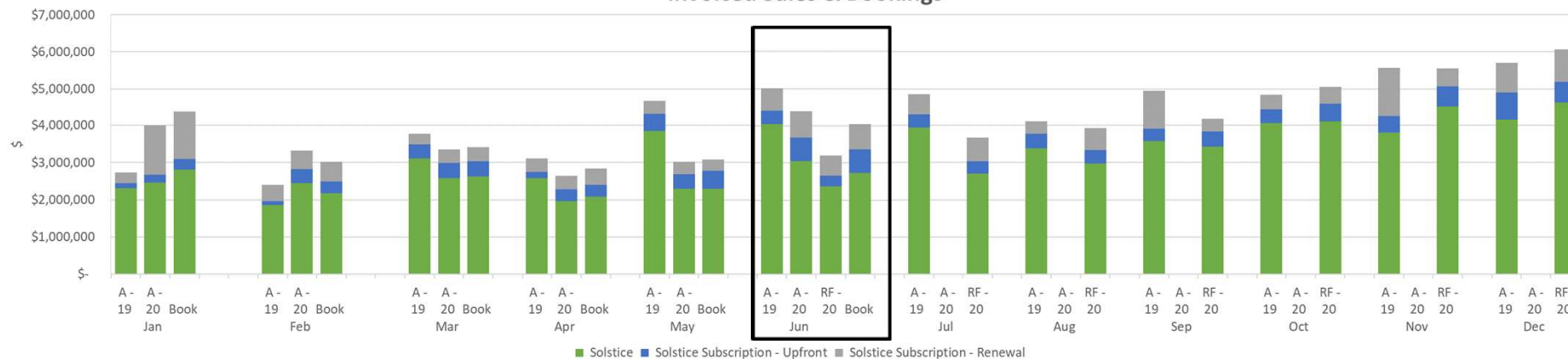
Revenue by Product



Q2 revenue of \$9.3m is \$0.4m above reforecast of \$8.9m, due to higher than expected pod sales, but 1.1m below PY Q2.

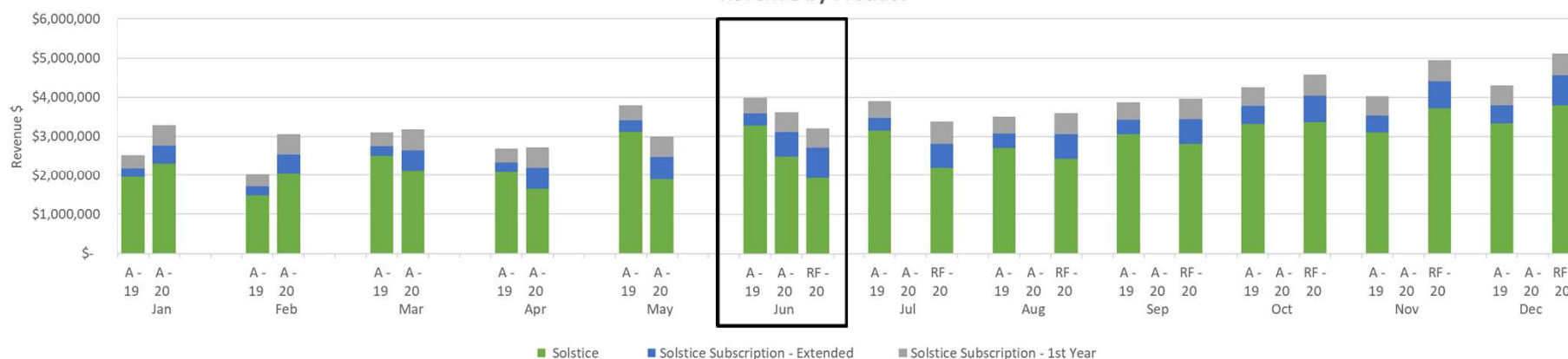
Sales Metrics – Monthly Trend

Invoiced Sales & Bookings



- June invoiced sales were \$4.4m compared to target of \$3.2m, which is 137% of Reforecast and 88% of PY sales at 5.0m. This is a 45% MoM increase compared to May-20. Bookings were \$4.0m compared to a \$3.2m target.
- YTD invoiced sales were \$20.8m compared to target of \$19.6m, which is 106% of reforecast.
- There was backlog of \$22k MTD and \$131k YTD.

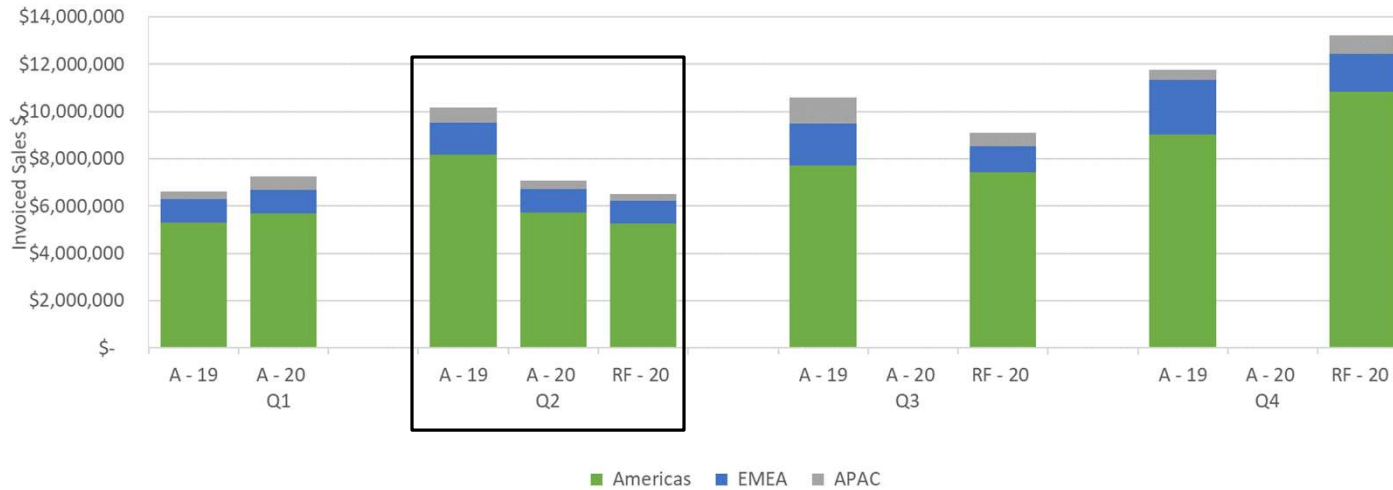
Revenue by Product



- Graph shows revenue comparatives by product type of '19 Actual, '20 Actual & '20 reforecast
- MTD GAAP revenue was \$3.6m compared to reforecast of \$3.2m, due to higher than expected Solstice sales. PY MTD GAAP was 4.0m.
- YTD GAAP revenue was 18.9m compared to reforecast of 18.4m, due to higher than expected Solstice sales. PY YTD GAAP was 18.1m.

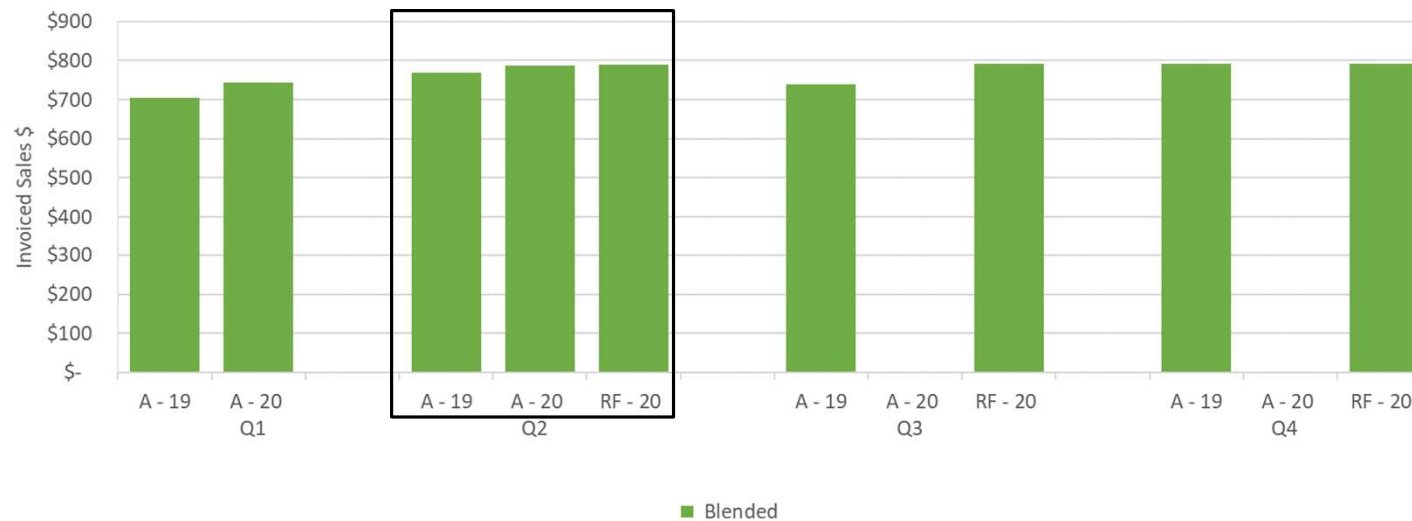
Solstice Sales Metrics – Q2

Solstice Sales by Region



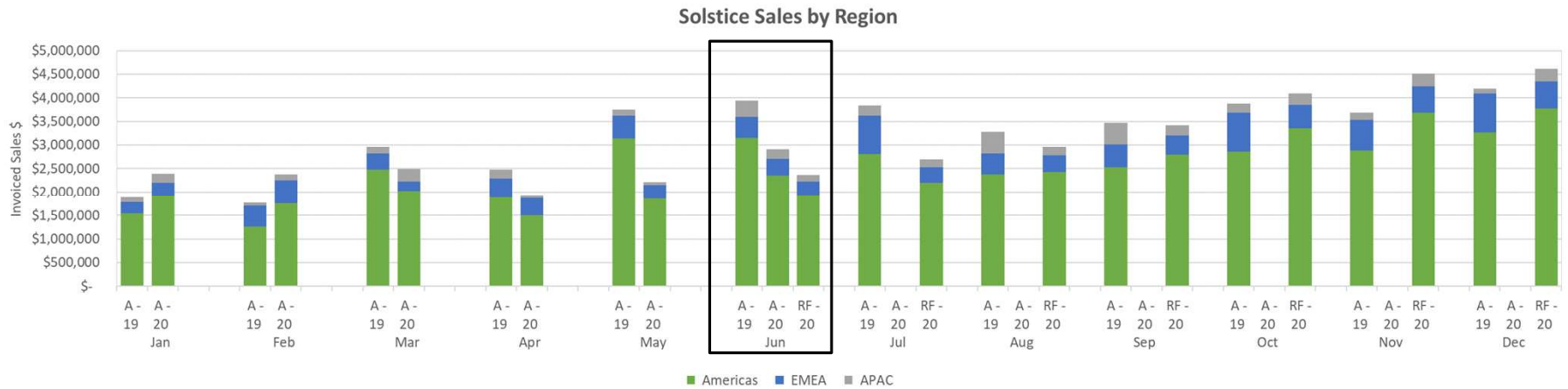
Q2-20 Solstice sales of \$7.1m is above reforecast of \$6.5m by \$0.6m, but below Q2-19 of \$10.2m by \$3.1m. This overperformance was primarily driven by Americas.

ASP

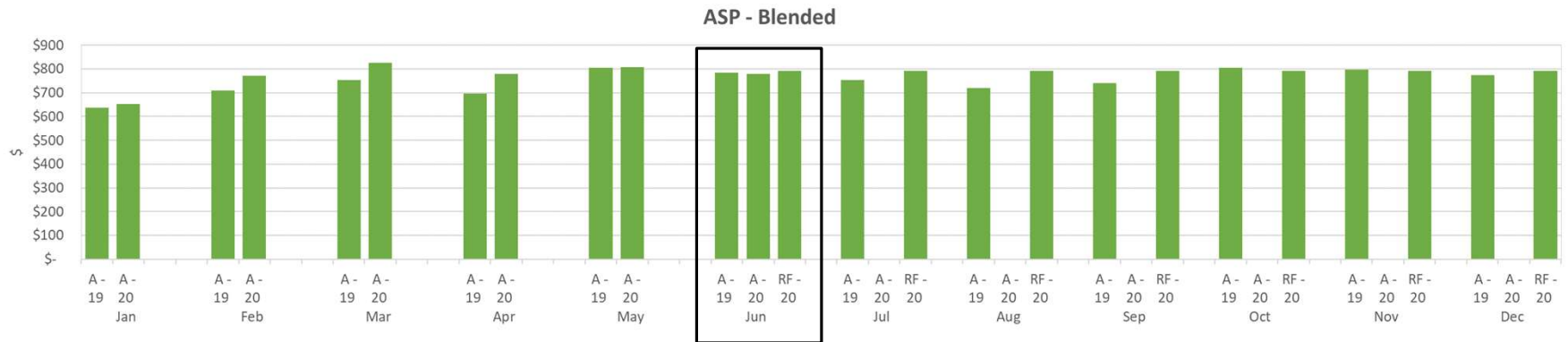


Overall ASP across all regions was \$787 in Q2, which is consistent with plan of \$790. EMEA and APAC have an overall lower ASP than Americas due to all sales are through distributor channel.

Solstice Invoiced Sales Metrics – Monthly Trend – Region

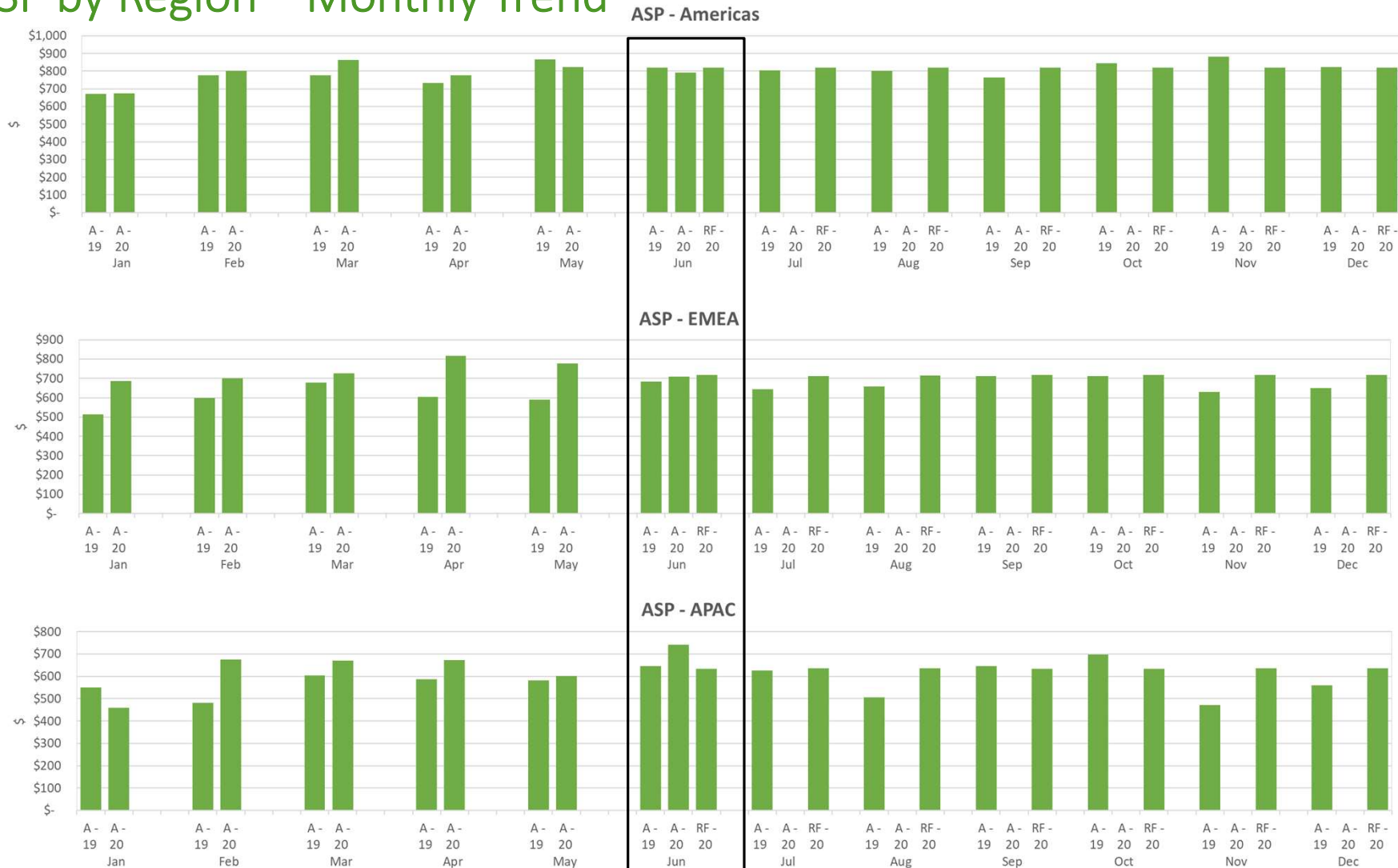


- June Solstice sales were \$2.9m compared to target of \$2.4m, which is 123% of reforecast and 74% of PY sales at 3.9m. June invoiced sales were above reforecast due to overperformance in all regions.
- YTD Solstice invoiced sales were \$14.3m compared to target of \$13.8m, which is 104% of reforecast.
- June Solstice unit sales were 3,747 compared to target of 2,989, while PY was at 5,017.



- Graph shows ASP by region historically and planned for remaining 2020
- Overall MTD ASP across all regions was \$778 including Gen 3 Solstice upgrades below plan of \$792, compared to \$784 in PY. This is due to lower than expected ASP in the Americas region.
- Solstice ASP excluding Solstice upgrades is \$849.

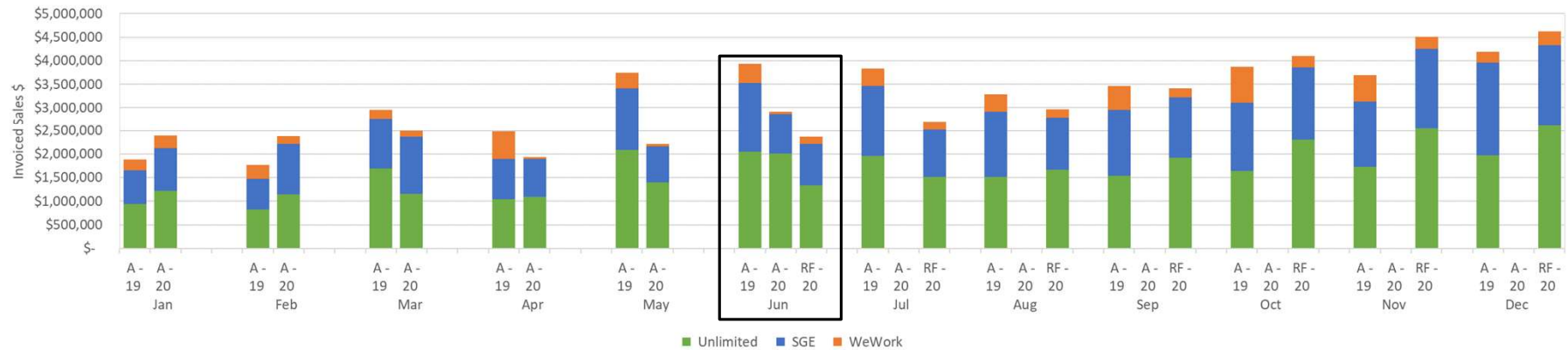
ASP by Region – Monthly Trend



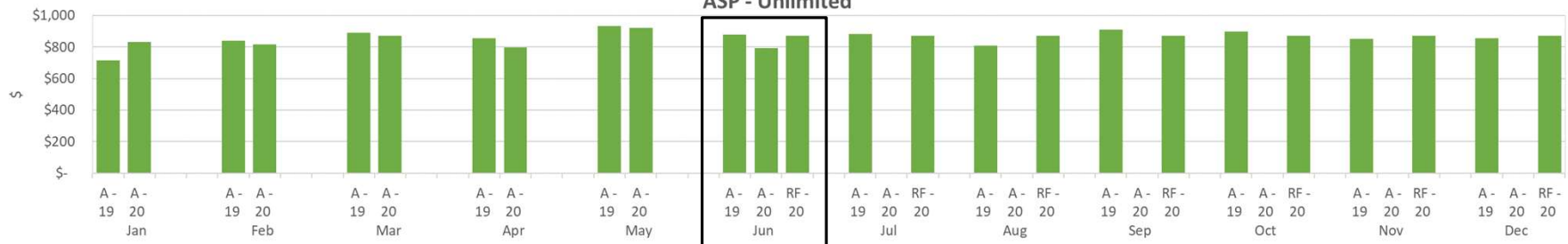
- EMEA and APAC have an overall lower ASP than Americas due to most sales going through distributor channel.
- MTD Solstice invoiced sales mix by region: Americas 79% actual vs 79% Target, EMEA 13% actual vs 13% Target, APAC 7% actual vs 8% target.
- Solstice ASP excluding Solstice upgrades to Gen 3 is:
 - Americas - \$885 vs \$920 in prior month
 - EMEA - \$715 vs \$776 in prior month
 - APAC - \$742 vs \$601 in prior month

Solstice Invoiced Sales Metrics – Monthly Trend - Product

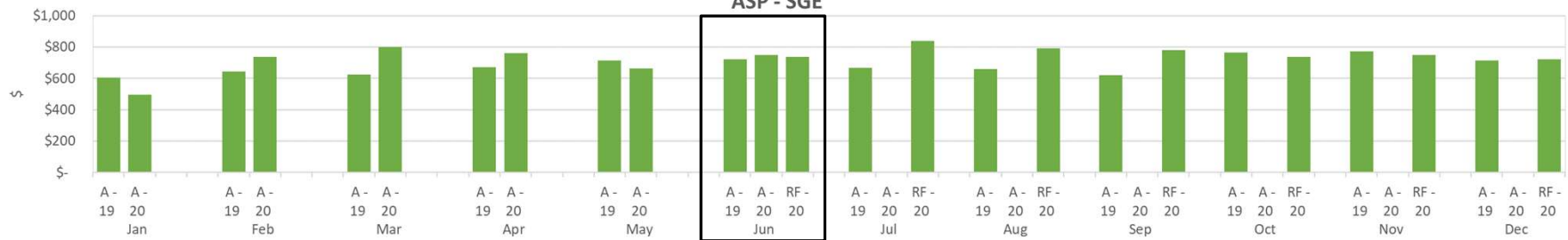
Solstice Sales by Product



ASP - Unlimited

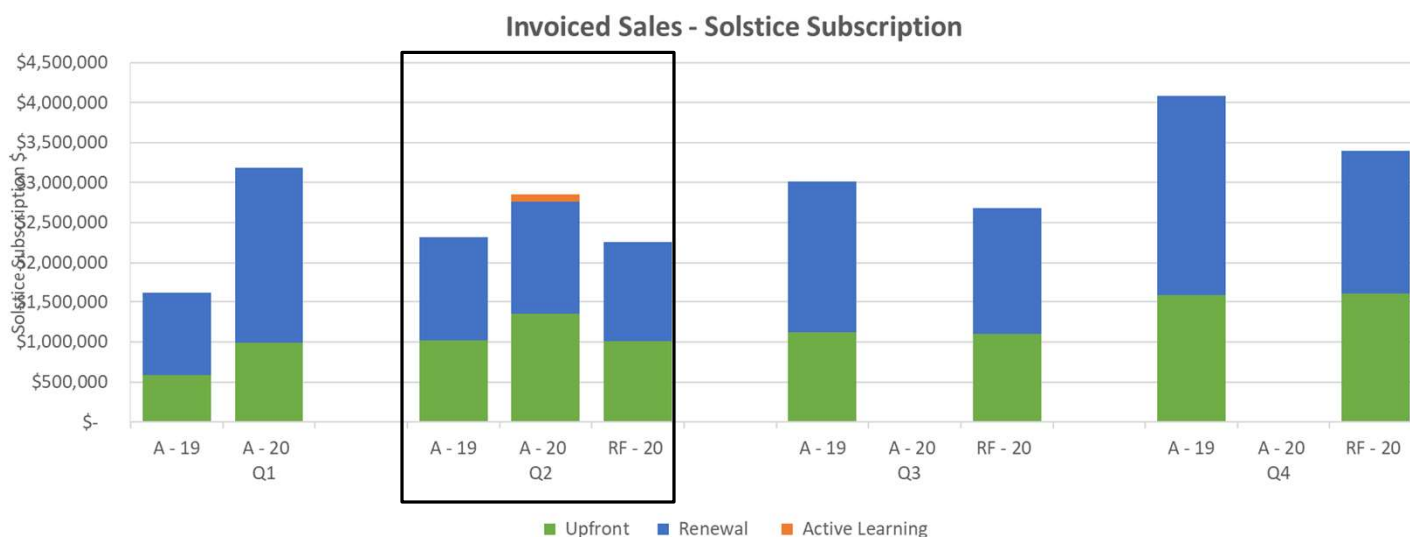


ASP - SGE

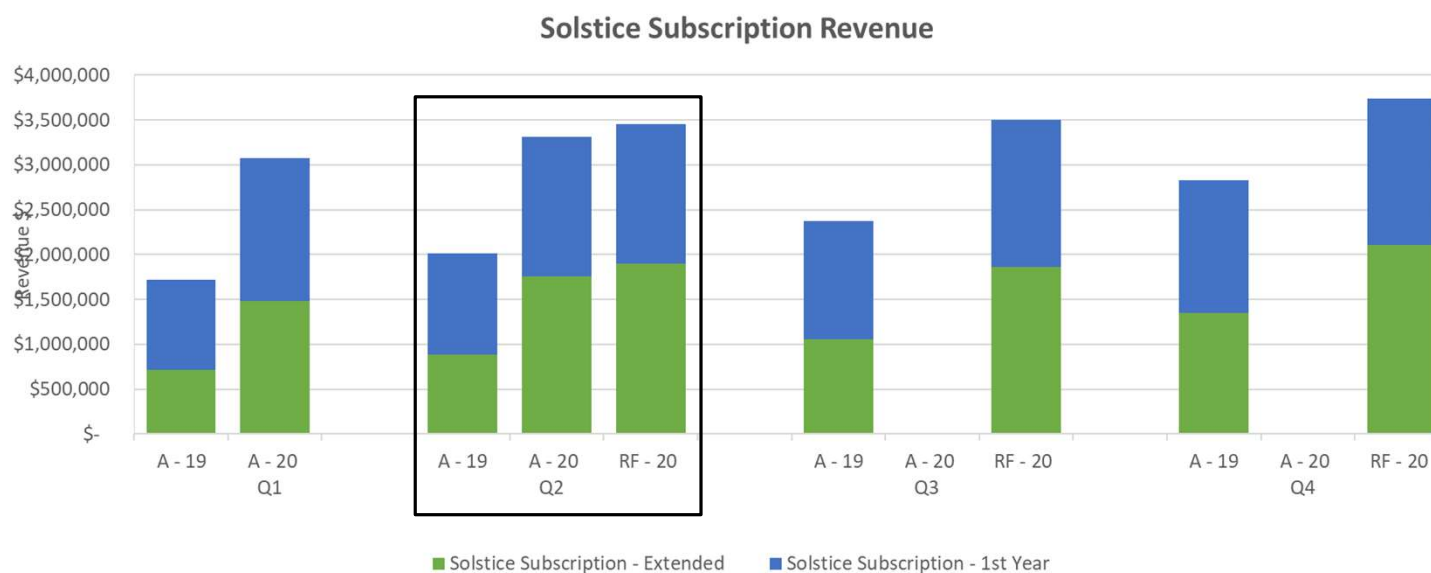


- Unlimited - June invoiced Solstice sales were \$2.0m compared to target of \$1.3m vs PY of \$2.0m.
- SGE - June invoiced sales were \$0.9m compared to target of \$0.9m vs PY of \$1.5m.
- WeWork - June invoiced sales were \$46k compared to target of \$151k vs PY of \$404k.
- Unlimited – June ASP was \$793 compared to target of \$870 vs PY of \$880.
- SGE - June ASP was \$750 compared to target of \$736 vs PY of \$721.

Solstice Subscription Metrics – Q2



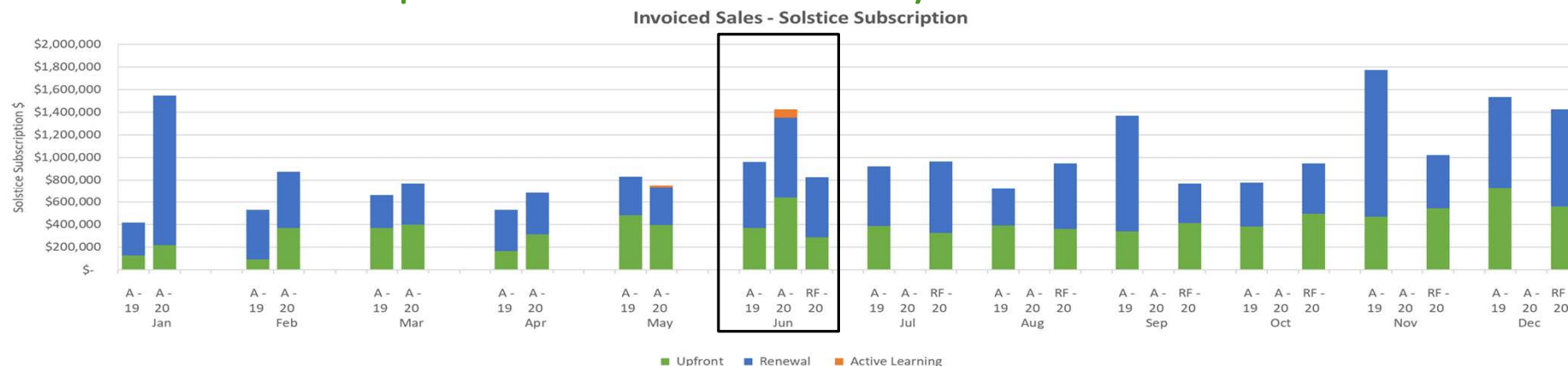
Overall Q2 invoiced sales for Solstice subscriptions was \$2.8m vs. reforecast of \$2.3m, which is 127% of plan vs \$2.3m in PY.



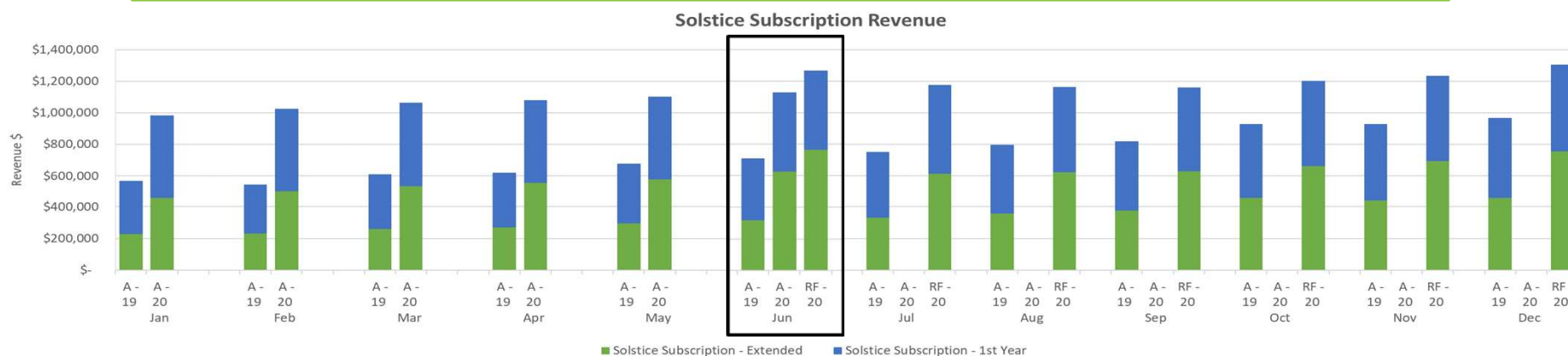
Solstice Subscription Revenue in Q2 was \$3.3m vs. reforecast of \$3.5m vs \$2.0m in PY.

Note there is no direct correlation between invoiced sales in a particular month and revenue.

Solstice Subscription Metrics – Monthly Trend

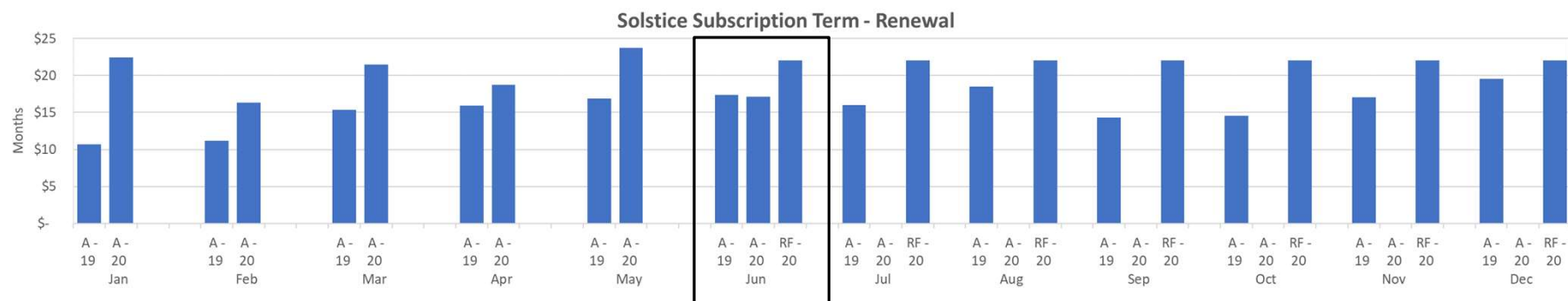


- June invoiced sales for solstice subscriptions was \$1.4m vs reforecast of \$0.8m, which is 173% of reforecast. PY was \$1.0m.
- Active Learning sales increased to 75k from May to June, an increase of 337%.
- YTD invoiced sales for solstice subscriptions was \$6.0m vs reforecast of \$5.4m, which is 111% of reforecast.
- June renewal ASP was \$167 compared to target of \$250 vs PY of \$214.
- June upfront ASP was \$302 compared to target of \$299 vs PY of \$270.
- Large renewal deals – Capital One (\$113k), Saint Joseph's University (\$60k), Northeastern University (\$57k)
- Large upfront deals – UPS (238k), Northeastern University (\$74k), Midwich Limited - U.K. (\$65k)

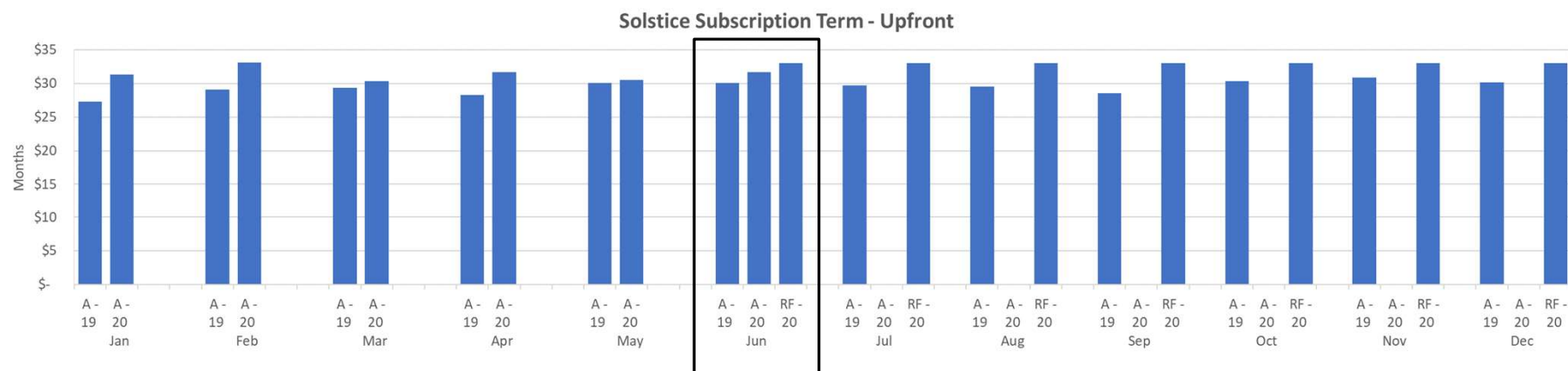


- June Solstice Subscription – Extended (renewal + upfront) was \$627k vs reforecast of \$766k vs PY of \$319k
- June Solstice Subscription – 1st year was \$502k vs reforecast of \$502k vs PY of \$392k
- June total Solstice Subscription was under expectations at \$1.1m vs reforecast of \$1.3m, but above PY of \$711k
- YTD total Solstice Subscription is slightly under expectations at 6.4m vs reforecast of 6.5m vs PY of 3.7m

Solstice Subscription Metrics – Average Subscription Term

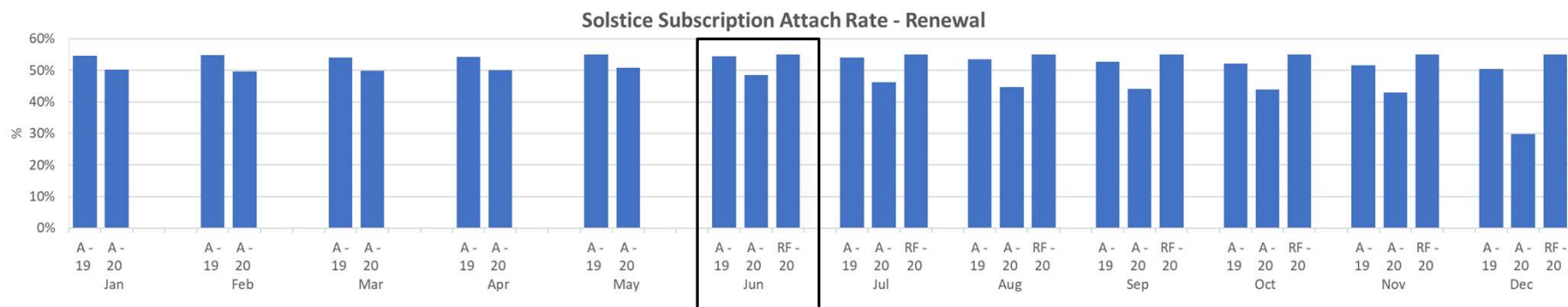


- Renewal average term was 17 months compared to target of 22 months.

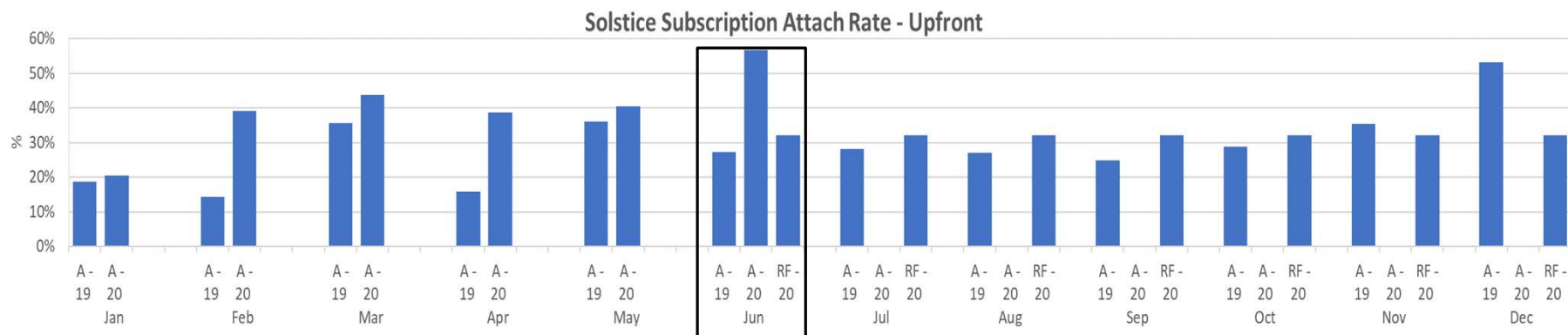


- Upfront average term was 32 months compared to target of 33 months.

Solstice Subscription Metrics – Attach Rate

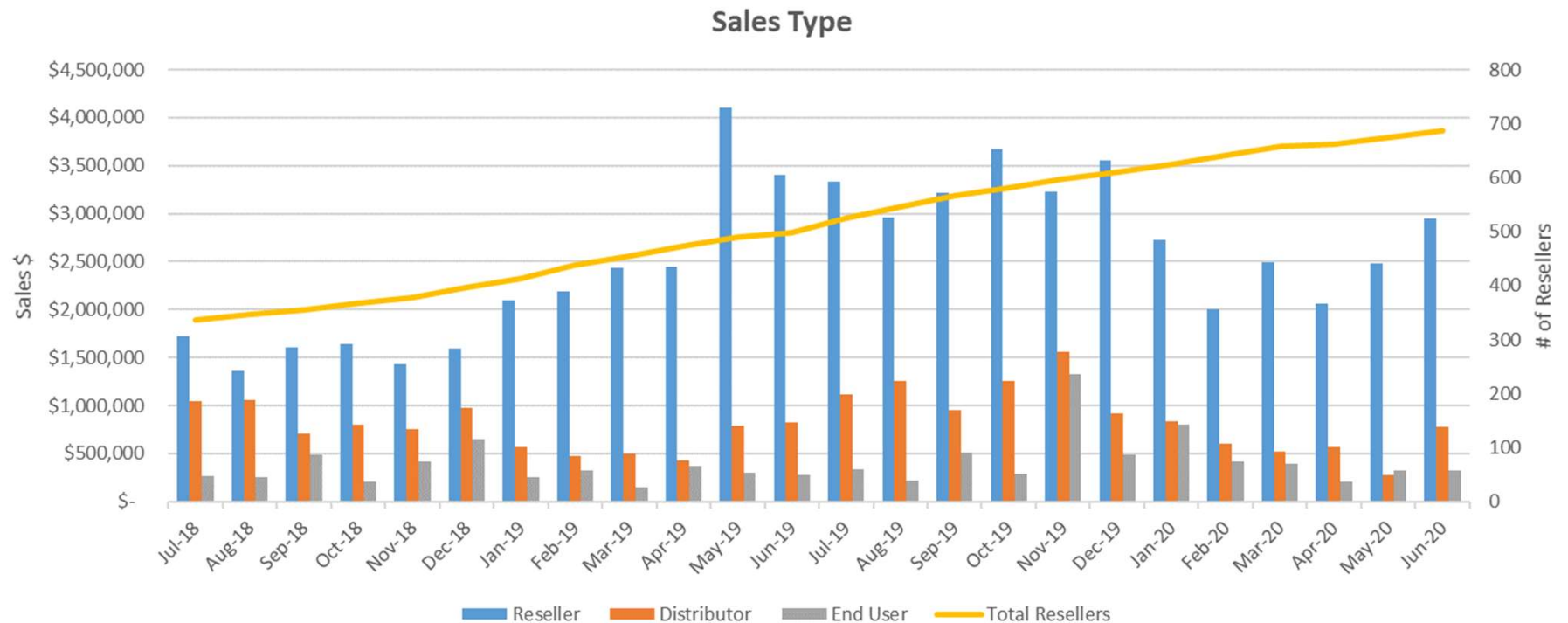


- Renewal rate was 49% during June. Target was 55%.



- Upfront attach rate increased to 57% during June above target of 32%.

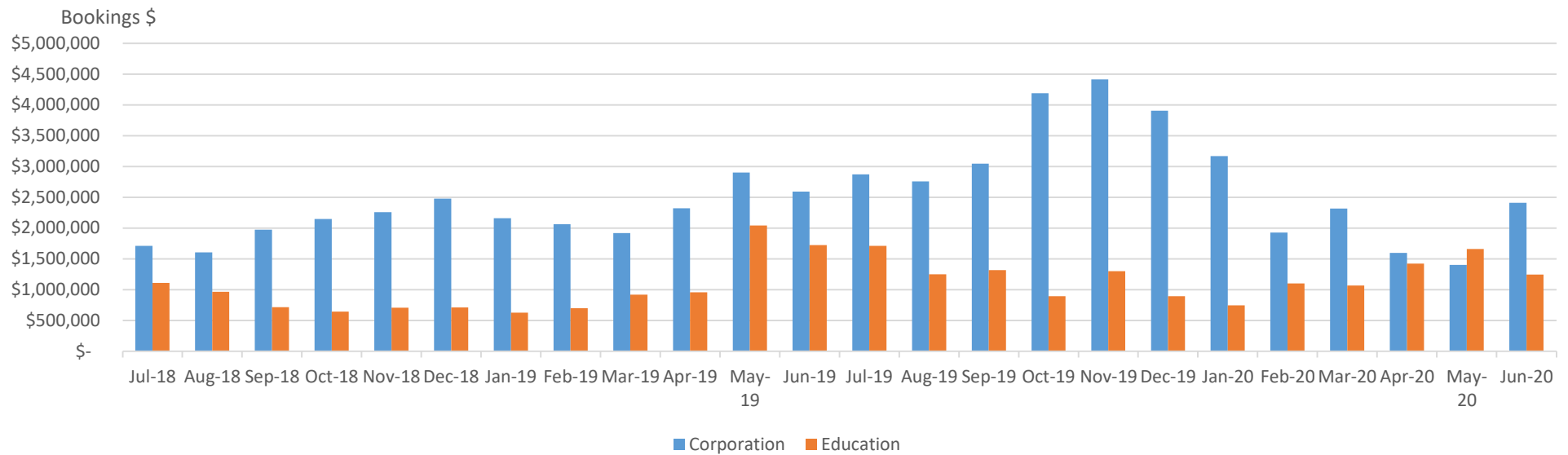
Channel Metrics



- Bookings
- New Resellers by Region:
 - TOLA = 7, Midwest = 2, Mid-Atlantic = 1, West Coast = 2, Rocky Mountain 1
 - Unique resellers in June 2020 were at 193 vs 166 for June 2020

Customer Segment Metrics

Vertical



- Bookings excluding stocking orders and including sales out

Top End User Metrics - MTD

| End User - Corporate | Jun 2020 Amount | % of Total |
|----------------------------------|------------------|-------------|
| United Parcel Service Inc. (Ups) | \$1,036,861 | 43% |
| Capital One | \$112,575 | 5% |
| Sc Johnson | \$89,656 | 4% |
| Accenture | \$58,273 | 2% |
| Wework | \$55,143 | 2% |
| Nike | \$47,794 | 2% |
| United Federal Credit Union | \$29,621 | 1% |
| Astrazeneca Global - Verified | \$29,520 | 1% |
| Eth Zürich | \$26,133 | 1% |
| Chamberlain | \$24,899 | 1% |
| Other Customers | \$926,476 | 38% |
| Total | 2,436,951 | 100% |

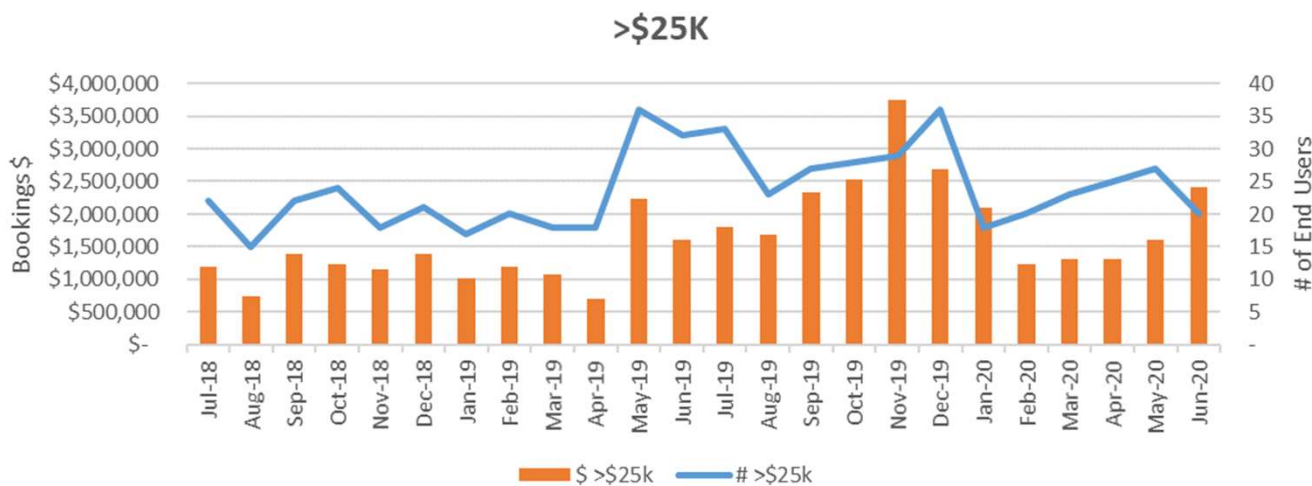
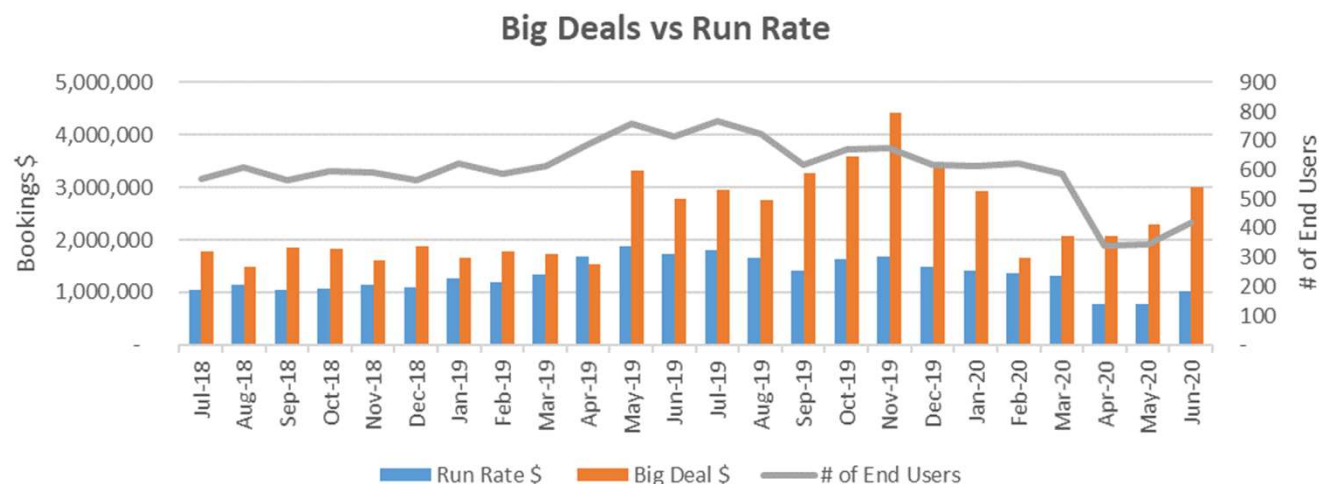
| End User - Education | Jun 2020 Amount | % of Total |
|--|------------------|-------------|
| Southeast Community College | \$124,961 | 10% |
| Northeastern University | \$79,673 | 6% |
| University Of Richmond | \$63,028 | 5% |
| Saint Joseph'S University | \$59,845 | 5% |
| Austin Community College | \$57,335 | 5% |
| University Of Northern Iowa | \$49,841 | 4% |
| Iowa State University | \$43,691 | 4% |
| Cleveland State University | \$40,053 | 3% |
| University Of Western Ontario (Western University) | \$38,470 | 3% |
| University Of Cincinnati | \$33,400 | 3% |
| Other Customers | \$652,724 | 53% |
| Total | 1,243,020 | 100% |

Top End User Metrics - LTM

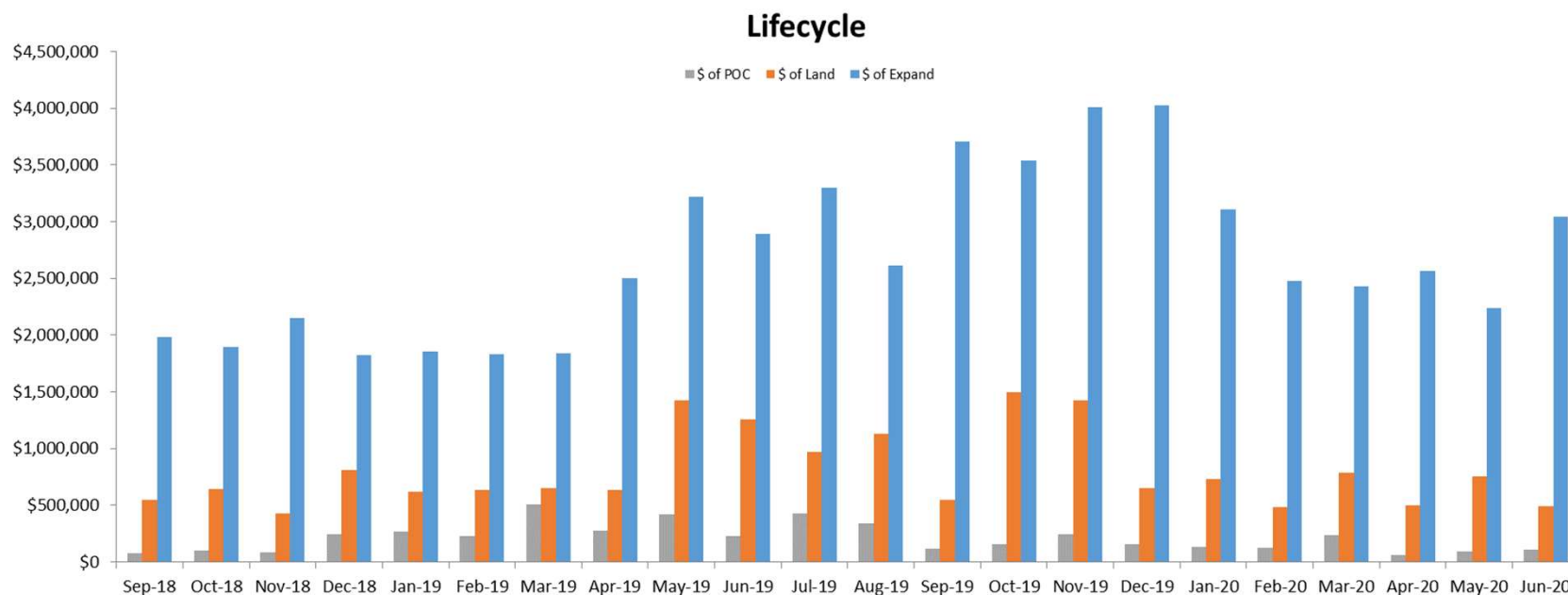
| End User - Corporate | LTM Amount | % of Total |
|----------------------------------|-------------------|-------------|
| WeWork | \$5,218,628 | 15% |
| Nike | \$1,276,552 | 4% |
| United Parcel Service Inc. (UPS) | \$1,041,837 | 3% |
| Kiewit Corporation | \$892,446 | 3% |
| Comcast | \$769,696 | 2% |
| The Vanguard Group | \$693,745 | 2% |
| Mastercard | \$615,189 | 2% |
| Accenture | \$596,835 | 2% |
| Charter Communications | \$446,052 | 1% |
| AstraZeneca Global - Verified | \$388,274 | 1% |
| Other Customers | \$22,894,455 | 66% |
| Total | 34,833,708 | 100% |

| End User - Education | LTM Amount | % of Total |
|--|-------------------|-------------|
| Northeastern University | \$460,770 | 3% |
| Iowa State University | \$393,714 | 3% |
| Case Western Reserve University | \$389,048 | 3% |
| Texas Tech University | \$315,893 | 2% |
| University of Illinois | \$256,566 | 2% |
| Penn State University | \$248,465 | 2% |
| Carnegie Mellon University | \$247,036 | 2% |
| George Mason University | \$231,012 | 2% |
| Nexus International School (Singapore) | \$226,358 | 2% |
| Indiana University | \$225,546 | 2% |
| Other Customers | \$11,598,959 | 79% |
| Total | 14,593,367 | 100% |

Big Deals and Run Rate Metrics

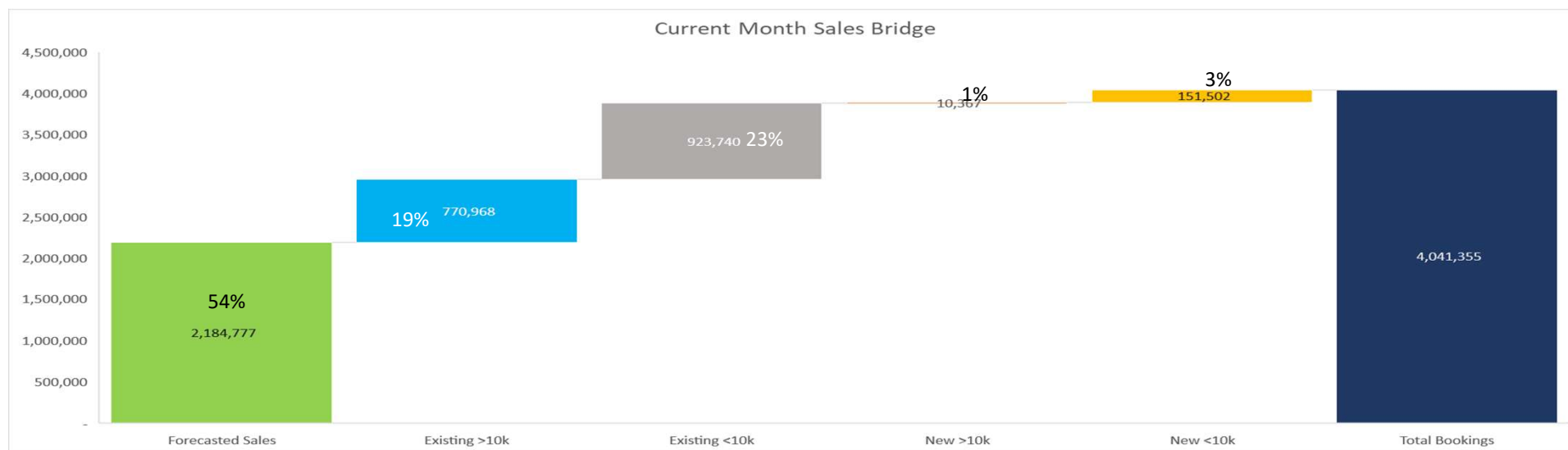


End User Lifecycle Metrics

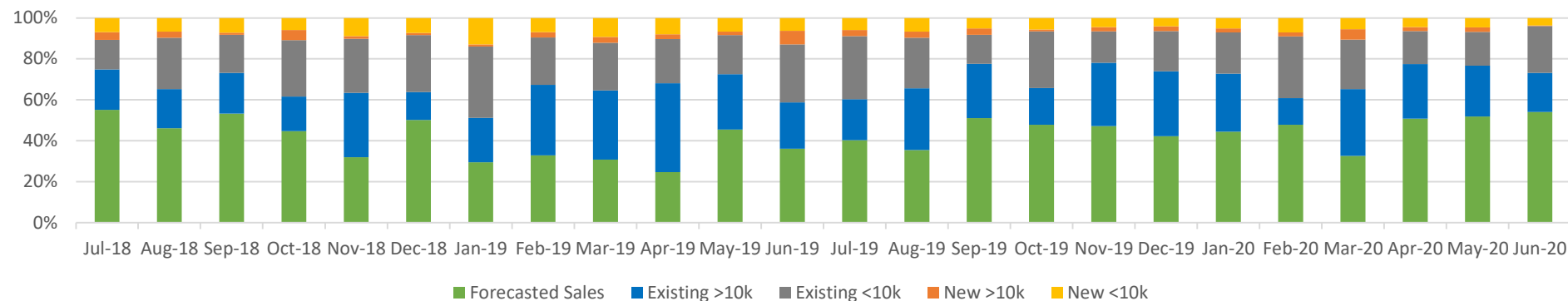


| Lifecycle | | | | | | | | | | | | | | | | | | | | | | |
|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Sep-18 | Oct-18 | Nov-18 | Dec-18 | Jan-19 | Feb-19 | Mar-19 | Apr-19 | May-19 | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 | Apr-20 | May-20 | Jun-20 |
| Total | | | | | | | | | | | | | | | | | | | | | | |
| \$ of POC | \$78,454 | \$98,798 | \$82,215 | \$243,862 | \$265,374 | \$226,336 | \$503,914 | \$272,401 | \$416,792 | \$229,211 | \$428,380 | \$336,264 | \$116,920 | \$156,670 | \$240,194 | \$153,515 | \$132,399 | \$120,266 | \$233,694 | \$62,062 | \$90,065 | \$107,271 |
| \$ of Land | \$545,622 | \$639,324 | \$429,220 | \$810,840 | \$618,152 | \$630,944 | \$650,960 | \$631,466 | \$1,422,369 | \$1,258,717 | \$966,741 | \$1,129,011 | \$546,051 | \$1,495,218 | \$1,420,125 | \$646,301 | \$730,555 | \$480,990 | \$786,906 | \$499,579 | \$756,251 | \$493,422 |
| \$ of Expand | \$1,979,358 | \$1,896,181 | \$2,152,598 | \$1,824,666 | \$1,851,640 | \$1,829,387 | \$1,837,827 | \$2,499,749 | \$3,221,062 | \$2,889,865 | \$3,295,942 | \$2,612,346 | \$3,706,090 | \$3,534,426 | \$4,012,538 | \$4,022,595 | \$3,106,826 | \$2,473,884 | \$2,431,705 | \$2,565,728 | \$2,235,675 | \$3,044,933 |
| Total | \$2,603,434 | \$2,634,303 | \$2,664,032 | \$2,879,367 | \$2,735,167 | \$2,686,667 | \$2,992,701 | \$3,403,617 | \$5,060,222 | \$4,377,793 | \$4,691,063 | \$4,077,621 | \$4,369,060 | \$5,186,314 | \$5,672,858 | \$4,822,411 | \$3,969,780 | \$3,075,139 | \$3,452,305 | \$3,127,369 | \$3,081,991 | \$3,645,627 |

Bookings Attribution Analysis



Bookings



Management Discussion

- 54% of total bookings for the month were included in forecasted sales by the sales team for the month.
- Another 19% of bookings were from orders over \$10K from existing customers but were not included in forecasted sales for the month.
- 23% of bookings were from orders under \$10K from existing customers and which are not part of forecast.
- Remaining 4% of bookings were from new customers and not included in forecasted sales for the month.

Quota Attainment by Region

Jun 2020 Bookings vs. Quota Stack ranked by YTD % of Quota

| Name | Territory | Jun-20 | | | | 2020 YTD | | | |
|----------------------|----------------|---------------|---------------|---------------|--------------------|---------------|---------------|---------------|--------------------|
| | | Quota | Actual | Var \$ | % of Target | Quota | Actual | Var \$ | % of Target |
| Jonathan Davies | New England | 136,770 | 128,664 | (8,106) | 94% | 872,800 | 1,140,979 | 268,179 | 131% |
| Burt Feldman | Northeast | 501,492 | 1,284,849 | 783,357 | 256% | 2,746,744 | 3,550,265 | 803,521 | 129% |
| Craig Tollefson | Minnesota | 186,920 | 405,595 | 218,675 | 217% | 1,092,297 | 1,309,146 | 216,848 | 120% |
| Melissa Johnson | Mid-Atlantic | 205,156 | 285,737 | 80,581 | 139% | 1,569,789 | 1,672,161 | 102,372 | 107% |
| Ryan Shannon | Midwest | 706,648 | 779,390 | 72,743 | 110% | 4,556,413 | 4,630,035 | 73,622 | 102% |
| John Chandler | TOLA | 273,541 | 256,326 | (17,215) | 94% | 1,563,205 | 1,587,779 | 24,573 | 102% |
| Scott Ruffer | Midwest | 196,038 | 191,850 | (4,187) | 98% | 836,368 | 829,509 | (6,859) | 99% |
| Jeff McDonald | ANZ | 79,783 | 77,297 | (2,486) | 97% | 212,320 | 209,637 | (2,684) | 99% |
| Veronica Saldarriaga | Rocky Mountain | 79,783 | 73,032 | (6,751) | 92% | 363,822 | 349,093 | (14,729) | 96% |
| Joel Carroll | Southeast | 296,336 | 201,157 | (95,179) | 68% | 1,726,445 | 1,635,336 | (91,109) | 95% |
| Danny Fabre | Canada | 91,180 | 70,863 | (20,318) | 78% | 280,303 | 262,168 | (18,135) | 94% |
| Ryan Gregston | Southwest | 136,770 | 74,799 | (61,972) | 55% | 773,493 | 705,502 | (67,992) | 91% |
| Mats Bergqvist | West Coast | 245,047 | 115,990 | (129,057) | 47% | 1,566,670 | 1,422,305 | (144,366) | 91% |
| | | | | | | | | | |
| Chris Charran | UK | 250,746 | 329,436 | 78,690 | 131% | 904,648 | 983,536 | 78,888 | 109% |
| Cyril Mattar | MEA | 79,783 | 21,538 | (58,245) | 27% | 221,672 | 200,477 | (21,195) | 90% |
| Johan Cederberg | Nordics | 113,975 | 47,728 | (66,248) | 42% | 557,467 | 493,617 | (63,850) | 89% |
| Rosario Marsegli | Germany/Italy | 102,578 | 35,591 | (66,987) | 35% | 430,904 | 370,061 | (60,844) | 86% |
| Thomas Liot | France/Spain | 102,578 | 25,944 | (76,634) | 25% | 392,961 | 316,328 | (76,634) | 80% |
| | | | | | | | | | |
| Jeff Liu | China | 86,621 | 71,402 | (15,219) | 82% | 198,417 | 120,611 | (77,805) | 61% |
| | | | | | | | | | |
| Gark Tan | APAC | 182,361 | 217,624 | 35,264 | 119% | 914,682 | 982,152 | 67,470 | 107% |
| Jeff Meyer | EMEA | 695,250 | 504,033 | (191,217) | 72% | 2,816,257 | 2,807,584 | (8,674) | 100% |
| WeWork | N/A | 129,816 | 47,108 | (82,707) | 36% | 793,491 | 712,378 | (81,112) | 90% |
| | | | | | | | | | |
| Rick Emery | World | Target | Actual | Var \$ | % of Target | Target | Actual | Var \$ | % of Target |
| | | 3,200,000 | 4,041,355 | 841,355 | 126% | 19,559,781 | 20,738,360 | 1,178,580 | 106% |

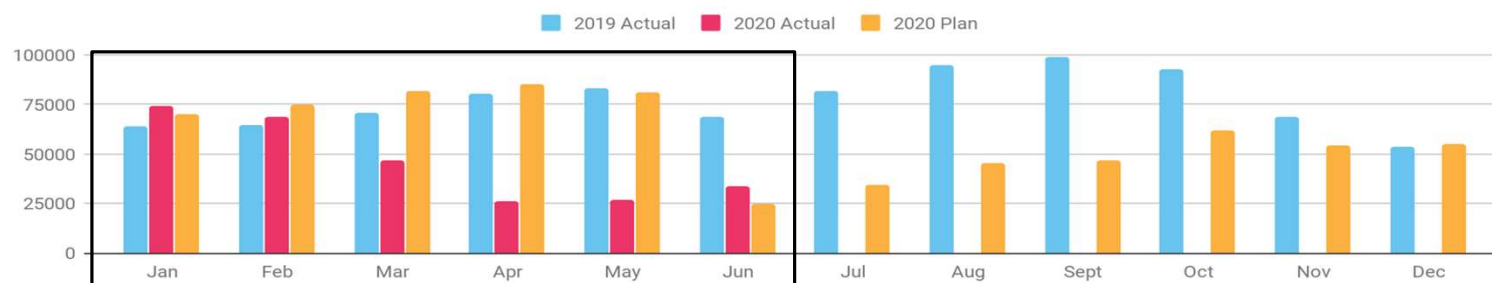
New End User Count by Region

Jun 2020 New End Users

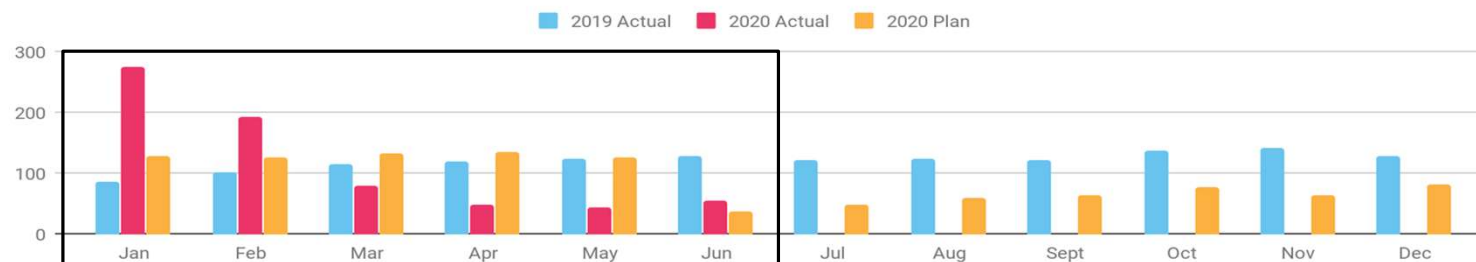
| Name | Territory | Jun-19 | Jun-20 | | | 2020 YTD | | | |
|----------------------|----------------|--------|--------|--------|---------|----------|--------|--------|---------|
| | | PY | Actual | Var \$ | % of PY | PY | Actual | Var \$ | % of PY |
| Scott Ruffer | Midwest | - | 5 | 5 | | - | 14 | 14 | |
| Veronica Saldarriaga | Rocky Mountain | 2 | 1 | (1) | 50% | 7 | 29 | 22 | 414% |
| Craig Tollefson | Midwest | - | 5 | 5 | | 4 | 41 | 37 | 1025% |
| Jeff McDonald | ANZ | 1 | 1 | - | 100% | 4 | 6 | 2 | 150% |
| Melissa Johnson | Mid-Atlantic | 12 | 6 | (6) | 50% | 29 | 37 | 8 | 128% |
| Ryan Gregston | Southwest | 1 | 3 | 2 | 300% | 13 | 28 | 15 | 215% |
| John Chandler | TOLA | 16 | 8 | (8) | 50% | 84 | 71 | (13) | 85% |
| Joel Carroll | Southeast | 25 | 6 | (19) | 24% | 125 | 77 | (48) | 62% |
| Jonathan Davies | New England | 4 | 4 | - | 100% | 31 | 14 | (17) | 45% |
| Danny Fabre | Canada | 17 | 1 | (16) | 6% | 72 | 24 | (48) | 33% |
| Burt Feldman | Northeast | 26 | 11 | (15) | 42% | 147 | 66 | (81) | 45% |
| Ryan Shannon | Midwest | 27 | 8 | (19) | 30% | 194 | 81 | (113) | 42% |
| Mats Bergqvist | West Coast | 19 | 4 | (15) | 21% | 92 | 22 | (70) | 24% |
| | | | | | | | | | |
| Johan Cederberg | Nordics | 9 | 2 | (7) | 22% | 37 | 44 | 7 | 119% |
| Cyril Mattar | MEA | 3 | 2 | (1) | 67% | 10 | 26 | 16 | 260% |
| Rosario Marsegli | Germany/Italy | 12 | 9 | (3) | 75% | 70 | 28 | (42) | 40% |
| Thomas Liot | France/Spain | 17 | 6 | (11) | 35% | 82 | 34 | (48) | 41% |
| Chris Charran | UK | 15 | 7 | (8) | 47% | 114 | 47 | (67) | 41% |
| | | | | | | | | | |
| Jeff Liu | China | 4 | 3 | (1) | 75% | 21 | 9 | (12) | 43% |
| | | | | | | | | | |
| Gark Tan | APAC | 20 | 10 | (10) | 50% | 97 | 87 | (10) | 90% |
| Jeff Meyer | EMEA | 79 | 28 | (51) | 35% | 461 | 198 | (263) | 43% |
| | | | | | | | | | |
| Rick Emery | World | PY | Actual | Var \$ | % of PY | PY | Actual | Var \$ | % of PY |
| | | 221 | 96 | (125) | 43% | 1,243 | 748 | (495) | 60% |

Marketing Metrics

Sessions



MQLs

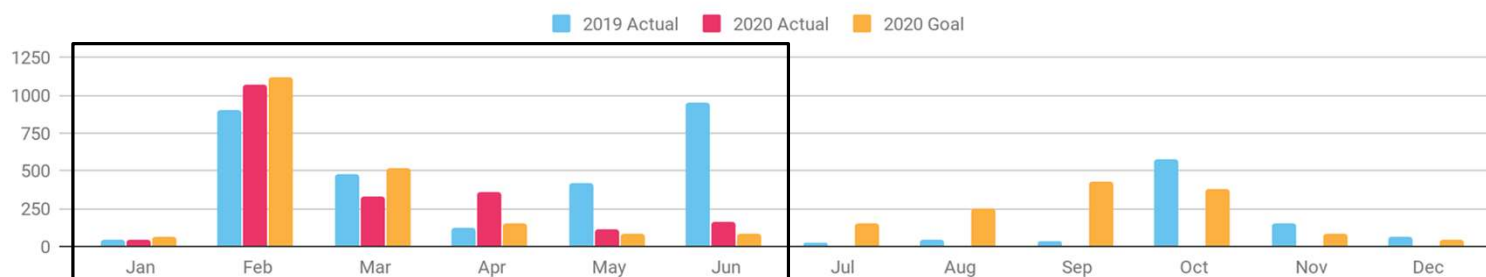


Management Discussion

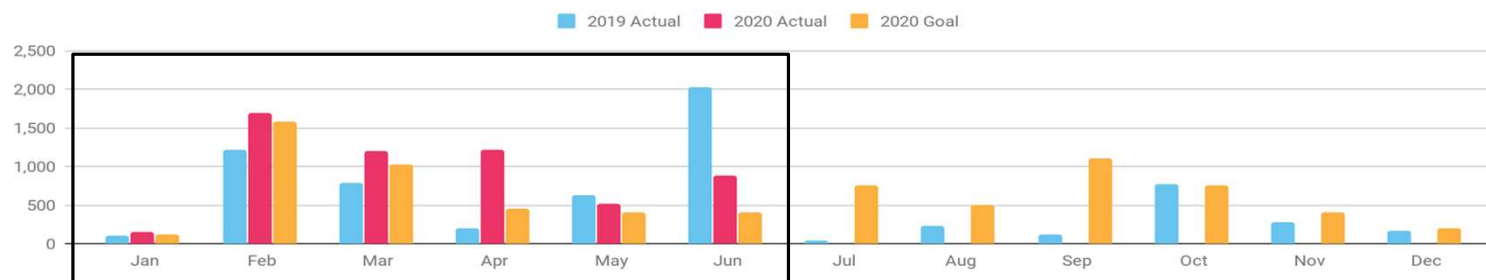
- Revised Coronavirus impact plan has been forecast for June-December Sessions and MQLs.
- Web traffic exceeded the new projected plan primarily due to strong email performance. Email channel sessions exceeded even the pre-Corona plan
- MQLs by count finished above plan, although Session to MQL conversion rate was 0.16% on a plan of 0.17%

Field Marketing Metrics

New Event Members



All Event Members

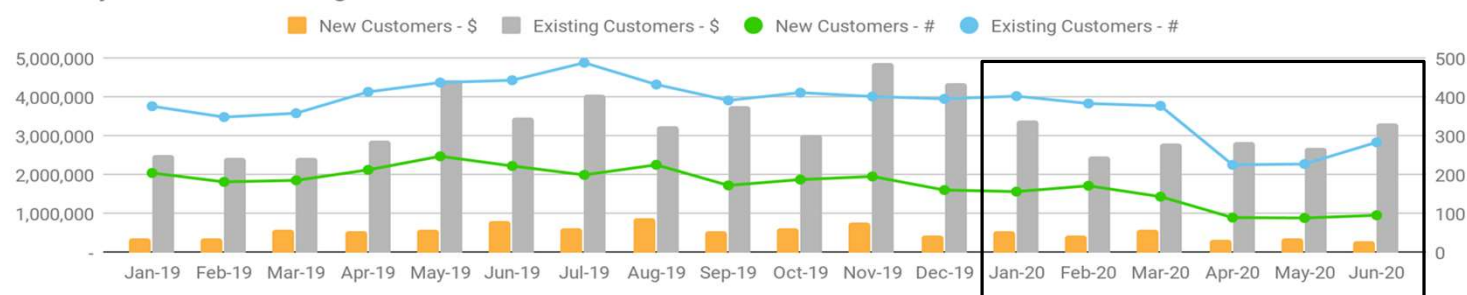


Management Discussion

- Total event membership remains ahead of plan for both the month and the year.
- New event memberships were disproportionately affected compared to June 2019 by combination of budget reductions and in-person events being cancelled.
- Despite large event cancellations, there is 14% YoY total membership growth comparing first six months of 2019 to 2020.

New Customer Metrics

Monthly New vs. Existing Customers



Marketing Influenced Net New Accounts

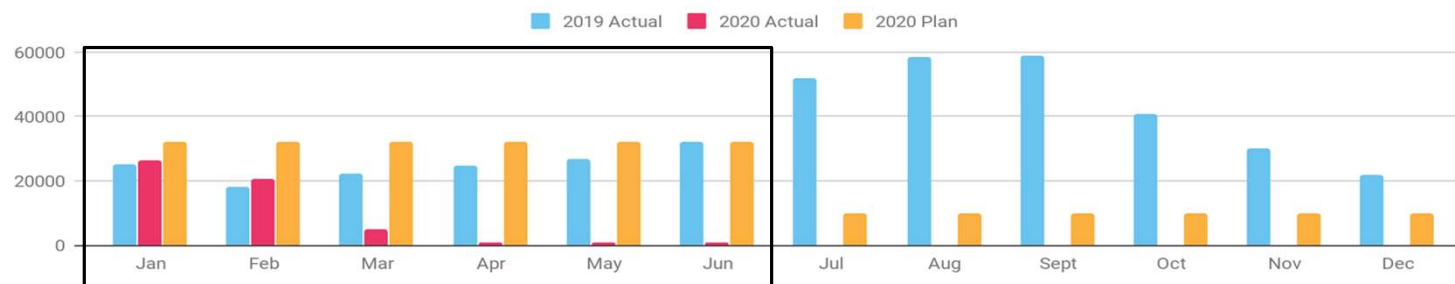


Management Discussion

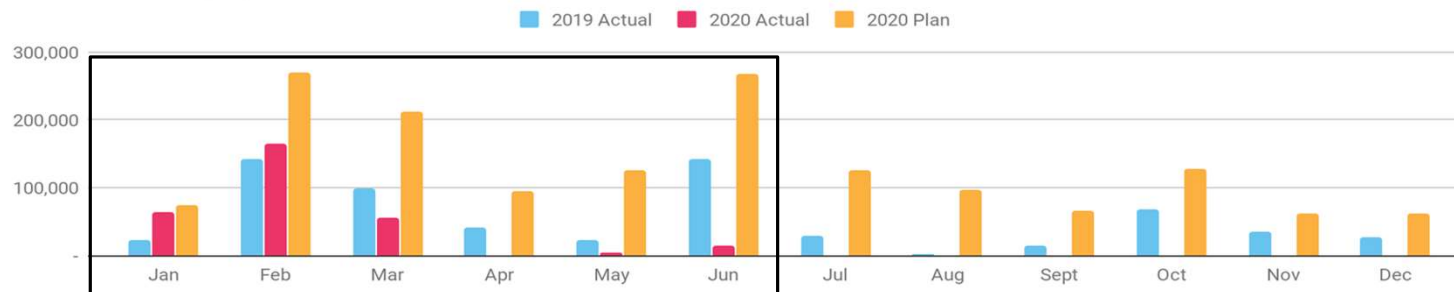
- This plan does not account for Covid-19 impact; a modified plan based primarily on lowered ad spend and event cancellations/delays is underway following the updated 2H bookings forecast.
- Marketing influenced NN accounts for June are 24% of total NN accounts, which is an expected ratio.

Marketing Spend

Digital Ad Spend



Field Marketing Spend

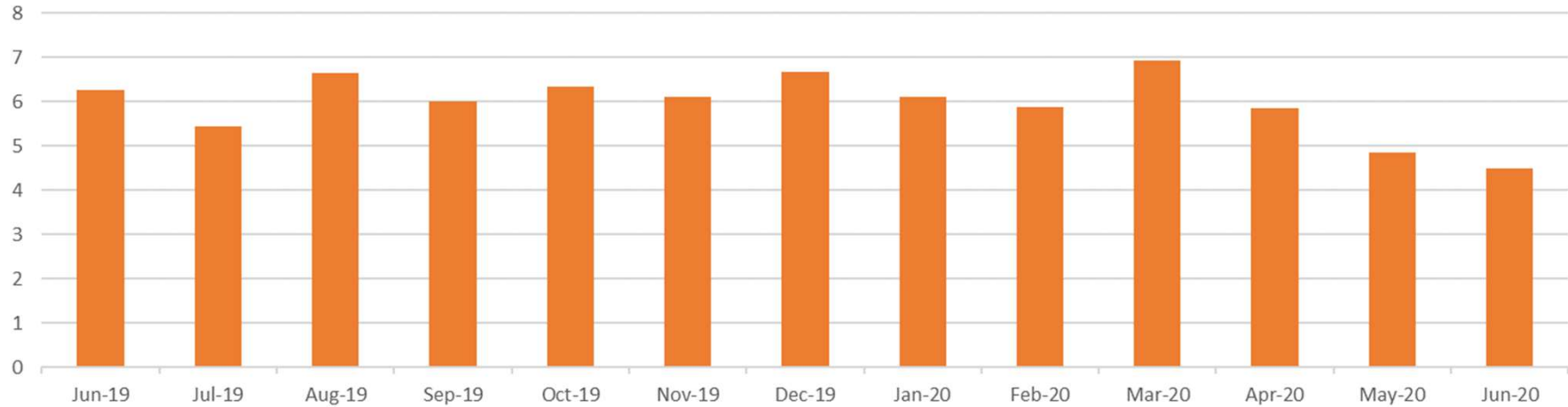


Management Discussion

- Digital Ad spend was 3.2% of plan in June, 29% of plan YTD.
- Field Marketing spend was 5.1% of plan in May, 29% of plan YTD.

Kepler - Engagement

Average Number of Sessions per User per Month



Management Discussion

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

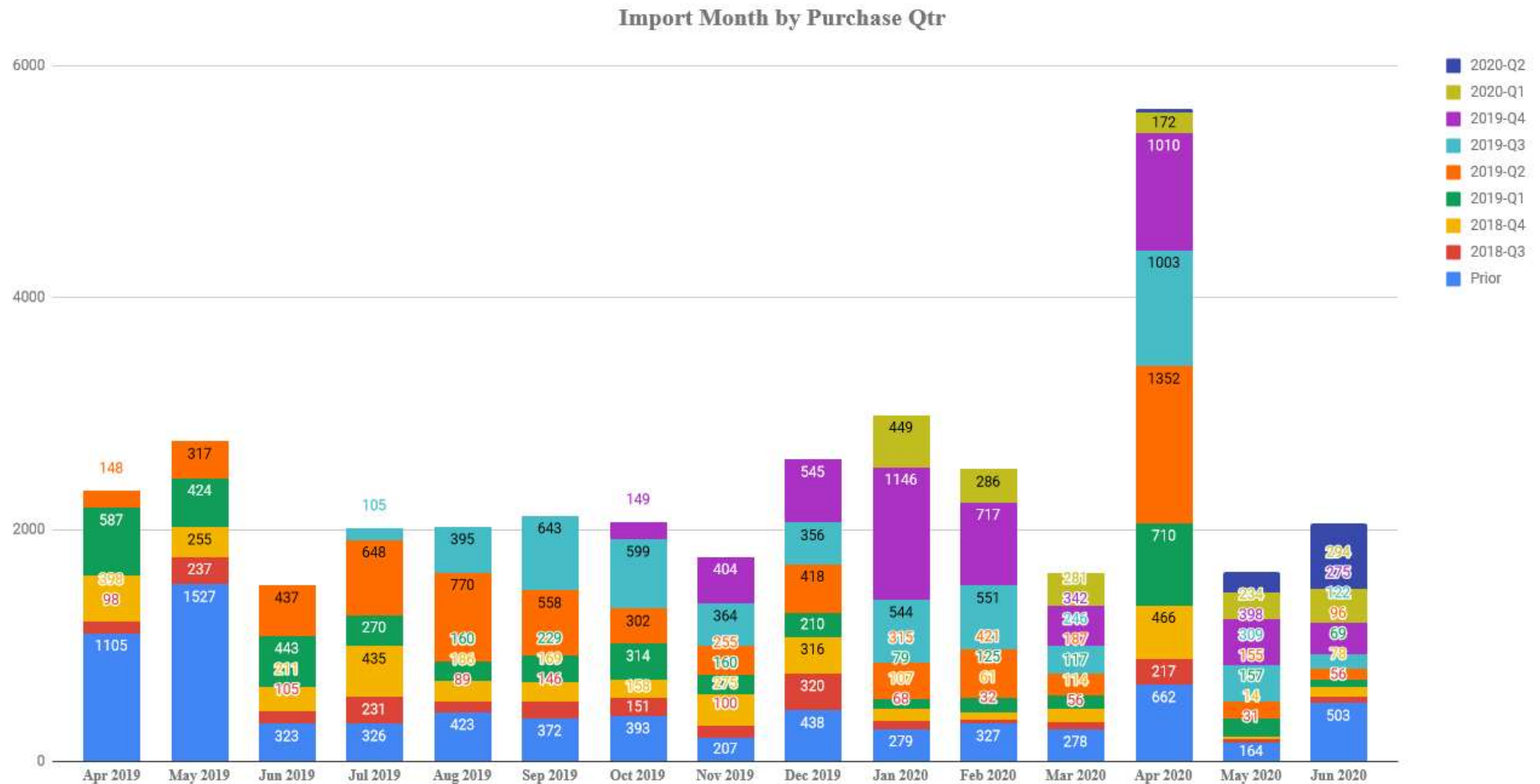
Kepler - Adoption



Management Discussion

- % of top 100 customers based on # of Solstice with Kepler.
- Increase is due to a one-time bulk import by WeWork.

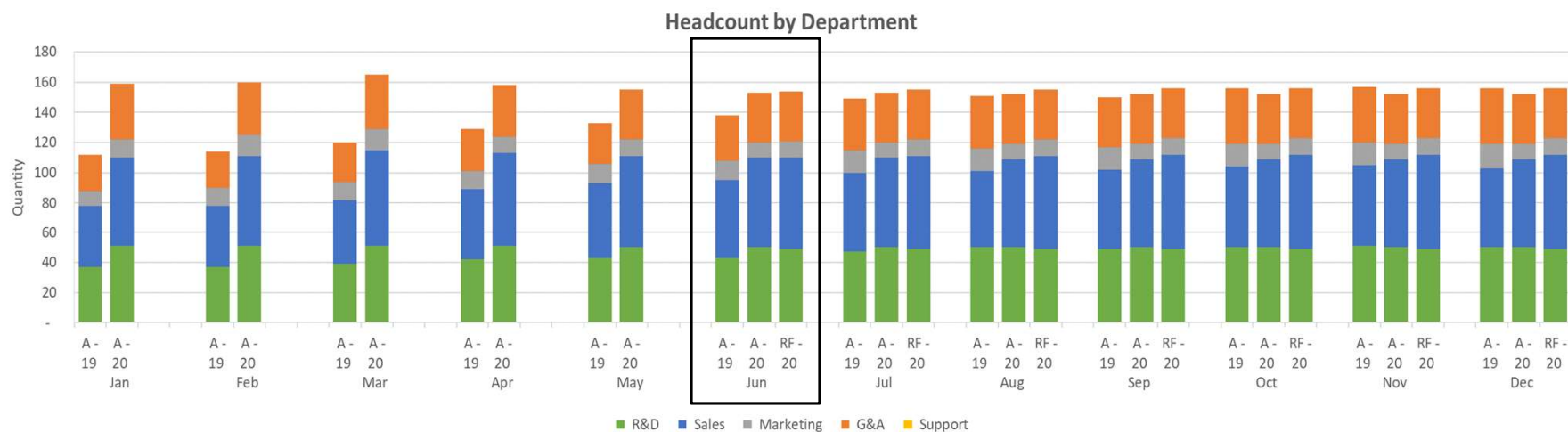
Kepler – Kepler Import Month by Purchase Quarter



Management Discussion

- Kepler imports by month by purchase quarter.
- Kepler import is when a customer imports a Solstice or group of Solstice into Kepler

Staffing Analysis



Management Discussion

- Headcount is below plan through June at 153 compared to reforecast of 154.

6/30/20 Talent Snapshot

Team Members by Geography

Denver (105)

US field (28)

International field (20)

Team Members by Function

Development (51)

Sales (55)

Marketing (15)

Operations (21)

Finance/HR/Exec (11)

Total Team Members: 153

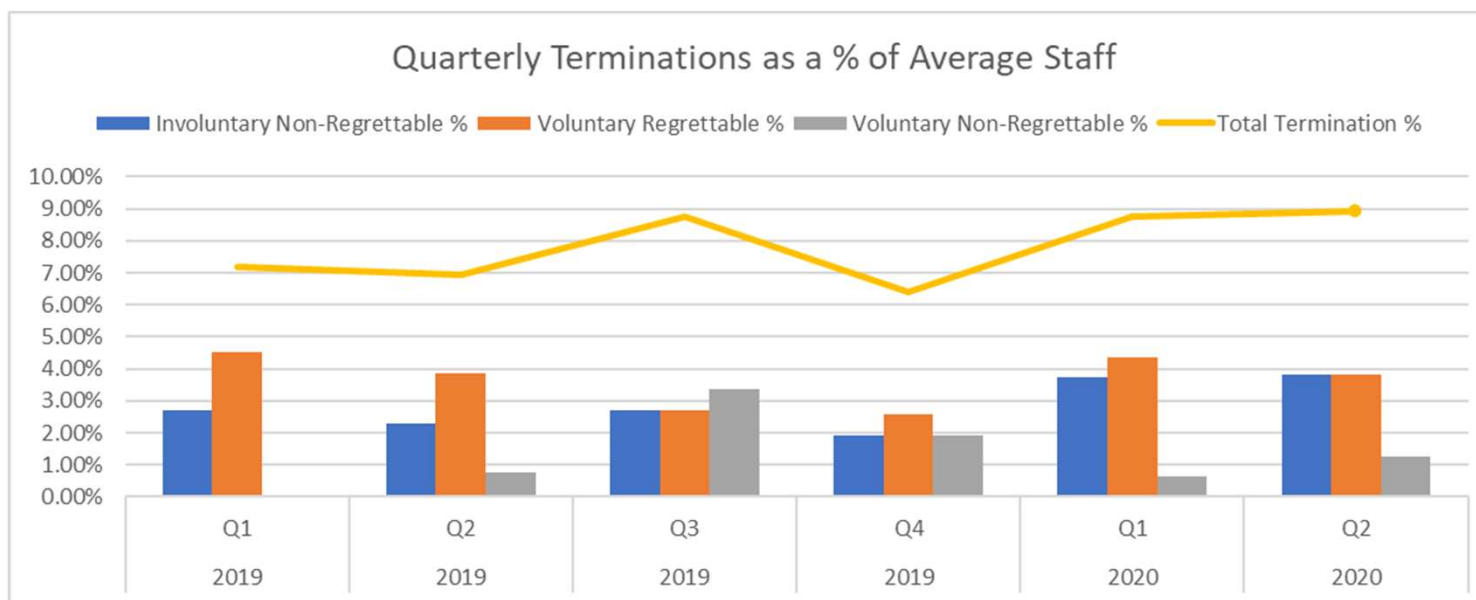
Open Positions: 4

YTD Hires: 23

YTD Departures: 28

YTD Net Headcount Growth: -4

Termination Analysis



Management Discussion

- 2 Terminations in June, of which 2 are regrettable.

Quarterly Operating Review Agenda

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

Summary P&L Through June 2020



| \$'000 | MTD | | Variance | | PY MTD | | Variance | | YTD | | Var | | PY YTD | | Variance | |
|--------------------------|-----------------|-----------------|-----------------|----------------|----------------|-----------------|------------------|--|-------------------|-------------------|-----------------|----------------|-------------------|-------------------|-----------------|--|
| | Act | Rfc | \$ | % | Act | \$ | % | | Act | Rfc | \$ | % | Act | \$ | % | |
| Net Revenue | 3,610 | 3,205 | 405 | 12.6% | 3,995 | (385) | (9.6%) | | 18,886 | 18,481 | 405 | 2.2% | 18,155 | 731 | 4.0% | |
| ARR | 12,975 | 13,188 | (213) | (1.6%) | 8,143 | 4,832 | 59.3% | | 12,975 | 13,188 | (213) | (1.6%) | 8,143 | 4,832 | 59.3% | |
| Material | 795 | 688 | 107 | 15.6% | 1,037 | (242) | (23.4%) | | 4,228 | 4,121 | 107 | 2.6% | 4,401 | (173) | (3.9%) | |
| Labor | 68 | 71 | (3) | (3.7%) | 82 | (14) | (17.6%) | | 428 | 431 | (3) | (0.6%) | 387 | 42 | 10.7% | |
| Total COGS | 863 | 758 | 104 | 13.8% | 1,120 | (257) | (22.9%) | | 4,656 | 4,551 | 104 | 2.3% | 4,788 | (132) | (2.8%) | |
| Gross Margin | 2,747 | 2,446 | 301 | 12.3% | 2,875 | (128) | (4.5%) | | 14,231 | 13,930 | 301 | 2.2% | 13,367 | 863 | 6.5% | |
| Gross Margin % | 76.1% | 76.3% | | | 72.0% | | | | 75.3% | 75.4% | | | 73.6% | | | |
| R&D | 779 | 776 | 3 | 0.3% | 598 | 181 | 30.3% | | 4,635 | 4,626 | 9 | 0.2% | 3,135 | 1,500 | 47.8% | |
| Sales & Marketing | 1,023 | 1,083 | (60) | (5.6%) | 1,182 | (159) | (13.5%) | | 6,246 | 6,304 | (58) | (0.9%) | 6,196 | 51 | 0.8% | |
| Administrative | 632 | 581 | 51 | 8.8% | 641 | (9) | (1.4%) | | 4,075 | 4,033 | 42 | 1.1% | 3,614 | 461 | 12.8% | |
| Total Opex | 2,434 | 2,440 | (6) | (0.3%) | 2,421 | 13 | 0.5% | | 14,956 | 14,963 | (6) | (0.0%) | 12,944 | 2,012 | 15.5% | |
| Reported EBITDA | 314 | 6 | 307 | 4888.4% | 454 | (141) | (31.0%) | | (726) | (1,033) | 307 | (29.8%) | 423 | (1,149) | (271.6%) | |
| EBITDA Margin % | 8.7% | 0.2% | | | 11.4% | | | | (3.8%) | (5.6%) | | | 2.3% | | | |
| EBITDA, adjusted | 314 | 6 | 307 | 4888.4% | 454 | (141) | (31.0%) | | (726) | (1,033) | 307 | (29.8%) | 423 | (1,149) | (271.6%) | |
| Adjusted EBITDA % sales | 8.7% | 0.2% | | | 11.4% | | | | (3.8%) | (5.6%) | | | 2.3% | | | |
| Net Income (Loss) | \$ (201) | \$ (486) | \$ 285 | (58.7%) | \$ 5 | \$ (206) | (3963.4%) | | \$ (3,737) | \$ (4,022) | \$ 285 | (7.1%) | \$ (2,261) | \$ (1,476) | 65.3% | |
| Capex | \$ (107) | \$ - | \$ (107) | N/A | \$ (88) | \$ (19) | 21.0% | | \$ (272) | \$ (165) | \$ (107) | 64.7% | \$ (349) | \$ 77 | (22.2%) | |

Management Discussion

- MTD invoiced sales were \$4.4m compared to plan (plan refers to reforecast plan for 2020) of \$3.2m and include Solstice subscription sales of \$1.4m compared to plan of \$827k. There was backlog of \$132k at month end. Bookings for the month were \$4.0m. June 2019 was \$5.0m. YTD invoiced sales were \$20.8m compared to plan of \$19.6m and include Solstice subscription sales of \$6.0m compared to plan of \$5.4m. YTD Bookings were \$20.7m.
- MTD invoiced sales mix by region: Americas 82% actual vs 76% target, EMEA 13% actual vs 19% target, APAC 5% actual vs 5% target. YTD invoiced sales mix by region: Americas 81% actual vs 80% target, EMEA 13% actual vs 15% target, APAC 5% actual vs 5% target.
- MTD revenue of \$3.6m includes approximately \$2.5m of pod revenue and \$1.1m of deferred solstice subscription revenue from prior months amortized into net revenue. Pod revenue of \$2.5m is higher than reforecast of \$1.9m for the month because of higher than expected pod unit sales, primarily related to the UPS deal. June 2019 revenue was \$4.0m. YTD 2020 revenue is \$18.9m compared to reforecast of \$18.5m.
- ARR is slightly lower than expected primarily due to increased renewal catchup due to co-terms that is not recorded as recurring revenue.
- Units shipped for the month were 3,747 vs reforecast of 2,989 and overall invoiced ASP was \$778 vs the reforecast of \$792 including Gen 3 upgrades. Americas ASP was \$793 vs reforecast of \$820, EMEA at \$708 ASP vs \$717 reforecast and APAC at \$742 invoiced ASP vs \$635 reforecast. Without hardware upgrades included, ASP increases to \$849 per unit. YTD ASP was \$764 vs reforecast of \$760.
- Invoiced renewal subscription MTD were 4,260 units compared to plan of 2,164 resulting in invoiced sales of \$711k compared to reforecast of \$541k. June 2019 was \$591k. YTD in invoiced sales of \$3.6m compared to reforecast of \$3.5m.
- Invoiced upfront subscription MTD were 2,121 units compared to target of 956 resulting in invoiced sales of \$640k compared to reforecast of \$286k. June 2019 was \$370k. YTD in invoiced sales of \$2.3m compared to reforecast of \$2.0m.
- MTD GP % was above plan primarily due to higher than expected Solstice sales. MTD GP % was consistent with plan. The increase in GP% YoY is due primarily to lower pod revenue relative to total revenue in 2020 compared to 2019 resulting in a higher mix of subscription revenue (amortized from deferred revenue) with no associated incremental COGS; thus the higher GP%.
- MTD OpEx variance is consistent with plan, G&A overage is timing related to audit fees coming in a month earlier than budget.
- Invoiced EBITDA for June was \$1.1m compared to reforecast of \$2k. June 2019 was \$1.5m. YTD 2020 was \$1.1m compared to reforecast of \$18k.
- MTD CAPEX of \$107k is related to our landlord invoicing for tenant improvement costs that exceeded the TI allocation for office buildout. We will accrue this CapEx into 2019 as we wrap up our audit but for now the amount is recorded in 2020.

Balance Sheet



| | Dec-19 | Mar-20 | Apr-20 | May-20 | Jun-20 | | Variance |
|---|------------------|------------------|------------------|------------------|------------------|------------------|---------------|
| \$'000 | Act | Act | Act | Act | Act | Rfc | \$ |
| Current Assets | | | | | | | |
| Cash and cash equivalents | \$ 7,647 | \$ 8,113 | \$ 9,136 | \$ 9,361 | \$ 7,946 | \$ 7,741 | \$ 205 |
| Short term investments | — | — | — | — | — | — | — |
| <i>Accounts receivable, gross</i> | 7,969 | 5,765 | 4,908 | 5,034 | 5,611 | 5,335 | 276 |
| <i>Accounts receivable, reserves</i> | (102) | (159) | (192) | (243) | (256) | (257) | 1 |
| Accounts receivable, net | 7,867 | 5,606 | 4,716 | 4,792 | 5,355 | 5,078 | 277 |
| Inventory, net | 3,915 | 5,729 | 5,209 | 5,563 | 4,802 | 4,939 | (136) |
| Prepaid expenses and other current assets | 2,435 | 1,705 | 1,980 | 1,890 | 1,879 | 1,764 | 114 |
| Total Current Assets | 22,039 | 21,154 | 21,040 | 21,606 | 19,982 | 19,522 | 460 |
| Non-Current Assets | | | | | | | |
| <i>Property, plant & equipment, gross</i> | 1,918 | 2,005 | 2,080 | 2,084 | 2,190 | 2,084 | 107 |
| <i>Accumulated depreciation</i> | (375) | (484) | (539) | (581) | (633) | (567) | (66) |
| Property, plant & equipment, net | 1,543 | 1,522 | 1,541 | 1,503 | 1,557 | 1,517 | 41 |
| Goodwill | 25,472 | 24,670 | 24,402 | 24,134 | 23,867 | 23,867 | — |
| Identifiable intangible assets, net | 2,012 | 1,842 | 1,785 | 1,728 | 1,672 | 1,672 | 0 |
| Deferred tax asset | 3,462 | 3,462 | 3,462 | 3,462 | 3,462 | 3,462 | — |
| Other non-current assets | 1,056 | 1,096 | 1,088 | 1,085 | 1,108 | 1,085 | 23 |
| Total Non-Current Assets | 33,545 | 32,591 | 32,278 | 31,912 | 31,665 | 31,601 | 64 |
| Total Assets | \$ 55,584 | \$ 53,745 | \$ 53,319 | \$ 53,518 | \$ 51,647 | \$ 51,123 | \$ 524 |
| Current Liabilities | | | | | | | |
| Notes payable | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | — |
| Accounts payable | 2,361 | 2,440 | 2,744 | 3,153 | 2,210 | 2,952 | (742) |
| Accrued liabilities | 299 | 297 | 259 | 308 | 370 | 287 | 83 |
| Accrued compensation | 2,359 | 1,131 | 1,100 | 1,430 | 1,795 | 1,632 | 163 |
| Income taxes payable | — | 751 | 751 | 751 | 751 | 751 | (0) |
| Other current liabilities | 349 | 342 | 341 | 334 | 326 | 330 | (4) |
| Total Current Liabilities | 8,869 | 8,461 | 8,695 | 9,476 | 8,953 | 9,453 | (500) |
| Long-term liabilities | | | | | | | |
| Long-term debt less current maturities | — | — | — | — | — | — | — |
| Long-term unearned revenue | 15,655 | 16,710 | 16,594 | 16,579 | 17,339 | 16,549 | 791 |
| Deferred liabilities | 267 | 242 | 218 | 205 | 199 | 219 | (20) |
| Total Long-Term Liabilities | 15,922 | 16,952 | 16,812 | 16,784 | 17,538 | 16,767 | 771 |
| Total Liabilities | 24,791 | 25,414 | 25,508 | 26,261 | 26,491 | 26,220 | 271 |
| Shareholders' Equity | | | | | | | |
| Total Shareholders' Equity | 30,793 | 28,331 | 27,811 | 27,257 | 25,156 | 24,903 | 253 |
| Total Liabilities and Shareholders' Equity | \$ 55,584 | \$ 53,745 | \$ 53,319 | \$ 53,518 | \$ 51,647 | \$ 51,123 | \$ 524 |

Management Discussion

- Cash is in line with rfcst. The significant decrease from May to June in cash and SH equity is due to dividend distribution in June totaling \$1.9M.
- AP 'days payable outstanding' 79 vs reforecast of 121. Variance to reforecast largely due to increased AP payments in June as our cash position remained strong.
- Accrued compensation variance is due primarily to re-establishing executive compensation to 100%, which impacts our accrued PTO balance, and increased commission compensation and related taxes associated with higher sales for June than forecasted.
- Deferred revenue is above plan primarily due to higher than expected invoiced sales related primarily to UPS order.
- The \$751k tax payable is no longer owed back to the IRS due to a change in our election for revenue recognition methodology for tax purposes. See further discussion of this matter on slide 44.

Cash Flow Statement

| | MTD | | | Var | | | PY-MTD | | | Var | | | YTD | | | Var | | | PY YTD | | | Var | | |
|--|-------------------|-------------------|-----------------|-----|--|--|-----------------|--|-------------------|-----|--|--|-------------------|-------------------|-----------------|-----|--|--|-------------------|--|-------------------|-----|--|--|
| | Act | Rfc | \$ | | | | Act | | \$ | | | | Act | Rfc | \$ | | | | Act | | \$ | | | |
| \$'000 | | | | | | | | | | | | | | | | | | | | | | | | |
| Cash flow from operations | | | | | | | | | | | | | | | | | | | | | | | | |
| Net Income (Loss) | \$ (201) | \$ (486) | \$ 285 | | | | \$ 5 | | \$ (206) | | | | \$ (3,737) | \$ (4,022) | \$ 285 | | | | \$ (2,261) | | \$ (1,476) | | | |
| Depreciation, amortization and other | 377 | 311 | 66 | | | | 349 | | 28 | | | | 2,203 | 2,137 | 66 | | | | 2,086 | | 117 | | | |
| Deferred income tax | — | — | — | | | | — | | — | | | | — | — | — | | | | — | | — | | | |
| Change in operating assets and liabilities: | | | | | | | | | | | | | | | | | | | | | | | | |
| Accounts receivable | (563) | (286) | (277) | | | | (1,032) | | 469 | | | | 2,512 | 2,789 | (277) | | | | (2,743) | | 5,255 | | | |
| Inventory | 760 | 624 | 136 | | | | 507 | | 253 | | | | (887) | (1,024) | 136 | | | | (624) | | (264) | | | |
| Prepaid expenses and other current assets | (12) | 126 | (138) | | | | 105 | | (117) | | | | 679 | 817 | (138) | | | | (873) | | 1,552 | | | |
| Accounts payable | (949) | (169) | (780) | | | | 303 | | (1,251) | | | | (139) | 642 | (780) | | | | 527 | | (666) | | | |
| Accrued expenses | 432 | 181 | 252 | | | | (107) | | 540 | | | | (506) | (757) | 252 | | | | (384) | | (122) | | | |
| Accrued income taxes | — | 0 | (0) | | | | 0 | | (0) | | | | 750 | 750 | (0) | | | | (0) | | 750 | | | |
| Other changes in operating assets and liabilities | 754 | (17) | 771 | | | | 934 | | (180) | | | | 1,616 | 845 | 771 | | | | 3,264 | | (1,648) | | | |
| Other cash flow from operations | (7) | (3) | (4) | | | | 48 | | (55) | | | | (21) | (17) | (4) | | | | 352 | | (373) | | | |
| Total Cash Flow from Operations | \$ 592 | \$ 280 | \$ 312 | | | | \$ 1,111 | | \$ (519) | | | | \$ 2,471 | \$ 2,159 | \$ 312 | | | | \$ (654) | | \$ 3,125 | | | |
| Cash flow from investing | | | | | | | | | | | | | | | | | | | | | | | | |
| Additions to property, plant and equipment | \$ (107) | \$ (0) | \$ (107) | | | | \$ (88) | | \$ (19) | | | | \$ (272) | \$ (165) | \$ (107) | | | | \$ (349) | | 77 | | | |
| Investment in intangibles | — | — | — | | | | (46) | | 46 | | | | — | — | — | | | | (113) | | 113 | | | |
| Total Cash Flow from Investing | \$ (107) | \$ (0) | \$ (107) | | | | \$ (134) | | \$ 27 | | | | \$ (272) | \$ (165) | \$ (107) | | | | \$ (462) | | \$ 190 | | | |
| Cash flow from financing | | | | | | | | | | | | | | | | | | | | | | | | |
| Common stock cash dividends paid | (1,900) | (1,900) | — | | | | — | | (1,900) | | | | (1,900) | (1,900) | — | | | | — | | (1,900) | | | |
| Other cash flow from financing costs | — | — | — | | | | (0) | | 0 | | | | 0 | 0 | — | | | | (0) | | 0 | | | |
| Total Cash Flow from Financing | \$ (1,900) | \$ (1,900) | \$ — | | | | \$ (0) | | \$ (1,900) | | | | \$ (1,900) | \$ (1,900) | \$ — | | | | \$ (0) | | \$ (1,900) | | | |
| | \$ — | \$ — | \$ — | | | | \$ — | | \$ — | | | | \$ — | \$ — | \$ — | | | | \$ — | | \$ — | | | |
| Net change in cash | \$ (1,415) | (1,620) | \$ 205 | | | | \$ 977 | | \$ (2,392) | | | | \$ 299 | \$ 94 | \$ 205 | | | | \$ (1,117) | | \$ 1,416 | | | |
| Beginning cash | 9,361 | 9,361 | — | | | | 3,659 | | 5,702 | | | | 7,647 | 7,647 | — | | | | 5,752 | | 1,894 | | | |
| Change in cash | (1,415) | (1,620) | 205 | | | | 977 | | (2,392) | | | | 299 | 94 | 205 | | | | (1,117) | | 1,416 | | | |
| Ending cash | \$ 7,946 | \$ 7,741 | \$ 205 | | | | \$ 4,636 | | \$ 3,310 | | | | \$ 7,946 | \$ 7,741 | \$ 205 | | | | \$ 4,636 | | \$ 3,310 | | | |

Management Discussion

- Cash flow from operations exceeded plan due to deferred revenue increasing more than plan due to higher sales than plan, accrued expenses coming in above plan due to higher PTO and Payroll Taxes compared to budget, and inventory decreasing more than plan due to higher sales than plan, offset by less AR collections than invoiced sales which were above plan and AP decreasing more than plan.
- YTD CAPEX is below plan due to our landlord invoicing for tenant improvement costs that exceeded the TI allocation for office buildout. We will accrue this CapEx into 2019 as we wrap up our audit but for now the amount is recorded in 2020.
- YTD Cash flow used in financing is consistent with plan due to dividend distribution.

Quarterly Operating Review Agenda

➔ Executive Summary

➔ Financial Review

➔ **Governance Reporting**

➔ Appendix

Management Governance Report

Board of Directors

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

2019 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: | None |
| 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: | None |
| D) | Any reports or complaints regarding accounting, internal accounting controls or auditing matters. | None |

Quarterly Operating Review Agenda

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

Other Financial Matters Update

Tax Update - Deloitte completed tax analysis to assess changing revenue recognition for tax purposes

- One time election must remain in effect for 5 years
- Aligns tax revenue with book revenue, rather than with invoiced sales
- Decreases taxable income from \$8.7M to tax loss of \$4.6M - \$13.3M swing
- Decreases estimated taxes from \$1.4M in 2020 to \$0 and increases NOL by \$4.6M
- After applying NOLs as a carryback to 2018, we will receive \$778K refund on taxes paid in 2018 and estimated payments made for 2019,
- We will not be required to payback the \$750K received from IRS in Q1.

Audit Update - Deloitte has completed the audit and plans to issue report this week

- Deloitte to present report and findings on Thursday's Q2 Financial Review meeting
- No audit adjustments or rev rec issues at this time
- Tax adjustment is only significant adjustment to financials

2020 Revenue Adjustment – We are in process of implementing new SSPs for 2020

- Based on analysis of 2017-2019 selling prices, allocation of FMV to HW & SW versus Maintenance in 2020 is 86%/14% versus 83%/17% in 2019
- Impact will be an increase to revenue and decrease to deferred revenue of \$3-500K through June 2020.
- Change reflects increased overall ASPs for HW/SW components ranging from 9-14%

2020 P&L Reforecast - Final

| | <u>2019</u> | <u>2020</u> | <u>Original</u> | <u>Chg to</u> | |
|--------------------------------|---------------|---------------|-----------------|-----------------|----------------|
| | <u>Total</u> | <u>Total</u> | <u>AOP</u> | <u>Plan</u> | <u>YoY Chg</u> |
| 2020 Reforecast P&L | | | | | |
| 000 | | | | | |
| <u>Invoiced Summary</u> | | | | | |
| Pod | 40,876 | 36,489 | 56,845 | (20,356) | (4,387) |
| Software Subscription | 10,986 | 11,517 | 15,646 | (4,129) | 532 |
| Total Invoiced Sales | 51,862 | 48,006 | 72,491 | (24,485) | (3,856) |
| | | 24% | 22% | | |
| Deferred Revenue | 15,922 | 19,543 | 24,729 | (5,185) | 3,621 |
| <u>Revenue Summary</u> | | 83% | 83% | | |
| Pod | 33,121 | 30,300 | 47,137 | (16,837) | (2,821) |
| Software Subscription | 8,951 | 13,775 | 16,375 | (2,599) | 4,824 |
| Total Revenue | 42,072 | 44,075 | 63,511 | (19,436) | 2,003 |
| COGS | | | | | |
| HW | 9,673 | 9,174 | 17,182 | (8,008) | (499) |
| Support Comp | 766 | 818 | 998 | (179) | 52 |
| Other non-Comp Expenses | 1,438 | 1,375 | 1,752 | (377) | (63) |
| TOTAL COGS | 11,877 | 11,367 | 19,931 | (8,564) | (510) |
| Logistics & Support HC | 11 | 11 | 14 | (3) | 0 |
| Gross Profit | 30,195 | 32,708 | 43,580 | (10,872) | 2,513 |
| | 71.8% | 74.2% | 68.6% | | |

Management Discussion – Assumptions

- 24% of invoiced sales is subscription compared to 22% in AOP for 2020
- Renewal attach rate is 55% and Upfront attach rate is 32%
- Free year is 17% of invoiced pod
- COGS - \$200 per unit for pod and components
- Increased GM% due to change in mix between invoiced pod sales and invoiced subscription sales

2020 P&L Reforecast - Final

| | <u>2019</u> | <u>2020</u> | <u>Original</u> | <u>Chg to</u> | |
|--------------------------------|---------------------|---------------------|-------------------|--------------------|-----------------------|
| 2020 Reforecast P&L | <u>Total</u> | <u>Total</u> | <u>AOP</u> | <u>Plan</u> | <u>YoY Chg</u> |
| 000 | | | | | |
| Sales | | | | | |
| Sales Comp | 8,132 | 10,357 | 11,486 | (1,129) | 2,225 |
| Non-Comp Expense - Sales | 1,674 | 852 | 2,240 | (1,388) | (822) |
| Sales Expense | 9,806 | 11,209 | 13,726 | (2,517) | 1,403 |
| Sales HC | 54 | 63 | 66 | | |
| Marketing | | | | | |
| Marketing Comp | 1,583 | 1,292 | 1,866 | (574) | (291) |
| Non-Comp Expense - Mktg | 2,155 | 881 | 2,807 | (1,927) | (1,274) |
| Marketing Expenses | 3,738 | 2,173 | 4,674 | (2,501) | (1,565) |
| Mktg HC | 15 | 11 | 16 | | |
| R&D | | | | | |
| R&D Comp | 6,799 | 7,782 | 9,571 | (1,789) | 983 |
| Non-Comp Expense - R&D | 704 | 1,552 | 1,922 | (370) | 848 |
| R&D Expense | 7,503 | 9,335 | 11,494 | (2,159) | 1,831 |
| R&D HC | 51 | 49 | 61 | | |
| G&A | | | | | |
| G&A Comp | 3,156 | 3,270 | 4,199 | (930) | 114 |
| Non-Comp Expense - G&A | 4,740 | 4,741 | 5,949 | (1,208) | 0 |
| G&A Expense | 7,896 | 8,010 | 10,149 | (2,138) | 114 |
| G&A HC | 25 | 22 | 29 | | |
| Total OpEx | | | | | |
| Comp | 19,670 | 22,701 | 27,124 | (4,422) | 3,031 |
| Non-Comp | 9,273 | 8,026 | 12,918 | (4,893) | (1,248) |
| Total OpEx | 28,943 | 30,727 | 40,042 | (9,315) | 1,784 |
| Adj EBITDA | 1,252 | 1,981 | 3,538 | (1,557) | 729 |
| Adj EBITDA % | 3% | 4% | 6% | | |
| Invoiced EBITDA | 11,042 | 5,912 | 12,518 | (6,606) | (5,130) |
| Total HC | 156 | 156 | 186 | | |

Management Discussion – Assumptions

- Headcount 156 vs 186 in 2020 AOP
- Compensation:
 - July 1 executive compensation back to 100%
 - MIPs 50% payout, MBO 100% payout
 - Commission 100% payout

2020 BS Reforecast - Final

| | <u>2019</u> | <u>2020</u> | <u>Original</u> | <u>Chg to</u> | |
|---------------------------------------|---------------|---------------|-----------------|----------------|----------------|
| | <u>Total</u> | <u>Total</u> | <u>AOP</u> | <u>Plan</u> | <u>YoY Chg</u> |
| ASSETS | | | | | |
| Cash | 7,647 | 8,673 | 9,987 | (1,315) | 1,026 |
| Receivables | 7,867 | 9,230 | 9,875 | (645) | 1,363 |
| Inventory | 3,932 | 4,515 | 4,886 | (370) | 583 |
| Other current Assets | 2,435 | 1,261 | 3,020 | (1,759) | (1,174) |
| Total Current Assets | 21,881 | 23,679 | 27,769 | (4,090) | 1,798 |
| PP&E | 1,543 | 1,454 | 1,981 | (527) | (90) |
| Other Non-Current Assets | 32,002 | 28,139 | 28,640 | (501) | (3,862) |
| Total Assets | 55,426 | 53,272 | 58,390 | (5,118) | (2,154) |
| LIABILITIES | | | | | |
| Trade Payables | 2,328 | 3,098 | 3,299 | (201) | 769 |
| Accrued Bonus & Commissions | 1,841 | 1,236 | 1,277 | (41) | (605) |
| Other Accrued Expenses | 962 | 1,441 | 938 | 503 | 479 |
| Income Taxes Payable | 2 | 752 | 0 | 752 | 750 |
| Deferred Software Support Revenue | 15,922 | 19,543 | 24,729 | (5,185) | 3,621 |
| ST Note Payable | 3,500 | 3,500 | - | 3,500 | - |
| Total Liabilities | 24,556 | 29,570 | 30,242 | (672) | 5,015 |
| SVB Term Loan | - | - | 3,500 | (3,500) | |
| Total LT Liabilities | 0 | 0 | 3,500 | (3,500) | 0 |
| Total Equity | 30,870 | 23,702 | 24,648 | (946) | (7,168) |
| Total Liabilities & Equity | 55,426 | 53,272 | 58,390 | (5,118) | (2,154) |

Management Discussion

- Cash assumes \$1.9m taken out in Jun-2020
- AR assumes 48 days DSO
- Inventory assumes 3 months forward COGS
- OCA includes \$0 inventory pre-payments & \$1.1M in other prepaids for marketing and SW
- Payables assumes 64 days DPO
- Bonus & commissions at 100% of plan, MIPs 50% of plan
- Income tax obligations estimated at \$1.3M, paid prior to qtr end
- Deferred revenue increase due to increased invoiced sales and co-terming of renewals

2020 CF Reforecast - Final



| | <u>2019</u> | <u>2020</u> | <u>Original</u> | <u>Chg to</u> | |
|--|--------------|--------------|-----------------|----------------|----------------|
| | <u>Total</u> | <u>Total</u> | <u>AOP</u> | <u>Plan</u> | <u>YoY Chg</u> |
| CASH FLOW | | | | | |
| Cash Flow from Operations | | | | | |
| Net Income (loss) | (6,052) | (5,268) | (4,044) | (1,225) | 784 |
| Depreciation & Amortization | 4,229 | 4,146 | 4,038 | 108 | (83) |
| Deferred taxes | 39 | - | - | - | (39) |
| | | | | | - |
| Change in Working Capital | | | | | - |
| Receivables | (2,836) | (1,363) | (2,008) | 645 | 1,472 |
| Inventory | (2,543) | (583) | (954) | 371 | 1,960 |
| Other current Assets | (1,443) | 1,145 | (437) | 1,582 | 2,588 |
| Trade Payables | 1,984 | 769 | 1,024 | (254) | (1,214) |
| Accrued Bonus & Commissions | 372 | (767) | (463) | (305) | (1,140) |
| Other Accrued Expenses | 239 | 642 | (20) | 662 | 403 |
| Income Taxes Payable | 2 | 750 | (2) | 752 | 748 |
| Deferred Software Support Revenue | 8,977 | 3,621 | 8,738 | (5,117) | (5,356) |
| Total Cash Flow from Operations | 2,968 | 3,091 | 5,872 | (2,781) | 122 |
| Cash Flow From Investing | | | | | |
| CapEx | (1,074) | (165) | (531) | 366 | 909 |
| Cash flow from Financing | | | | | |
| Equity Distribution | (0) | (1,900) | (3,000) | 1,100 | (1,900) |
| Net change in Cash | 1,894 | 1,026 | 2,341 | (1,315) | (868) |
| Beginning Cash | 5,752 | 7,647 | 8,830 | (1,183) | 1,894 |
| Ending Cash | 7,647 | 8,673 | 9,987 | (1,315) | 1,026 |

YTD OPEX Analysis

\$'000

| | YTD | | | Explanation of Variance | | | | | Variance Impact | | |
|------------------------------|----------|----------|---------|-------------------------|---------|-----------|-------|---------|-----------------|----------------|------------|
| | Variance | | | One-Time / | | Change in | | | Total Variance | YoY Impact | Annualized |
| | Act | Rfc | (B) / W | Non-recurring | Timing | Run-rate | Other | (B) / W | (B) / W | Impact (B) / W | |
| Payroll | \$ 8,532 | \$ 8,542 | \$ (10) | \$ — | \$ (10) | \$ — | \$ — | \$ (10) | \$ — | \$ — | |
| Benefits | 1,113 | 1,043 | 70 | \$ — | \$ 70 | — | — | 70 | — | — | |
| Bonus | 495 | 468 | 26 | \$ — | \$ 26 | — | — | 26 | — | — | |
| Commissions | 918 | 973 | (56) | — | (56) | — | — | (56) | — | — | |
| Marketing | 526 | 526 | 1 | — | 1 | — | — | 1 | — | — | |
| Travel and Entertainment | 408 | 416 | (8) | — | (8) | — | — | (8) | — | — | |
| Rent and Facilities | 810 | 817 | (6) | — | (6) | — | — | (6) | — | — | |
| Insurance | — | — | — | — | — | — | — | — | — | — | |
| Professional Fees | 818 | 813 | 5 | — | 5 | — | — | 5 | — | — | |
| Utl., Repair, Maint., & Sec. | 130 | 127 | 3 | — | 3 | — | — | 3 | — | — | |
| Office Expense | 74 | 75 | (1) | — | (1) | — | — | (1) | — | — | |
| IT | 759 | 781 | (22) | — | (22) | — | — | (22) | — | — | |
| Other Expenses | 374 | 381 | (7) | — | (7) | — | — | (7) | — | — | |
| Total Opex | \$14,956 | \$14,963 | \$ (6) | \$ — | \$ (6) | \$ — | \$ — | \$ (6) | \$ — | \$ — | |

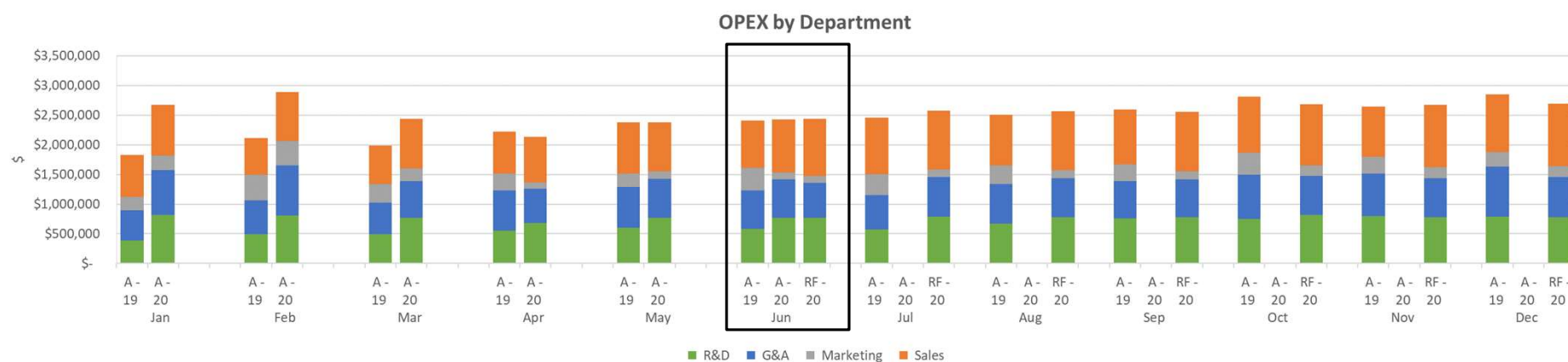
Management Discussion

- Payroll is under reforecast due to hiring being behind plan. Re-forecasted employee headcount was 154 versus actual of 153 as of June-2020.
- Benefits are primarily over reforecast due to higher PTO expense, due to less PTO usage than expected in June and executives got their salary reinstated.
- Commissions/bonus are under reforecast mostly due to the ASC 606 adjustment for commission expense. Normalized for 606 adjustments, bonus/commission are \$4k under budget.
- T&E is under reforecast primarily due to continued travel restrictions.
- Professional Fees are over budget due primarily to unbudgeted marketing contractor.
- IT is under reforecast due to less software expense than expected.

Operating Expenses Summary

| \$'000 | | | | | | | | | | | | | | |
|------------------------------|----------|----------|----------|---------|----------|----------|---------|-----------|----------|---------|--------|-----------|----------|---------|
| | MTD | | Variance | | PY MTD | Variance | | YTD | | Var | | PY YTD | Variance | |
| | Act | Rfc | \$ | % | Act | \$ | % | Act | Rfc | \$ | % | Act | \$ | % |
| Opex Overview: | | | | | | | | | | | | | | |
| Payroll | \$ 1,395 | \$ 1,405 | \$ (10) | (0.7%) | \$ 1,196 | \$ 199 | 16.7% | \$ 8,532 | \$ 8,542 | \$ (10) | (0.1%) | \$ 6,429 | \$ 2,104 | 32.7% |
| Benefits | 205 | 135 | 70 | 51.6% | 146 | 59 | 40.1% | 1,113 | 1,043 | 70 | 6.7% | 874 | 240 | 27.4% |
| Bonus | 92 | 77 | 16 | 20.2% | 113 | (21) | (18.3%) | 495 | 468 | 26 | 5.6% | 711 | (216) | (30.4%) |
| Commissions | 237 | 293 | (56) | (19.0%) | 183 | 55 | 29.9% | 918 | 973 | (56) | (5.7%) | 739 | 179 | 24.2% |
| Marketing | 35 | 34 | 1 | 1.5% | 227 | (192) | (84.6%) | 526 | 526 | 1 | 0.1% | 1,042 | (516) | (49.5%) |
| Travel and Entertainment | 20 | 28 | (8) | (29.6%) | 82 | (62) | (75.9%) | 408 | 416 | (8) | (2.0%) | 714 | (306) | (42.8%) |
| Rent and Facilities | 133 | 139 | (6) | (4.5%) | 162 | (29) | (17.7%) | 810 | 817 | (6) | (0.8%) | 820 | (10) | (1.2%) |
| Insurance | — | — | — | N/A | — | — | N/A | — | — | — | N/A | — | — | N/A |
| Professional Fees | 132 | 123 | 9 | 7.6% | 126 | 6 | 4.6% | 818 | 813 | 5 | 0.6% | 621 | 197 | 31.6% |
| Utl., Repair, Maint., & Sec. | 22 | 19 | 3 | 14.6% | 23 | (0) | (1.7%) | 130 | 127 | 3 | 2.2% | 146 | (16) | (11.2%) |
| Office Expenses | 4 | 6 | (1) | (25.5%) | 17 | (13) | (75.2%) | 74 | 75 | (1) | (1.9%) | 89 | (15) | (17.2%) |
| IT | 107 | 123 | (15) | (12.5%) | 88 | 19 | 21.2% | 759 | 781 | (22) | (2.8%) | 649 | 110 | 17.0% |
| Other Expenses | 51 | 58 | (7) | (12.3%) | 58 | (8) | (13.1%) | 374 | 381 | (7) | (1.9%) | 111 | 262 | 235.7% |
| Total Opex | \$ 2,434 | \$ 2,440 | \$ (6) | (0.3%) | \$ 2,421 | \$ 13 | 0.5% | \$ 14,956 | \$14,963 | \$ (6) | (0.0%) | \$ 12,944 | \$ 2,012 | 15.5% |
| | | | | | | | | | | | | | | |

Operating Expenses Summary



Management Discussion

- Graph shows departmental spend comparatives for '19 actual, '20 actual and '20 reforecast.

AR and AP Aging Detail

\$'000

| AR Aging | | | | |
|-----------------------|-----------------|-----------------|-----------------|--|
| Days | Apr-20 | May-20 | Jun-20 | |
| 0-30 | \$ 4,088 | \$ 4,065 | \$ 5,059 | |
| 30-60 | 502 | 474 | 64 | |
| 60-90 | 93 | 227 | 157 | |
| >90 | 224 | 269 | 331 | |
| Total Gross AR | \$ 4,907 | \$ 5,034 | \$ 5,610 | |
| Reserves | (192) | (243) | (256) | |
| Total Net AR | \$ 4,715 | \$ 4,792 | \$ 5,355 | |

| AP Aging | | | | |
|--------------|-----------------|-----------------|-----------------|--|
| Days | Apr-20 | May-20 | Jun-20 | |
| 0-30 | \$ 2,334 | \$ 1,596 | \$ 1,480 | |
| 30-60 | (200) | 899 | 70 | |
| 60-90 | 537 | 565 | 158 | |
| >90 | 74 | 93 | 503 | |
| Total | \$ 2,744 | \$ 3,153 | \$ 2,210 | |

Management Discussion

- AR increased due to increased sales during June. The three largest customer balances in the >60 bucket are Babblar Marketing (82K), Wassman AV (20K), and Charter Communications (17K). The three largest in the >90 bucket are Genesis Integration (96K), Equipbureau (53K). and AVCS (48K).
- AP decreased overall due to cost cutting measures and paying out AP bills. The vendor that has a largest balance in 30-60 and 60-90 days is Smart Wireless with a total balance of 1,308K.



mersive
technologies inc