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Monthly Operating Review

August 2020

Agenda

- Executive Summary
- Financial Overview
- Sales & Marketing
- M&A Update

Executive Summary

Good News / Positives to Business and Plan:

- ARR increased 19% over August 2019 resulting in a 6% favorable variance vs 2020 AOP and an 8% favorable variance vs Scenario B
- Continue to outperform YTD AOP in both revenue and EBITDA
- Achieved 274% of August new business ACV bookings goal
- Strong renewals with minimal customer churn
- New business acquisition:
  - New logos: RBS (SaaS-$116K; 3 years prepaid-$348K)
  - Upsells: CVS (ARR-$117K)
- New notable cross-sell and upsell prospects: Indiana DCS, PacLife
- New business pipeline activity supports overachievement of Q3 reforecast goal
- Key Web Authoring functionality available for internal testing including decision table
- Successfully delivered all requirements for the Forrester Digital Decisioning Wave Report
- Published Insurance e-book
- Resource management
  - Content Marketing Manager started 9/14
  - VP of Services candidate pool narrowed to top contenders; completing final round of candidate interviews

Top Challenges

- Solid funnel progression and coverage for Q3 and Q4, overall higher throughput, but fewer Custom Demos converting to Net New Deals versus historical

- Larger portion of revenue coming from upsells vs new logos

- Renewals requiring roughly 2x more touchpoints than pre-COVID

- Indication that customer churn may increase to 8-10% in Q3

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2020 Key Initiatives

Pillar	Project		Current Status and Next Steps	Timing
Decision Platform	**Obtain SOC II Certification** *(Alan Young)*	🟢	• Evidence request turnover started. • Penetration/vulnerability testing for SaaS production completed. No Critical or High items. 2 Medium. 4 Lows. Backlog items will be created. • Next milestone: completion of SOC2 audit period Oct 31. SOC2 Type II report issuance by mid-December.	Oct 31
Decision Platform	**Deliver Web Authoring MVP** *(Dan Reynolds)*	🟢	• **Completed**: 1. Storage architecture to support check-in/check-out, validation, and rule info extraction. 2. Decision Table functionality 3. Check-in/checkout on web interface 5. Bupa API commitment • **In-progress**: 1. Multi-tenancy for web authoring. 2. Single-sign-on for Trials. 3. Cloud Storage and Governance API functionality • **End-Oct**: 1. Web authoring into Trials supporting the MVP experience. 2. Prospects can edit Decisions that leverage BL and Decision Tables. 3. GA and GTM preps start with tentative final GA release in Feb • **Completed** work above is production-worthy awaiting remaining work for logical "packaging". • **Completed** work is hidden by default in Trials but can be activated if the opportunity calls for it. • **Completed** work can also be activated for current SaaS customers as required.	Oct 31
Market Expansion	**Deliver FY 2020 Digital content** *(Renee Wagner)*	🟢	• Finalized Insurance e-book • Hired content marketing manager • Submitted press release for SalesForce AppExchange listing • Next Steps: continued planning virtual IUCM; request additional marketing spend for Q4	Nov 30
Decision Platform	**Acquire Strategic Technology thru M&A** *(Rik Chomko)*	🟢	• Buy-side representative agreement was signed with Madison Park Group; had initial meeting to brainstorm. • Reviewed information package response from two AutoML targets; one was determined one not a good fit • Had follow up meeting with Project Overture team • Next Steps: Have discussion with existing AutoML target regarding valuation	Dec 15

🔵 **Complete**   ⚪ **Just started**   🟢 **On Track**   🟡 **At Risk**   🔴 **Behind Schedule**

2020 Key Initiatives

Pillar	Project		Current Status and Next Steps	Timing
Decision Platform	**Extend integrations with Dynamics and Salesforce and expand partnership** *(Mark Lonsway)*	🔵	• InRule extension has been published in Salesforce marketplace	Sep 25
Operational Excellence	**Implement new ERP system** *(Beth Worthem)*	🟡	• Integration between NetSuite and Dynamics CRM in process-currently testing bi-directional sync • Setup of Professional Services module and training for employee time tracking underway • Historical balance and open transaction import complete • Next Steps: Final tie out, training, dashboard and report creation. NS & QB in parallel for September	Sep 1
Customer Experience	**Increase Services Utilization** *(Rik Chomko)*	🟡	• Completed 2nd round of interviews with top 5 candidates • Dropped one of the top 3 candidates from consideration due to family issues • CEO met with top 2 candidates for final interview and to determine best fit • Next steps: Make offer to top candidate	Sep 30
Market Expansion	**Obtain GSA Schedule** *(Mike Bonner)*	🔴	• Signed agreement with Centre Law • Actively completing proposal, anticipate mid-November submission • Anticipate award Q1 2021	Oct 31

🔵 **Complete** ⚪ **Just started** 🟢 **On Track** 🟡 **At Risk** 🔴 **Behind Schedule**

Financial Overview
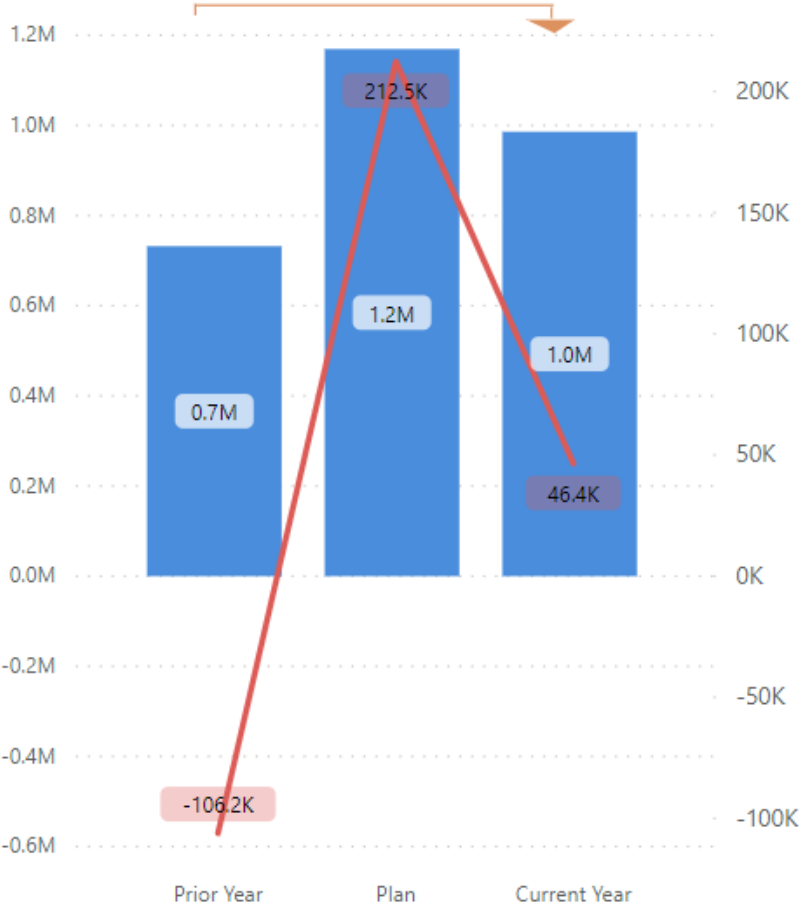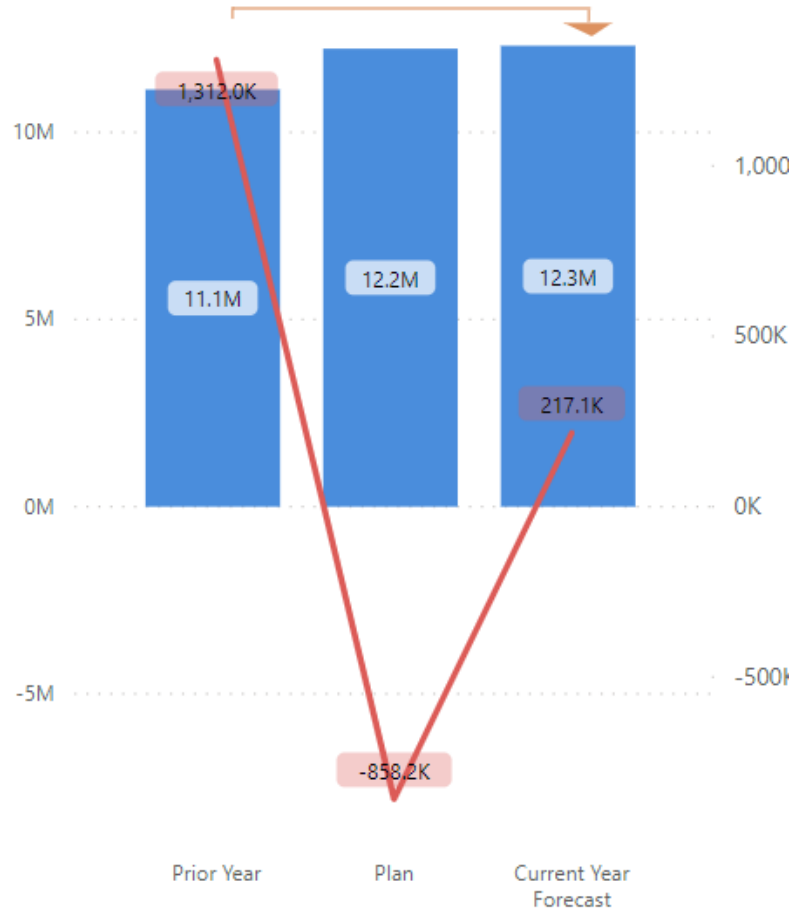
Monthly EBITDA

● Actuals ● Plan ● Prior Year ● Forecast
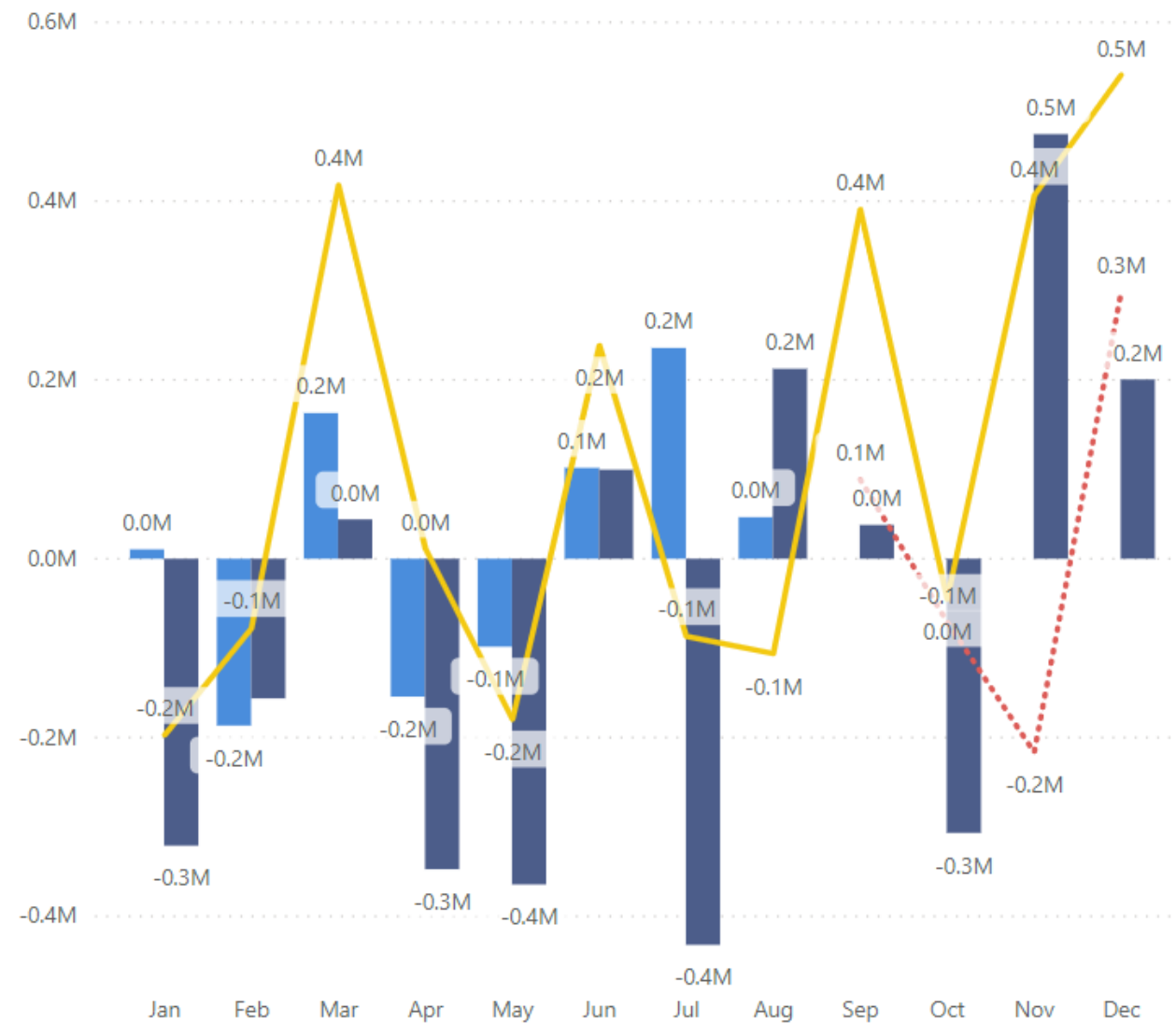
Monthly ARR
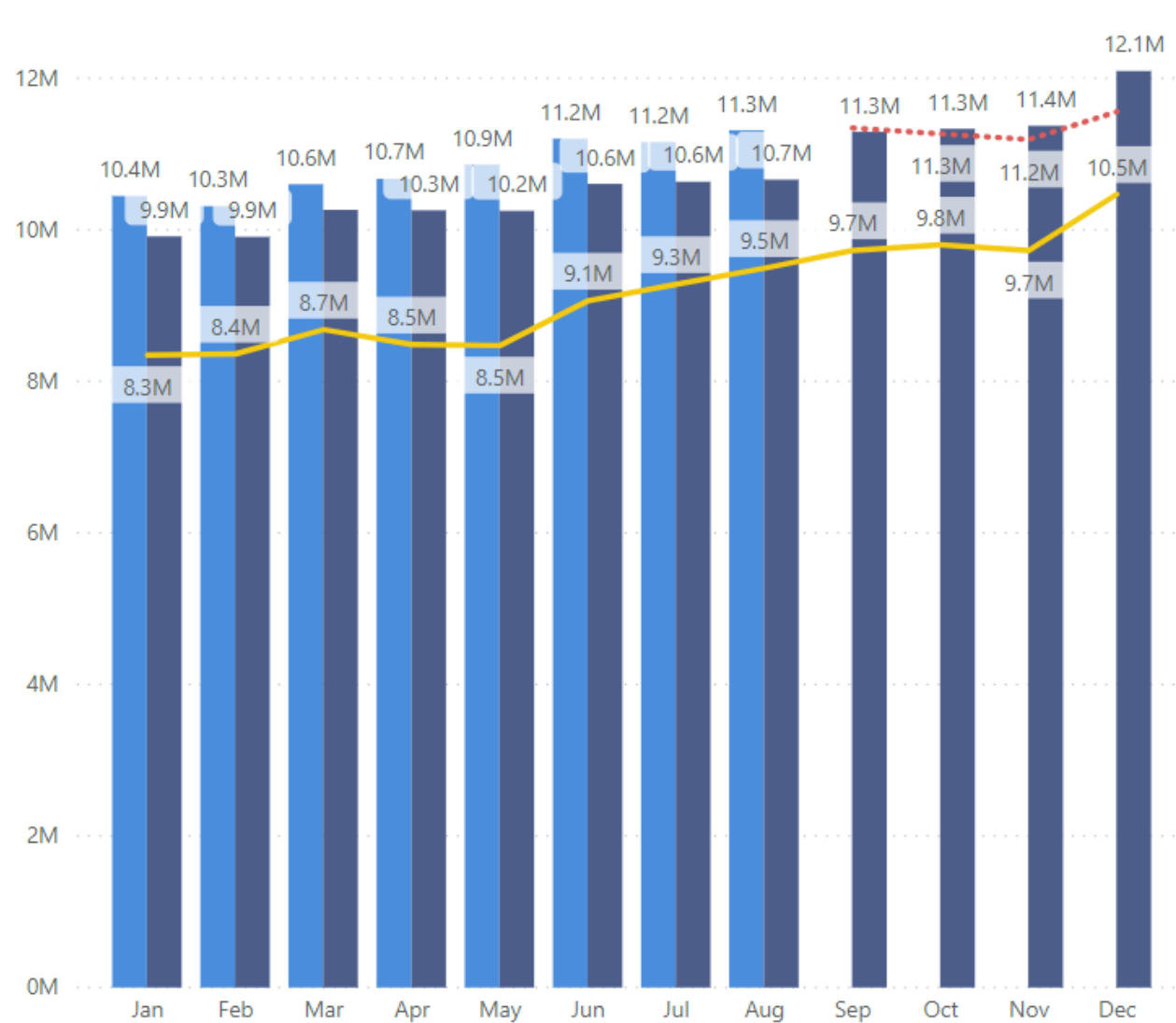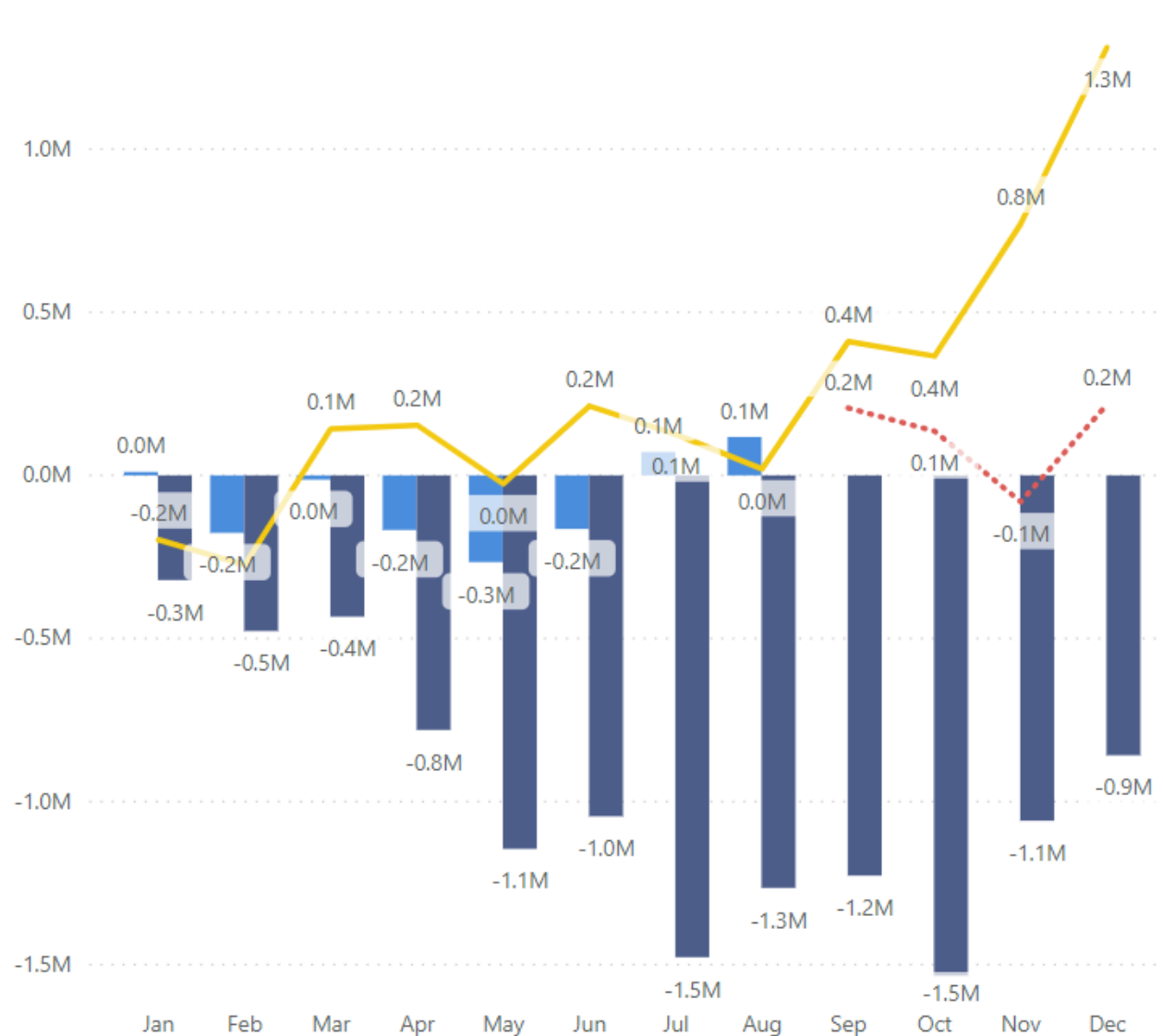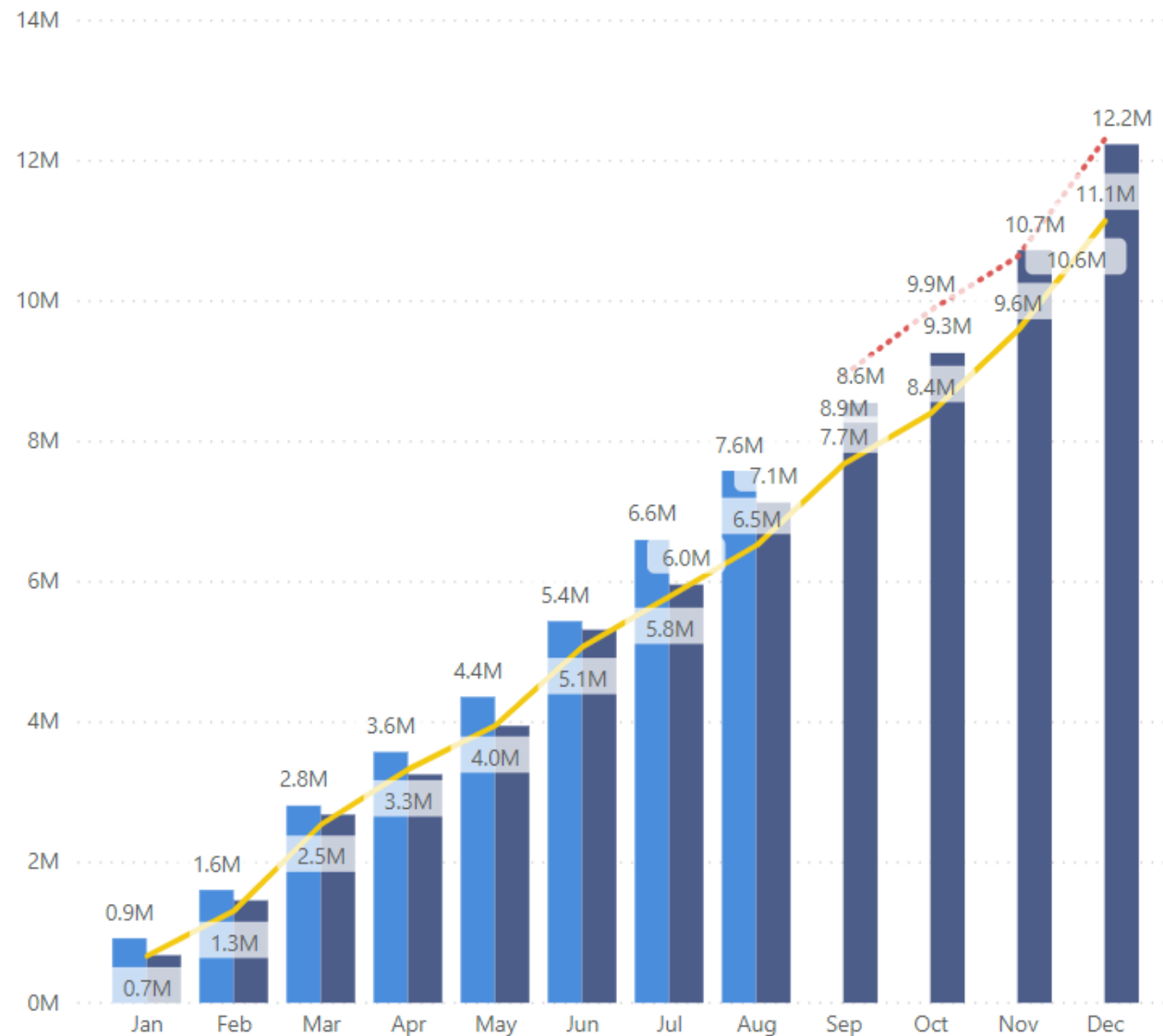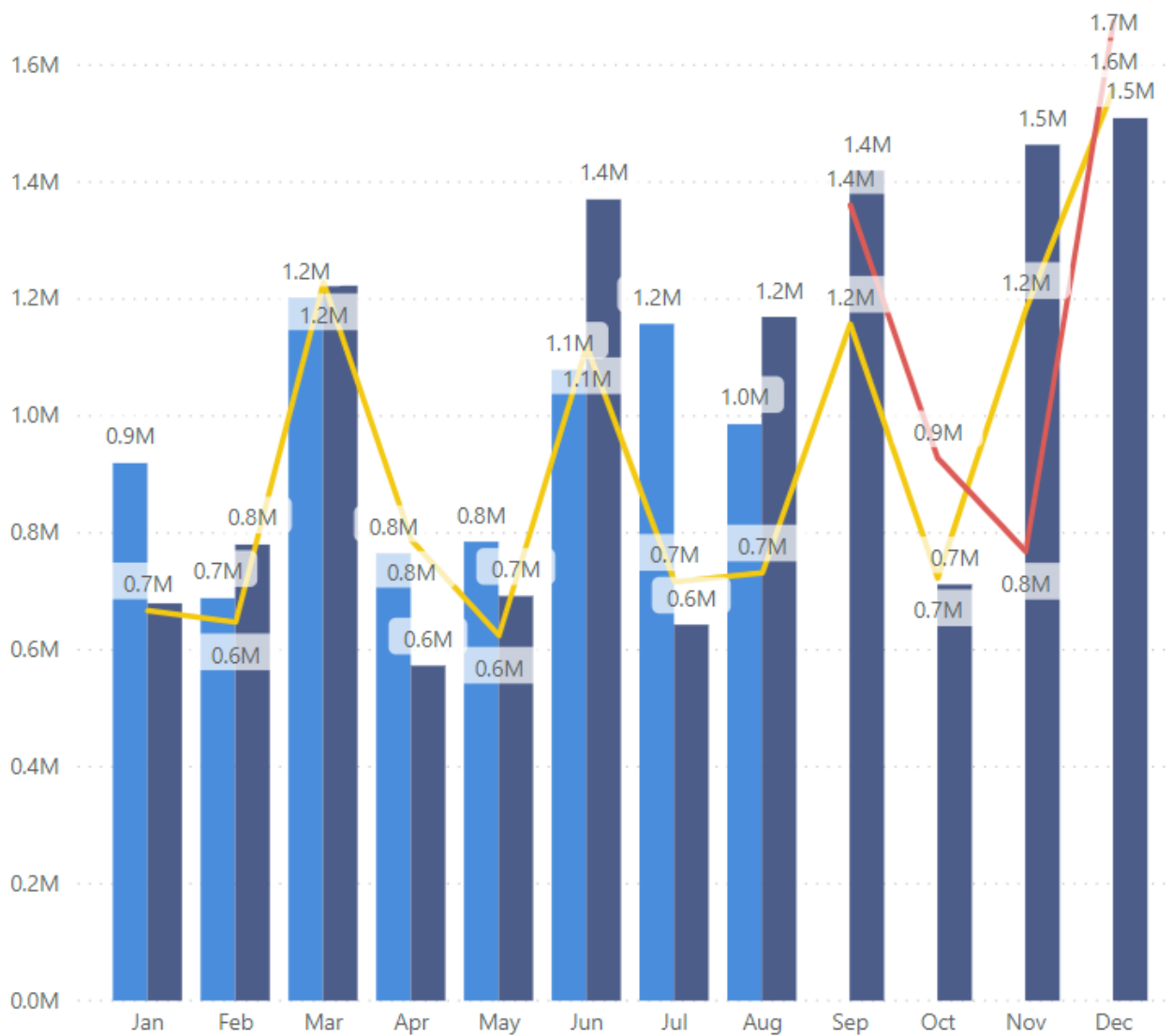
● Actuals ● Plan ● Prior Year ● Forecast
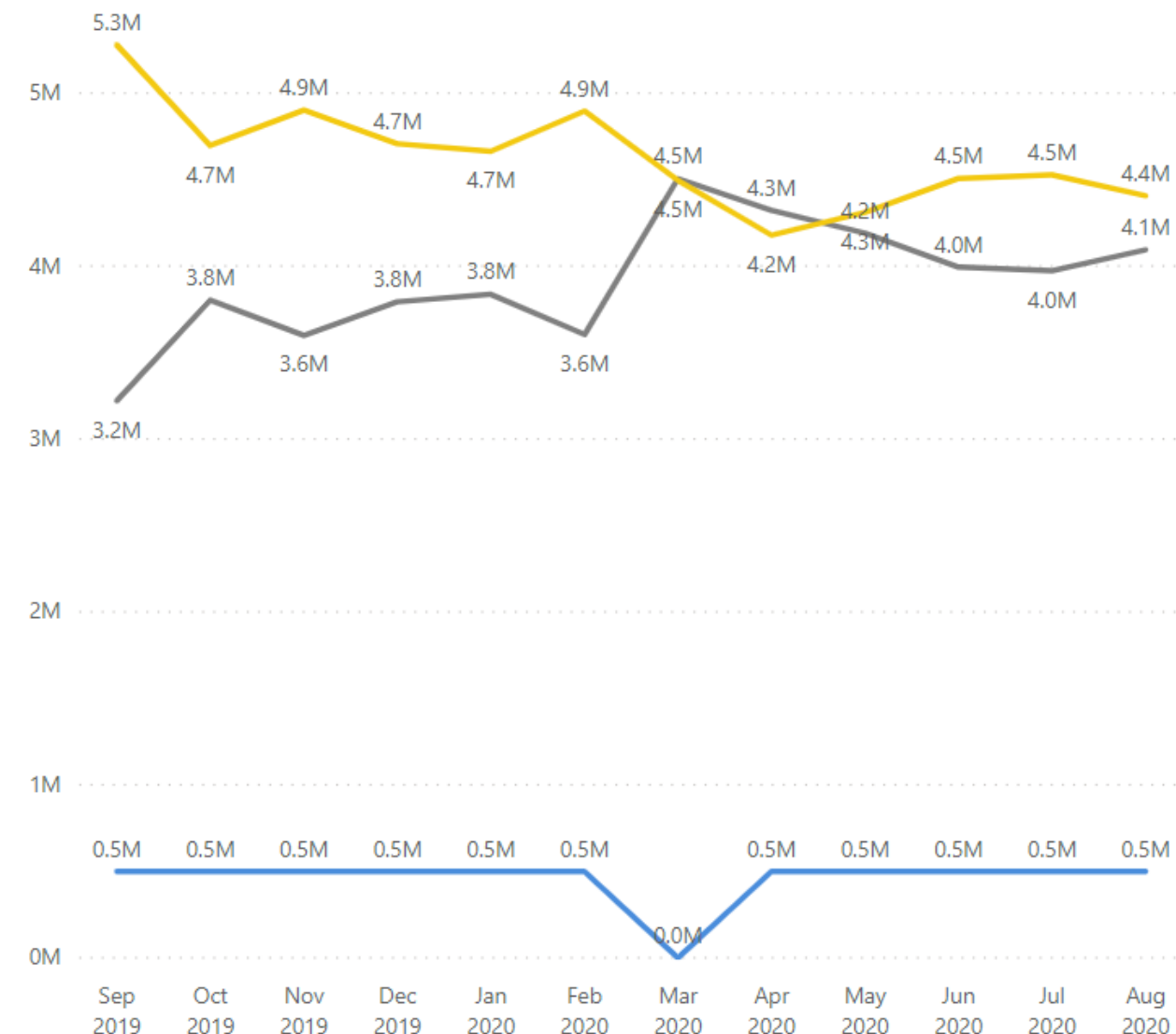
Recurring Revenue (ACV)

Monthly ARR (ACV)
$ millions

+1%

+16%

	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Total	9.7	9.8	9.7	10.5	10.4	10.3	10.6	10.7	10.9	11.2	11.2	11.3
Maintenance	49%	48%	48%	45%	45%	45%	44%	44%	44%	42%	42%	39%
SaaS	6%	6%	6%	9%	9%	9%	9%	8%	10%	10%	10%	11%
Subscription	45%	45%	45%	46%	46%	46%	47%	48%	47%	48%	49%	50%

Maintenance   SaaS   Subscription

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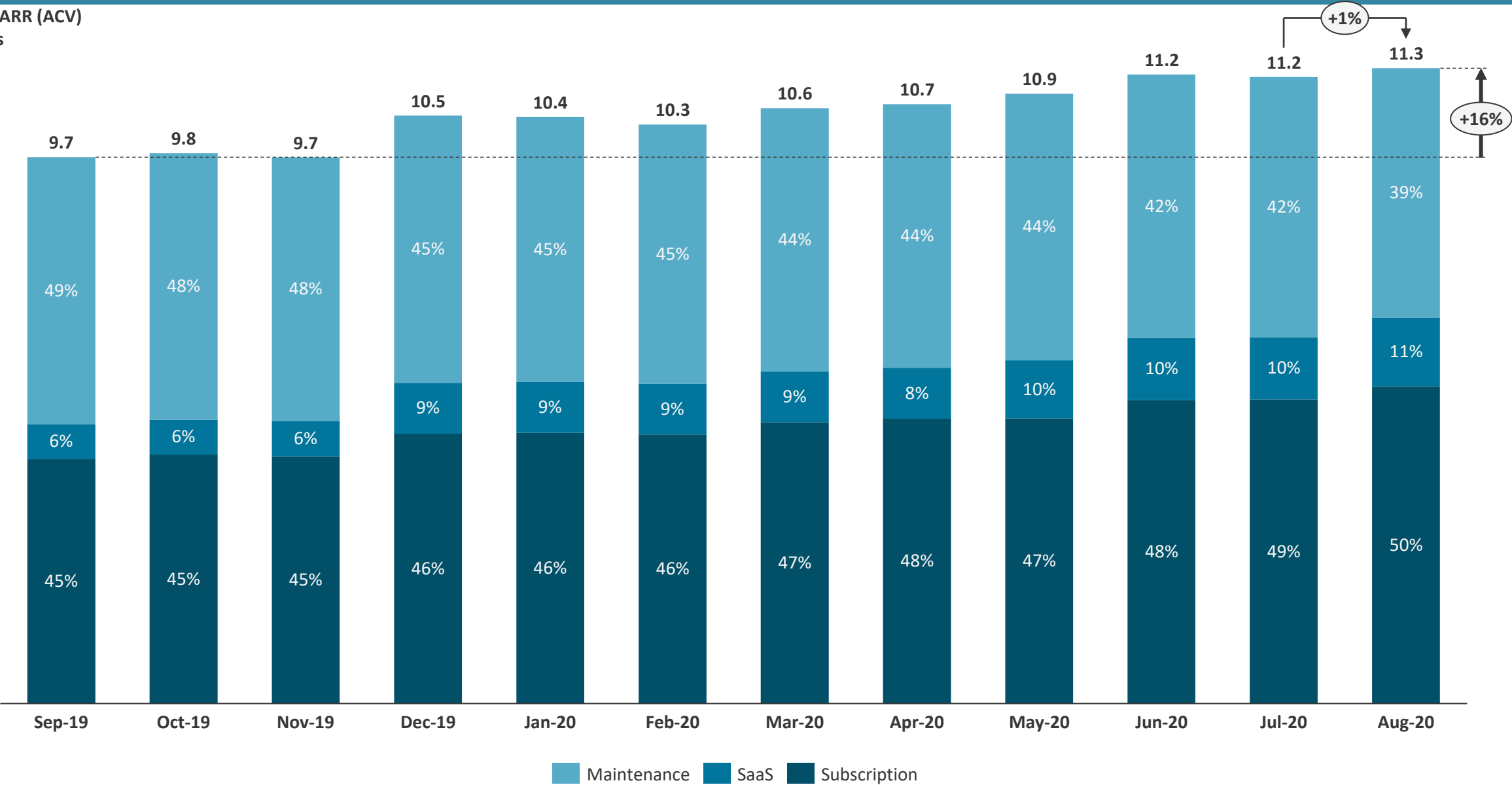
Nonrecurring License Revenue

**Monthly Perpetual
$000's**

Bar chart — Monthly Perpetual revenue ($000's):
- Sep-19: 119
- Oct-19: 10
- Nov-19: 42
- Dec-19: 173
- Jan-20: 48
- Feb-20: 135
- Mar-20: 6
- Apr-20: 5
- May-20: 5
- Jun-20: 7
- Jul-20: 7
- Aug-20: 6 (-6%)
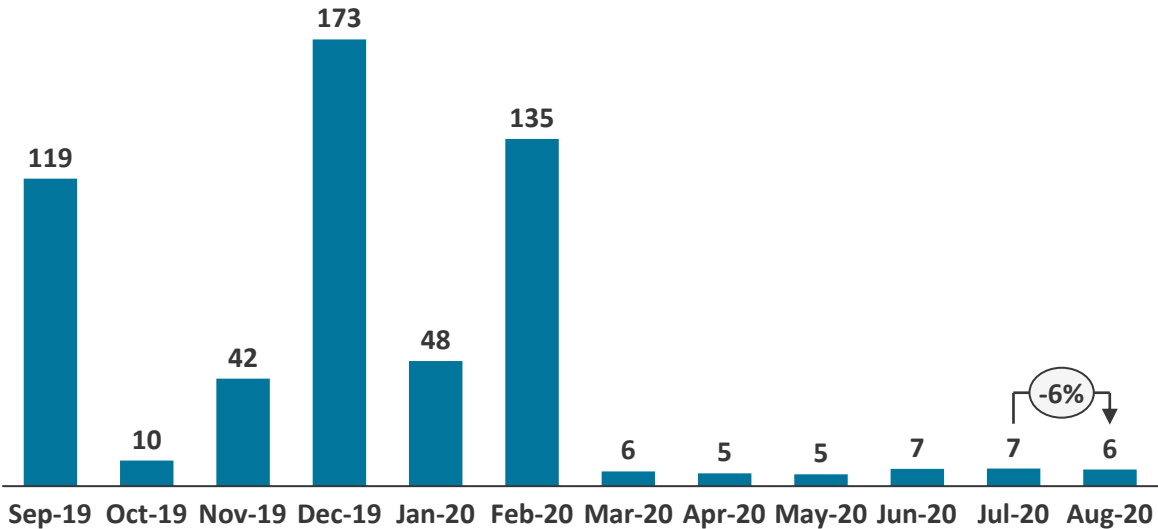
Key Wins		
Customer	**Perpetual**	**Comments**
		No activity in August

Nonrecurring Services Revenue

Consulting Services Revenue & Gross Margin
$000's

	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Revenue	41	78	48	61	152	79	137	59	70	72	52	69
Gross Profit	15	50	20	36	121	31	88	32	39	41	30	40

Revenue ▬ Gross Profit ▬ Gross Margin ▬ ▬
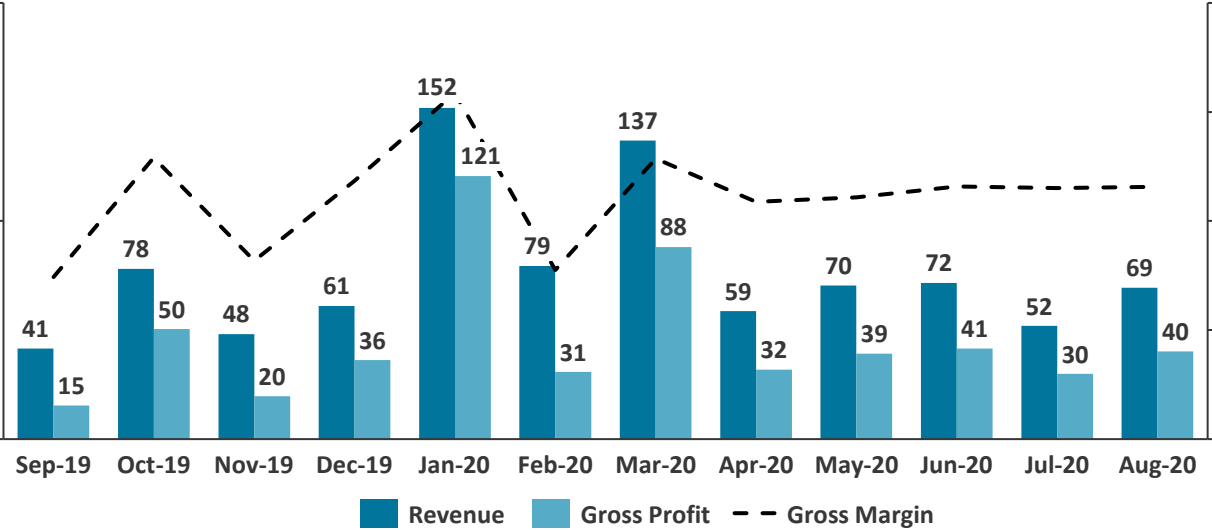
Consulting Services Revenue Forecast / Backlog
$000's

YTD Rev	Est. Aug	Prepaid Backlog	SOW Backlog	Total Fcst	Inactive	Adj. Fcst	Budget
621	39	128	370	1,158	177	981	961

+2.1%

Consulting Revenue ▬
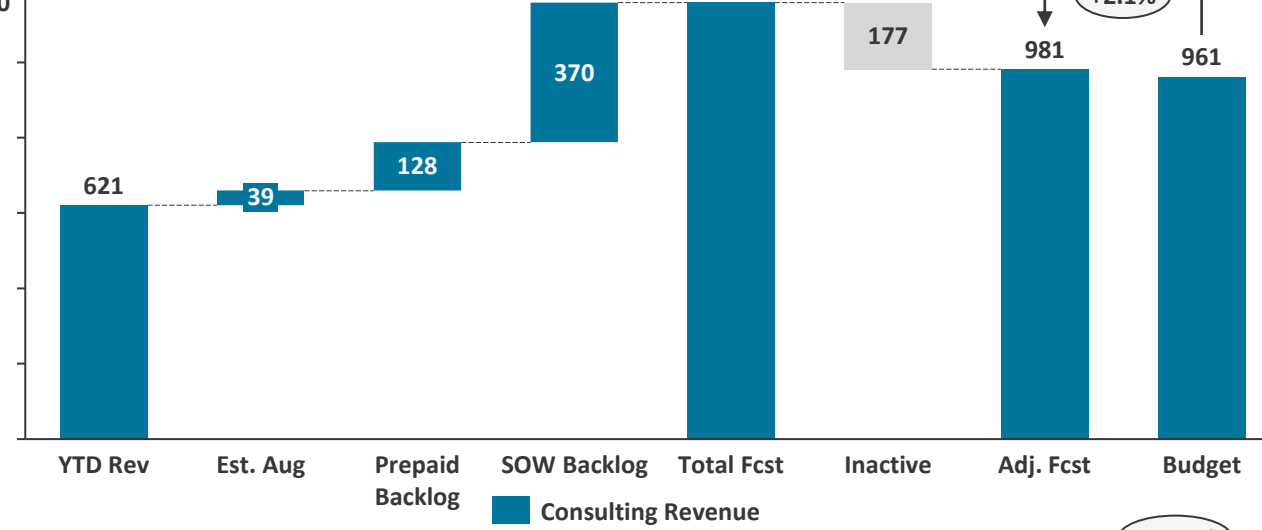
Key Projects Delivered in August

Customer	Services	Comments
Aetna	$23K	15 days delivered in August
Hudson Insurance	$21K	13 days delivered in August
Haventree Bank	$13K	8 days delivered in August
Total	**$57K**	

Projects Forecasted for September

Abbott, Aetna, Bupa BHF, Fidelity Investment Mgmt, Haventree, Hudson Insurance, RBS

Consulting Utilization (%'s)

Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
24.1%	28.7%	34.6%	32.4%	31.0%	44.9%	46.2%	32.7%	38.9%	33.5%	37.7%	45.9%

+21.7%

Utilization ▬

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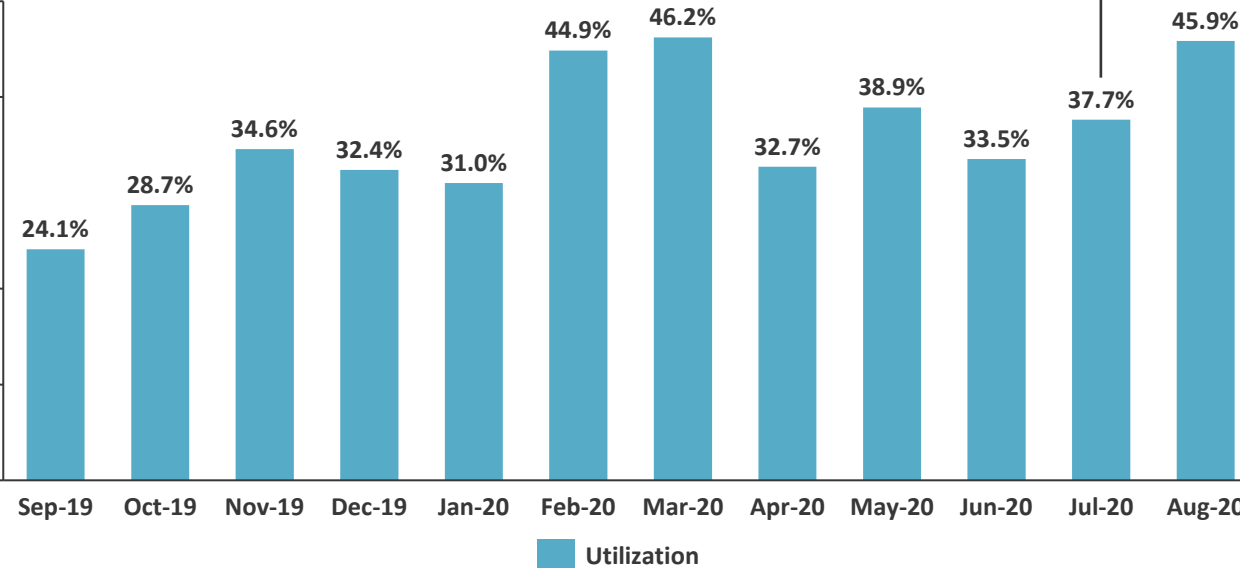
Income Statement

Currency: USD | Month: Latest Month | **Aug 2020** | [Month] QTD YTD TTM | Plan Scenario: AOP

Income Statement

Income Statement	Current Year	Prior Year	Plan	ΔPrior Year (%)	ΔPlan (%)
= Bookings	1,426K	1,333K	1,340K	+7	+6
= ARR	11,312K	9,493K	10,661K	+19	+6
= Total Recurring Revenue	910K	672K	1,087K	+35	(16)
= Recurring Product	910K	672K	1,087K	+35	(16)
Cloud/saas	99K	37K	80K	+169	+24
TBL	435K	262K	671K	+66	(35)
Maintenance & Support	376K	373K	335K	+1	+12
Recurring Services	0K	0K	0K		
= Total Non Recurring Revenue	69K	54K	83K	+28	(16)
Non Recurring Product	0K	17K	6K	(100)	(100)
Professional Services	69K	37K	77K	+87	(10)
Training	0K	0K	0K		
Other Revenue	6K	6K	0K	+15	
= Net Revenue	986K	732K	1,169K	+35	(16)
- Material	0K	0K	0K		
- Labor	43K	45K	47K	(4)	(8)
- Hosting	7K	6K	7K	+22	+1
- Professional Services COGS	29K	28K	22K	+4	+31
- Other COGS	20K	2K	24K	+1,067	(14)
= Total COGS	100K	81K	100K	+24	(0)
= Gross Margin	886K	651K	1,070K	+36	(17)
= Total Product	846K	643K	1,015K	+32	(17)
= Total Services	40K	9K	54K	+355	(26)
- R&D	334K	299K	369K	+12	(10)
- Sales	175K	137K	172K	+28	+2
- Marketing	116K	127K	98K	(8)	+18
- Administrative	179K	271K	147K	(34)	+21
- pre-Sales OPEX	37K	27K	48K	+37	(23)
- Services Labor	28K	40K	60K	(30)	(54)
- Other	0K	0K	0K		
= Total OPEX (excl D&A)	869K	901K	895K	(3)	(3)
= Reported EBITDA	17K	(250K)	174K	+107	(90)
= Adjusted EBITDA	46K	(106K)	212K	+144	(78)
= Adjusted Cash EBITDA	487K	111K	(20K)	+337	+2,490
= Bank EBITDA	46K	(106K)	212K	+144	(78)

Sales & Marketing

Sales Pipeline - Quarter 3

Q3 Sales Pipeline
$000's

| | | ARR | Other |
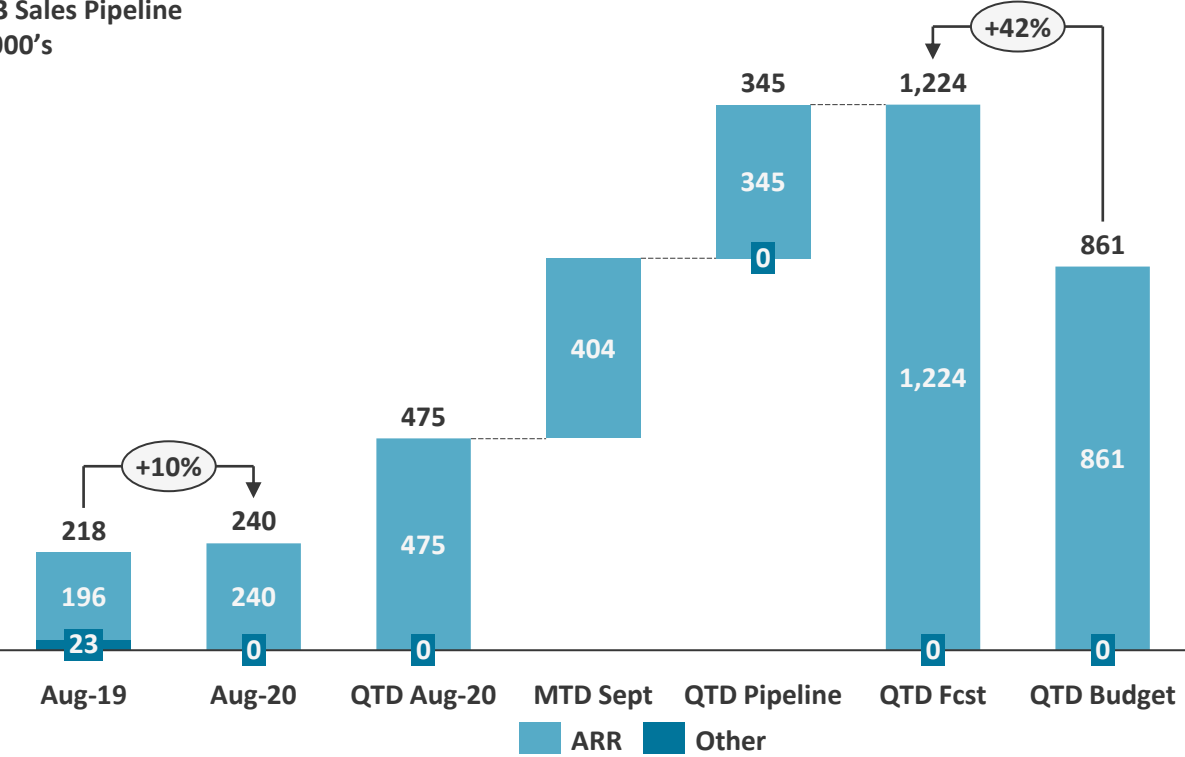
Q3 Likely/Commit Pipeline

Customer	Subscription	Perpetual	Comments
BUPA Global	$260K		Bupa Claims SaaS; ILOG conversion
IN DCS – Child Support	$85K		
Total	**$345K**	**$0K**	

Pipeline Commentary

- Solid Q3
- Additional upside possible

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Marketing Metrics

MTD
$ (whole #'s)

Legend: 2019A, 2020A, 2020B

Web Visitors: 8,452 / 13,283 / 10,988 (+21%)

Marketing Leads: 431 / 528 / 470 (+12%)

Sales Leads: 154 / 192 / 146 (+32%)

SQLs: 15 / 25 / 21 (+19%)

Custom Demos: 1 / 5 / 4 (+25%)

Pipeline Conversion %'s

Stage	2020	Historical
Marketing Leads		
Sales Leads	39%	28%
Sales Qualified Leads	7%	10%
Custom Demos	28%	18%
Net New Deals	29%	68%

Legend: 2020, Historical

YTD Metrics

Legend: Historical, 2020

Marketing Leads: 4,735 / 4,800 (+1%)

Sales Leads: 1,130 / 1,862 (+65%)

SQLs: 130 / 125 (-4%)

Custom Demos: 22 / 35 (+59%)

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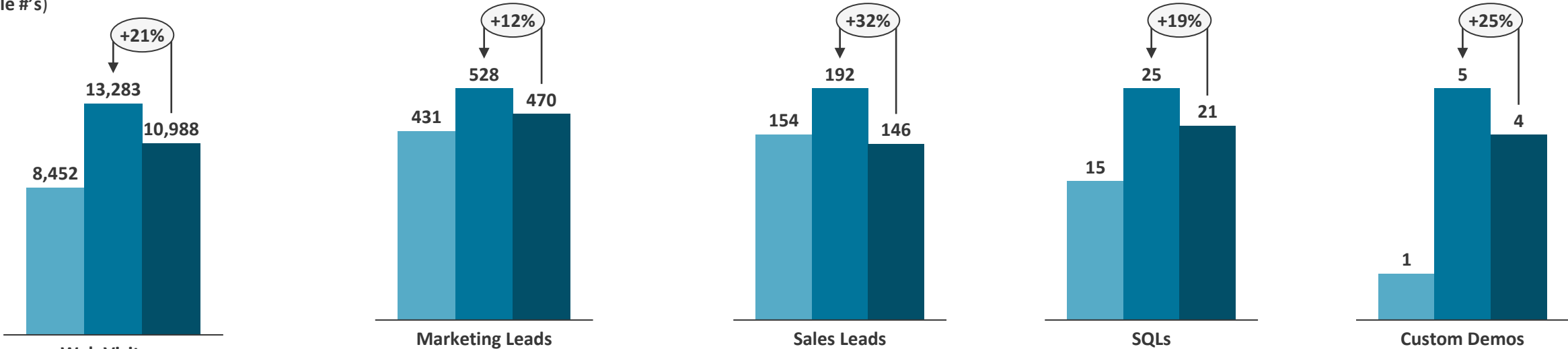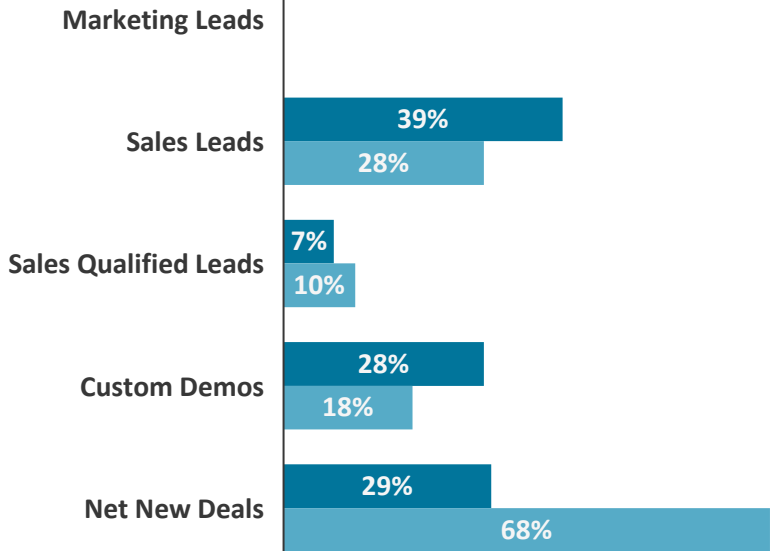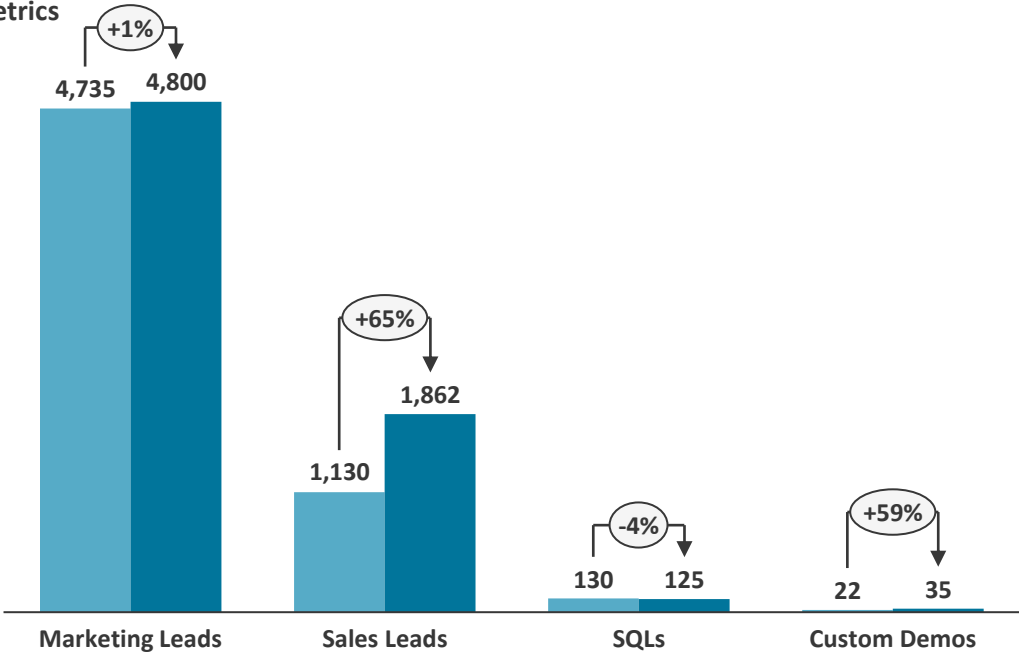
M&A Update

M&A Update

- **Low-Code**
  - Project Overture
    - OpenGate discussed offer with investment banker and determined value expectations were not aligned

- **AutoML**
  - Lityx
    - Next Steps: Valuation conversation with InRule and Lityx
  - Ople.AI
    - Reviewed information materials with Ople
    - InRule discussed value expectations with Ople and determined value expectations were not aligned.
- **New**
  - Actico
    - Decision Management vendor headquartered in Germany
    - 20mm Euro Revenue, 8.5mm ARR, profitable and self-funded
    - 80% in Europe (Germany, Switzerland, Nordics)

  - Infrrd
    - Intelligent Document Processing based in India
    - ~12M in revenue, heavily services based

Categories from Project Islander Targest

- App Building – should be combined/called low code
- Artificial Intelligence - need to break into further categories
  - Deep learning – Not interested
  - AutoML - Interested
  - Embedded Analytics – Not interested
  - Predictive Analytics - Maybe
- BPM - Interested
- Decision Support – Not interested
- Data Extraction – Not interested
- Data Governance – Not interested
- Enterprise Architecture – should be reclassified as Application Lifecycle Management – Not interested
- Integration – Not interested
- Low code - Interested
- Predictive Analytics - Maybe
- Robotic Process Automation - Maybe
- Workflow Management - Maybe
- Data Transformation – New - Interested

Appendix

Opex Overview

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Currency

| USD ▽ |

Month

| Latest Month ▽ | Aug 2020

| Month | QTD | YTD | TTM |

Plan Scenario

| AOP ▽ |

Opex Overview

	Current Year	Prior Year	Plan	ΔPrior Year (%)	ΔPlan (%) ↓
- **Total Opex Overview**	**869K**	**901K**	**895K**	**(3)**	**(3)**
- 13:Office Expenses	10K	5K	1K	+101	+1,257
- 07:Commissions	57K	38K	24K	+50	+140
- 06:Marketing	82K	97K	67K	(15)	+23
- 11:Professional Fees	105K	43K	92K	+146	+14
- 09:Rent and Facilities	33K	29K	31K	+14	+5
- 12:Utl., Repair, Maint., & Sec.	3K	3K	3K	+1	(8)
- 01:Payroll	473K	563K	523K	(16)	(10)
- 04:Bonus	10K	4K	11K	+138	(11)
- 10:Insurance	5K	3K	6K	+83	(17)
- 03:Benefits	65K	59K	78K	+11	(17)
- 15:IT	22K	26K	31K	(16)	(29)
- 20:Other Expenses	1K	5K	3K	(78)	(56)
- 08:Travel and Entertainment	3K	27K	26K	(88)	(88)
- 14:Safety and Training	1K	1K	0K	+26	

Total Opex

Currency

USD ▾

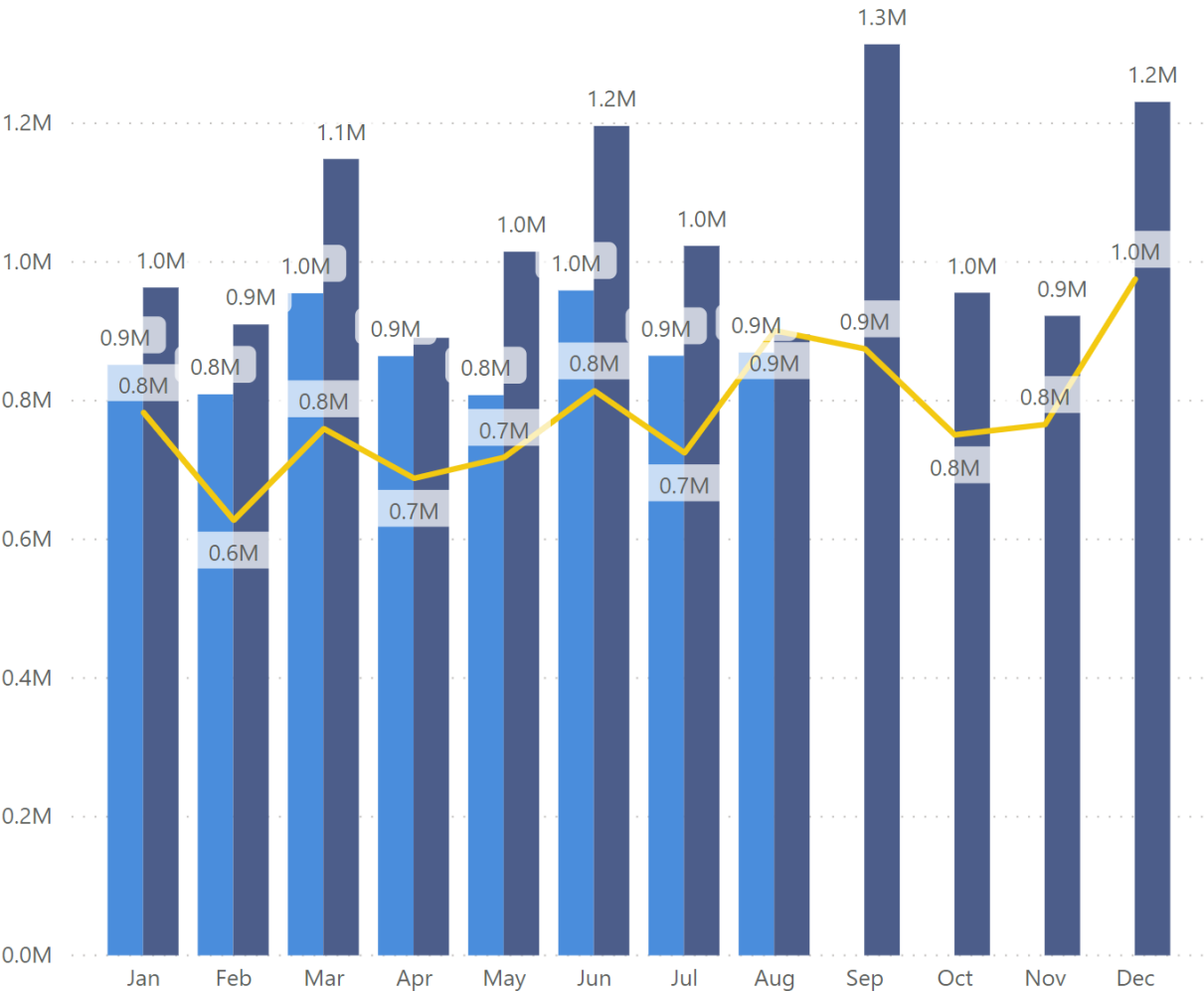**Year**
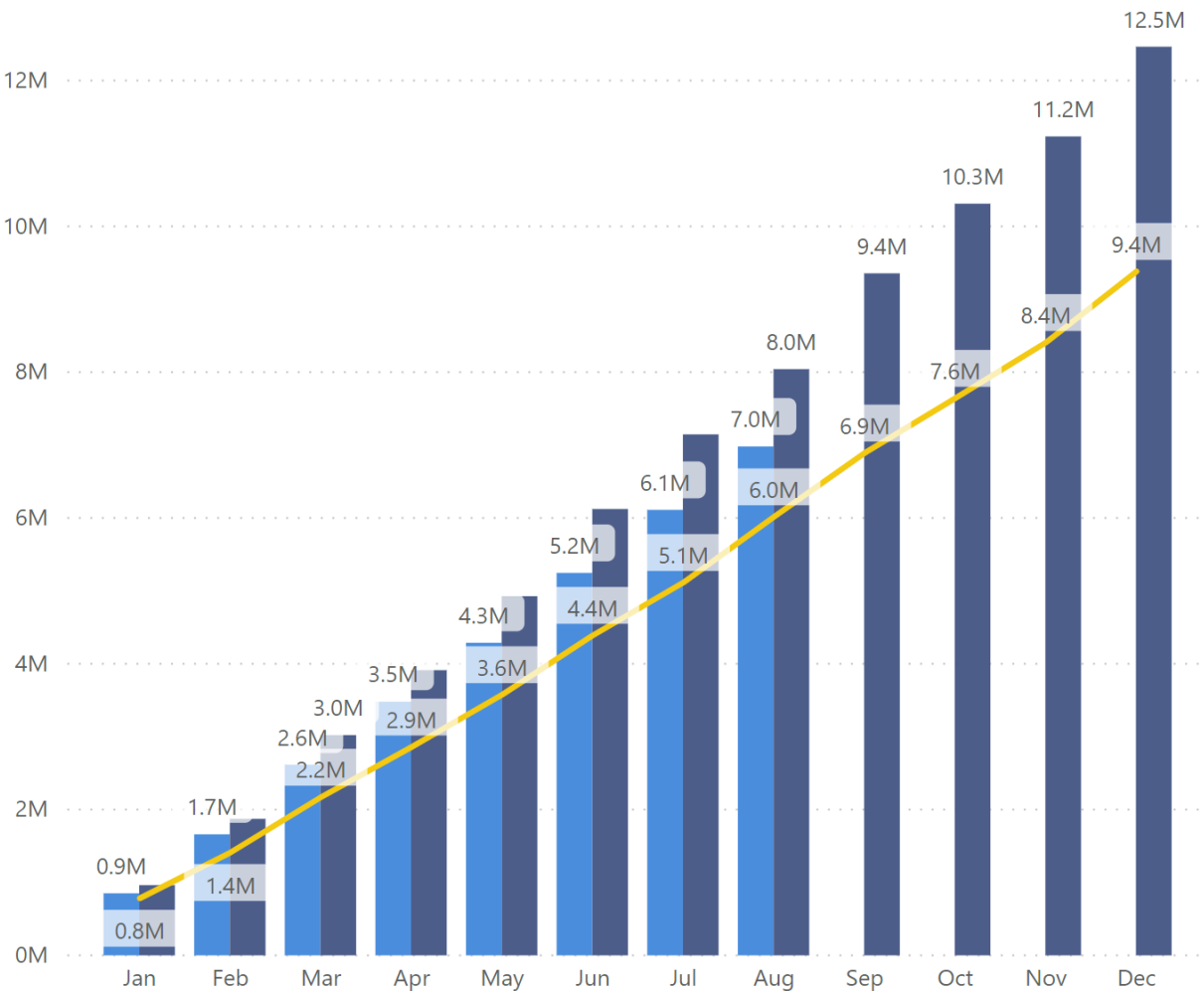
Current Year ▾

2020

Plan Scenario

AOP ▾

Monthly Total Opex (excl. D&A)

● Actuals ● Plan ● Prior Year

Total Opex (excl. D&A) – YTD

● Actuals ● Plan ● Prior Year

Gross Margin

Currency

USD

Year

Current Year

2020

Plan Scenario

AOP

Monthly Gross Margin

● Actuals ● Plan ● Prior Year
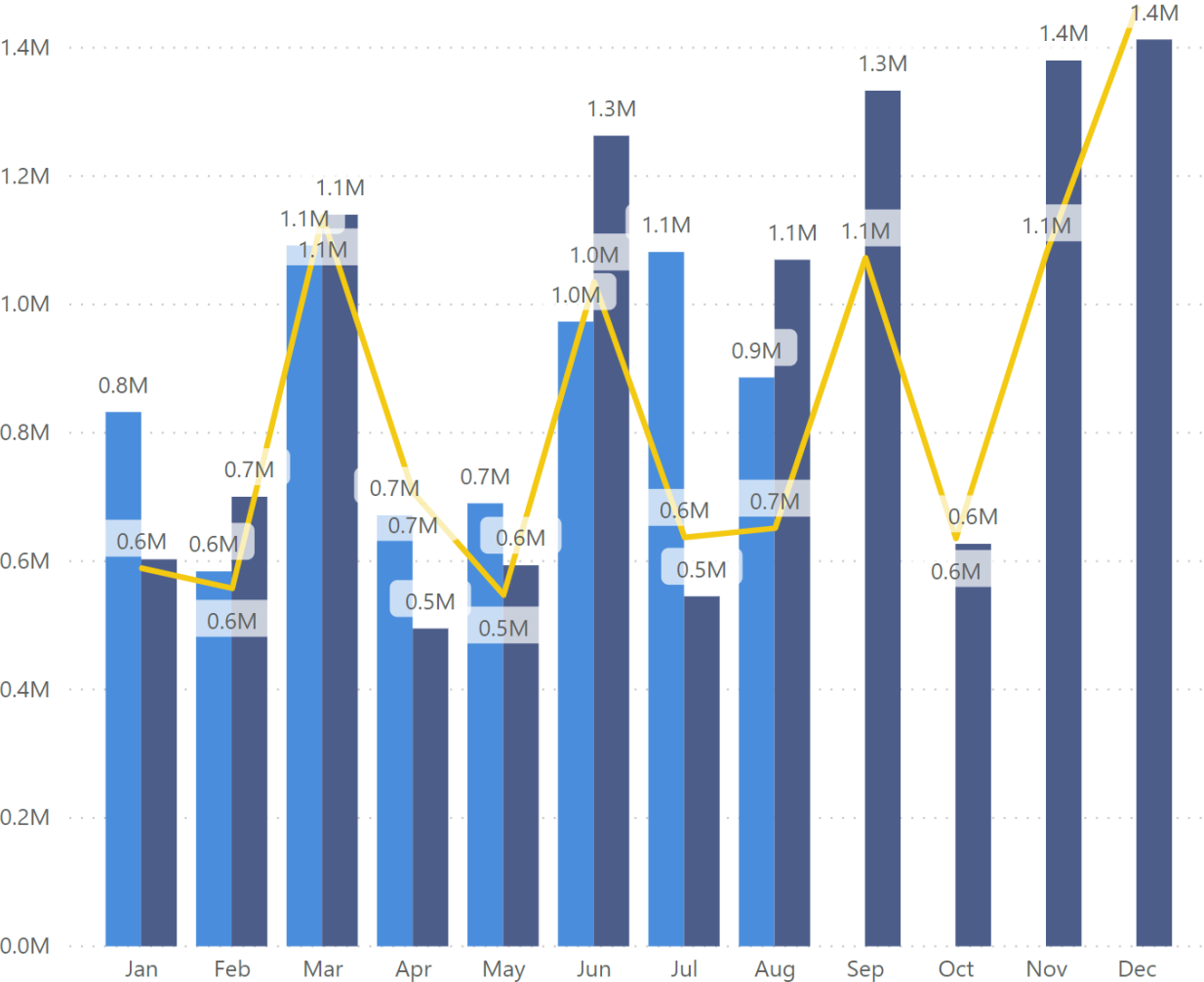
Gross Margin - YTD

● Actuals ● Plan ● Prior Year
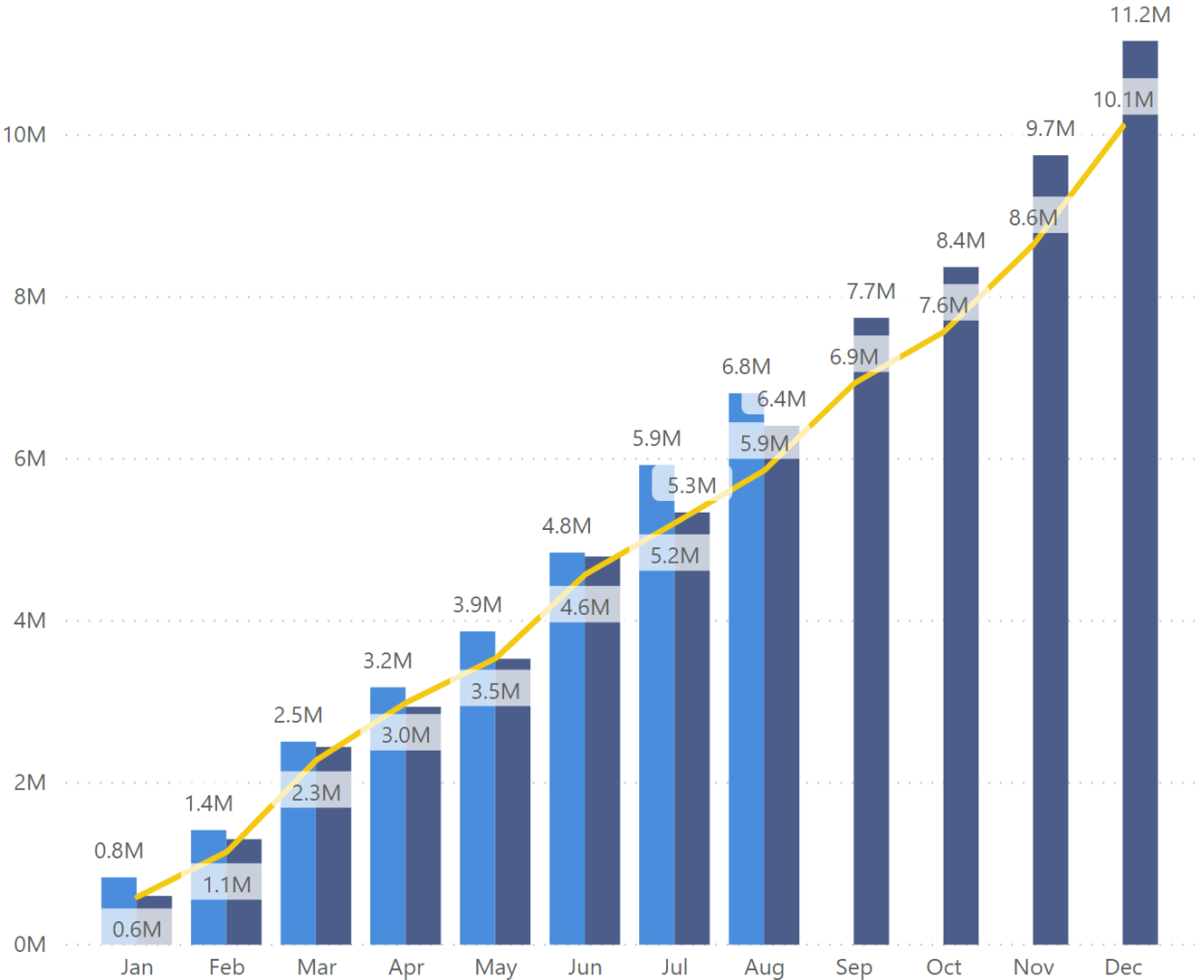
Gross Margin and Total COGS as % of Revenue

Tech

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Currency

| USD ▼ |

Year

| Current Year ▼ |

2020

Compare to:

| Prior Year ▼ |

Monthly GM and Total COGS as % of Revenue - Actuals

● Material ● Labor ● Hosting ● Professional Services COGS ● Other COGS ● Gross Margin
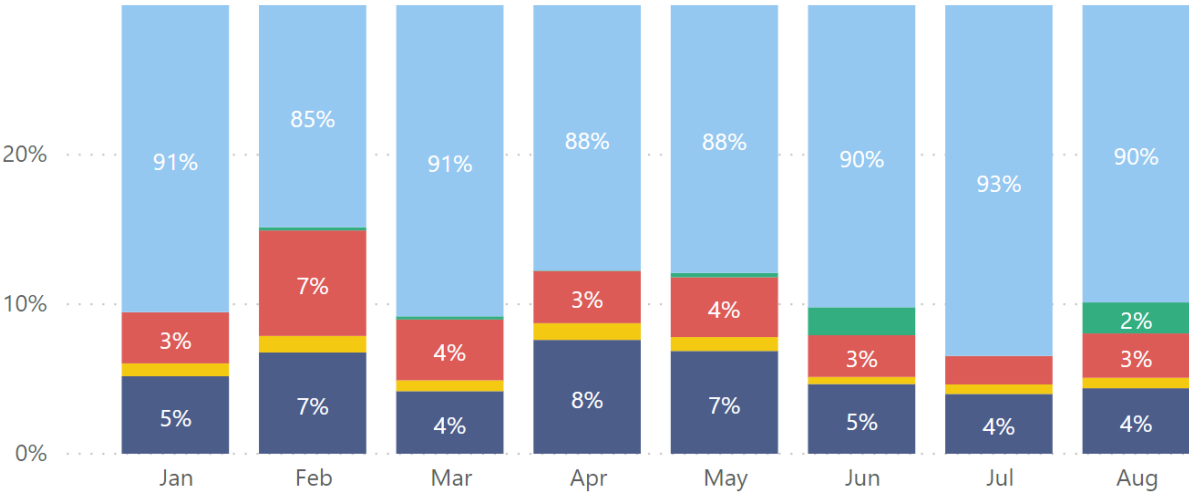
Prior Year

● Material ● Labor ● Hosting ● Professional Services COGS ● Other COGS ● Gross Margin
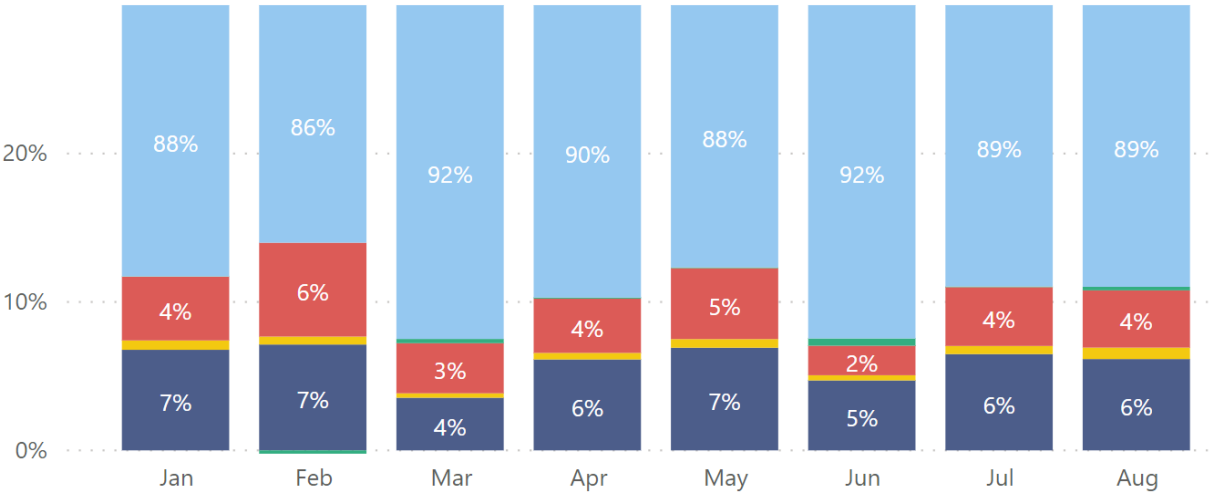
Monthly Net Revenue - Actuals

● Net Revenue
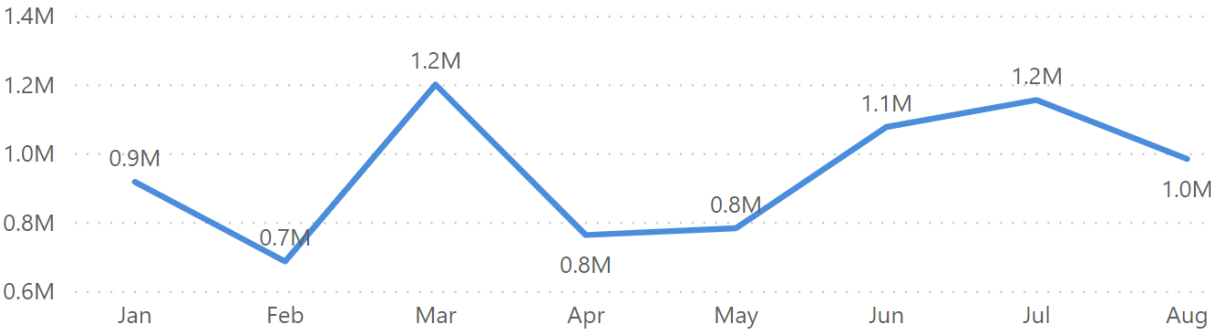
Prior Year

● Net Revenue
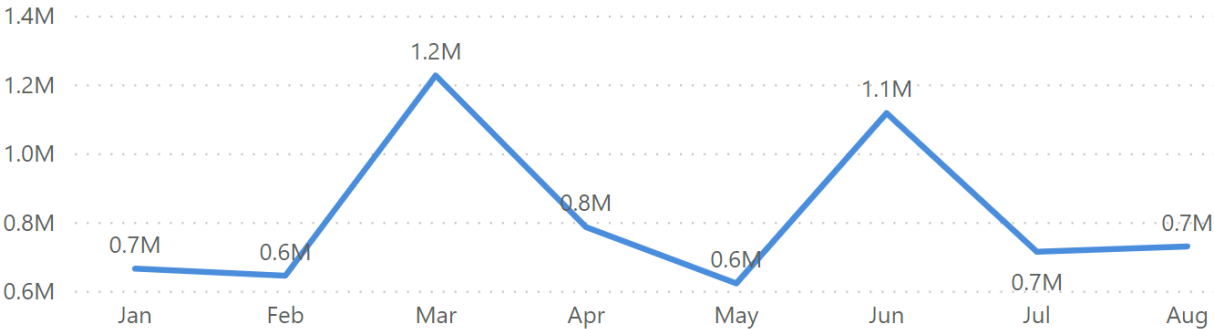
EBITDA Bridge - Actuals vs. Plan

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Currenc

USD

Month

Latest Month

Aug 2020

| Month | QTD | YTD | TTM |

Plan Scenario

AOP

* Reported EBITDA

Drill down for detailed view

EBITDA Bridge - Actuals vs. Plan

ΔPlan (%)

0%

-3%

-16%

174.4K

-90%

-25.9K

16.8K

-6.4

-183.4K
Net Revenue

Plan

- Total COGS

- Total OPEX
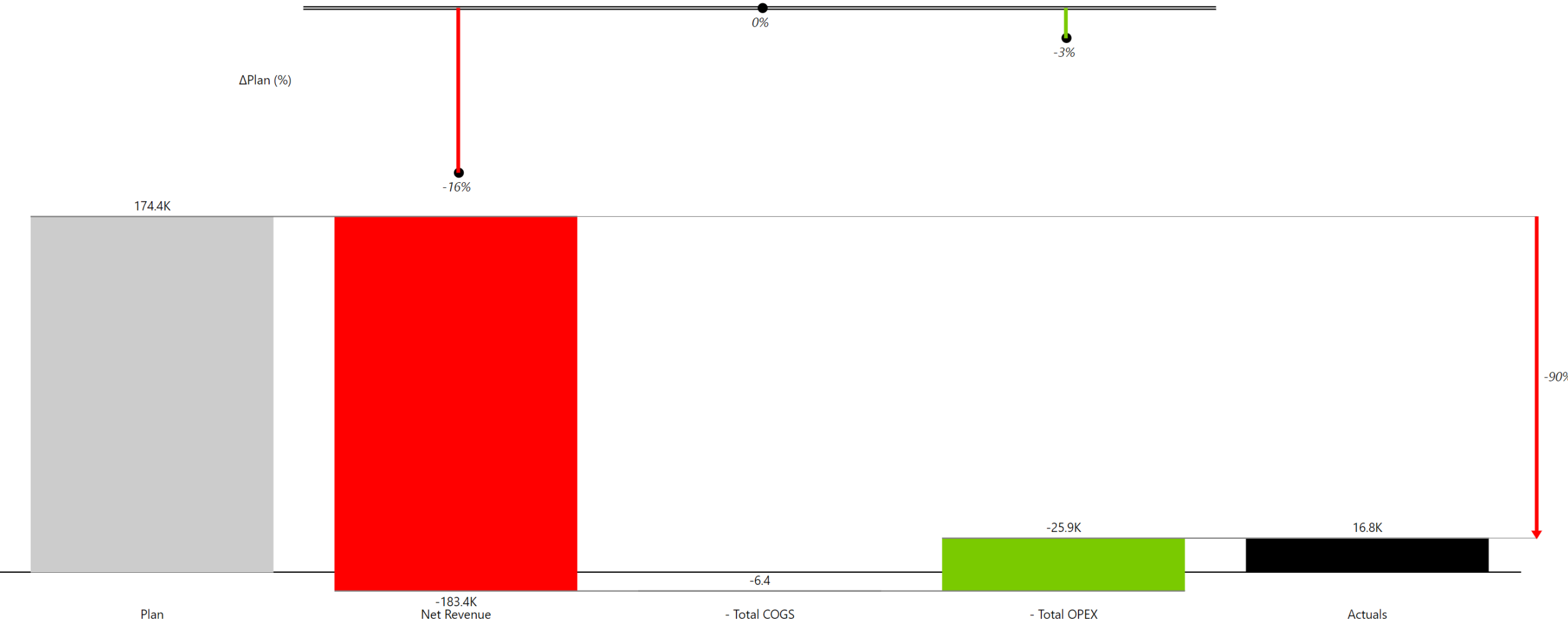
Actuals

EBITDA Bridge - Actuals vs. Prior Year

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Currency

| USD | ∨ |

Month

| Latest Month | ∨ |

Aug 2020

| Month | QTD | YTD | TTM |

* Reported EBITDA

Drill down for detailed view

EBITDA Bridge - Actuals vs. Prior Year

ΔPrior Year (%)

+35%

+24%

-3%

-31.5K

16.8K

+254.0K

+19.1K

+107%

-249.5K
Prior Year

Net Revenue

- Total COGS

- Total OPEX

Actuals
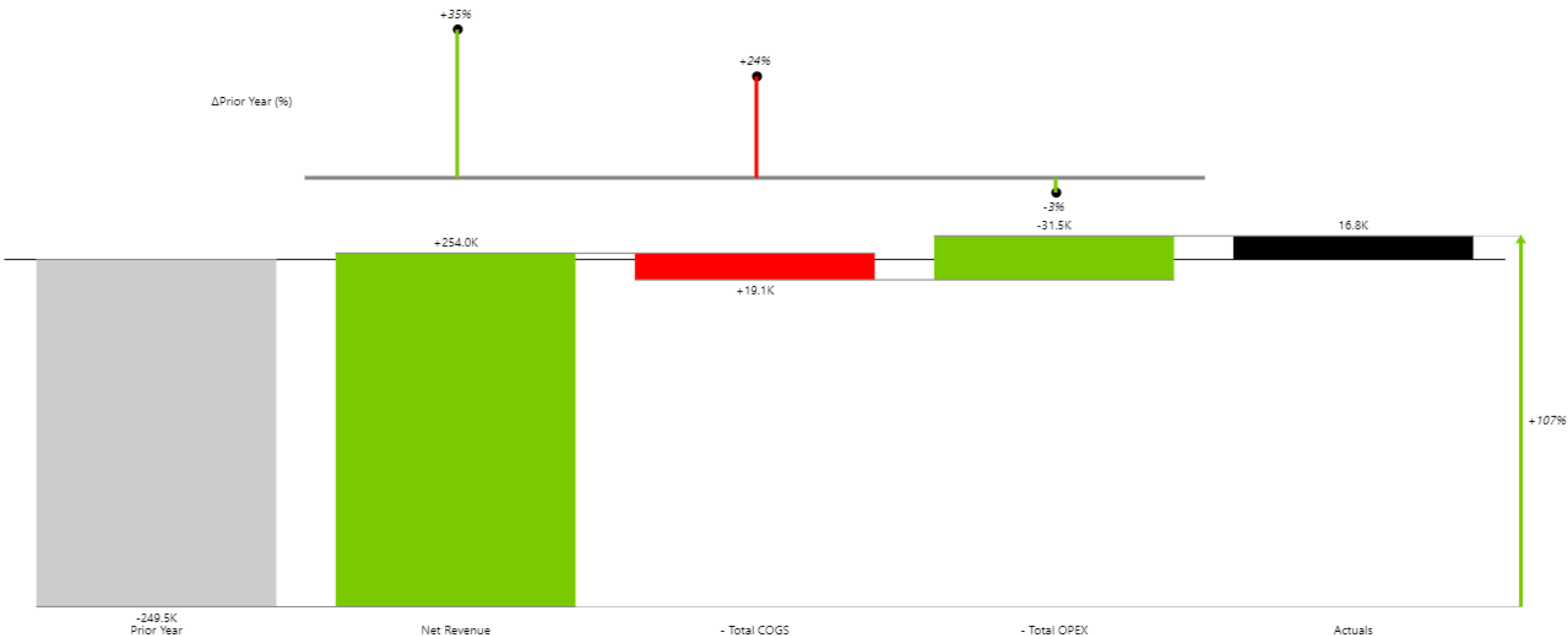
Balance Sheet

Currency: USD

Month: Latest Month — Aug 2020

Plan Scenario: AOP

Balance Sheet

	Current Year	Prior Year	Plan	ΔPrior Year (%)	ΔPlan (%)
Cash and cash equivalents	4,093K	3,150K	2,286K	+30	+79
Accounts receivable, gross	2,432K	2,532K	2,040K	(4)	+19
Accounts receivable, reserves	(20K)	0K	0K		
= Accounts receivable, net	**2,412K**	**2,532K**	**2,040K**	(5)	+18
Prepaid expenses and other current assets	147K	104K	121K	+41	+22
= Total Current Assets	**6,653K**	**5,786K**	**4,447K**	+15	+50
Property, plant & equipment, gross	205K	205K	205K	(0)	(0)
Accumulated depreciation	(50K)	(2K)	(50K)	(2,399)	(0)
= Property, plant & equipment, net	**154K**	**203K**	**155K**	(24)	(0)
Identifiable intangible assets, gross	0K	0K	28,005K		(100)
Accumulated amortization	0K	0K	(3,224K)		+100
= Identifiable intangible assets, net	**24,781K**	**27,870K**	**24,781K**	(11)	+0
= Total Non-Current Assets	**24,935K**	**28,073K**	**24,936K**	(11)	(0)
= Total Assets	**31,588K**	**33,859K**	**29,383K**	(7)	+8
- Accounts payable	170K	207K	212K	(18)	(20)
- Accrued liabilities	267K	183K	418K	+46	(36)
- Accrued compensation	151K	146K	0K	+3	
- Short-term unearned revenue	4,718K	4,080K	4,505K	+16	+5
- Other current liabilities	166K	39K	22K	+323	+640
= Total Current Liabilities	**5,472K**	**4,655K**	**5,158K**	+18	+6
- Long-term debt less current maturities	8,500K	8,500K	8,500K		
- Deferred income taxes	2,368K	2,316K	2,059K	+2	+15
- Other non-current liabilities	2,088K	2,041K	1,890K	+2	+10
= Total Long-term liabilities	**12,955K**	**12,857K**	**12,449K**	+1	+4
= Total Liabilities	**18,428K**	**17,512K**	**17,607K**	+5	+5
Common stock	(0K)	(0K)	16,567K		(100)
Capital in excess of stated value	16,517K	16,492K	0K	+0	
Retained earnings	(3,357K)	(145K)	(4,792K)	(2,211)	+30
= Total Shareholders' Equity	**13,160K**	**16,347K**	**11,775K**	(19)	+12
= Total Liabilities and Shareholders' Equity	**31,588K**	**33,859K**	**29,383K**	(7)	+8

Cash Flow Statement

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Currency: USD

Month: Latest Month — Aug 2020 | Month | QTD | YTD | TTM

Plan Scenario: AOP

Cash Flow Statement

	Current Year	Prior Year	Plan	ΔPrior Year (%)	ΔPlan (%)
Net Income (Loss)	(280K)	(458K)	(132K)	+39	(112)
D&A	262K	167K	262K	+57	+0
Changes in accounts receivable	(273K)	(460K)	(19K)	+41	(1,312)
Changes In Prepaid expenses and other current as...	(13K)	(30K)	(1K)	+57	(1,034)
Changes in Accounts payable	(88K)	27K	4K	(429)	(2,322)
Changes in Accrued expenses	72K	108K	4K	(33)	+1,716
Changes in accrued income taxes	0K	2,785K		(100)	
Other changes in operating assets and liabilities	2K	(109K)	2K	+102	+0
Other cash flow from operations	440K	217K	(233K)	+102	+289
= Total Cash Flow from Operations	121K	1,978K	(114K)	(94)	+206
Additions to PP&E	0K	267K		(100)	
Other cash flow from investing	0K	(9,463K)		+100	
= Total Cash Flow from Investing	0K	(9,196K)		+100	
Proceeds from the issuance of debt	0K	8,500K		(100)	
= Total Cash Flow from Financing	0K	8,500K		(100)	
Beginning Cash Balance	3,972K	1,867K	2,408K	+113	+65
Net change in cash	121K	1,283K	(114K)	(91)	+206
= Ending Cash Balance	4,093K	3,150K	2,294K	+30	+78

Liquidity

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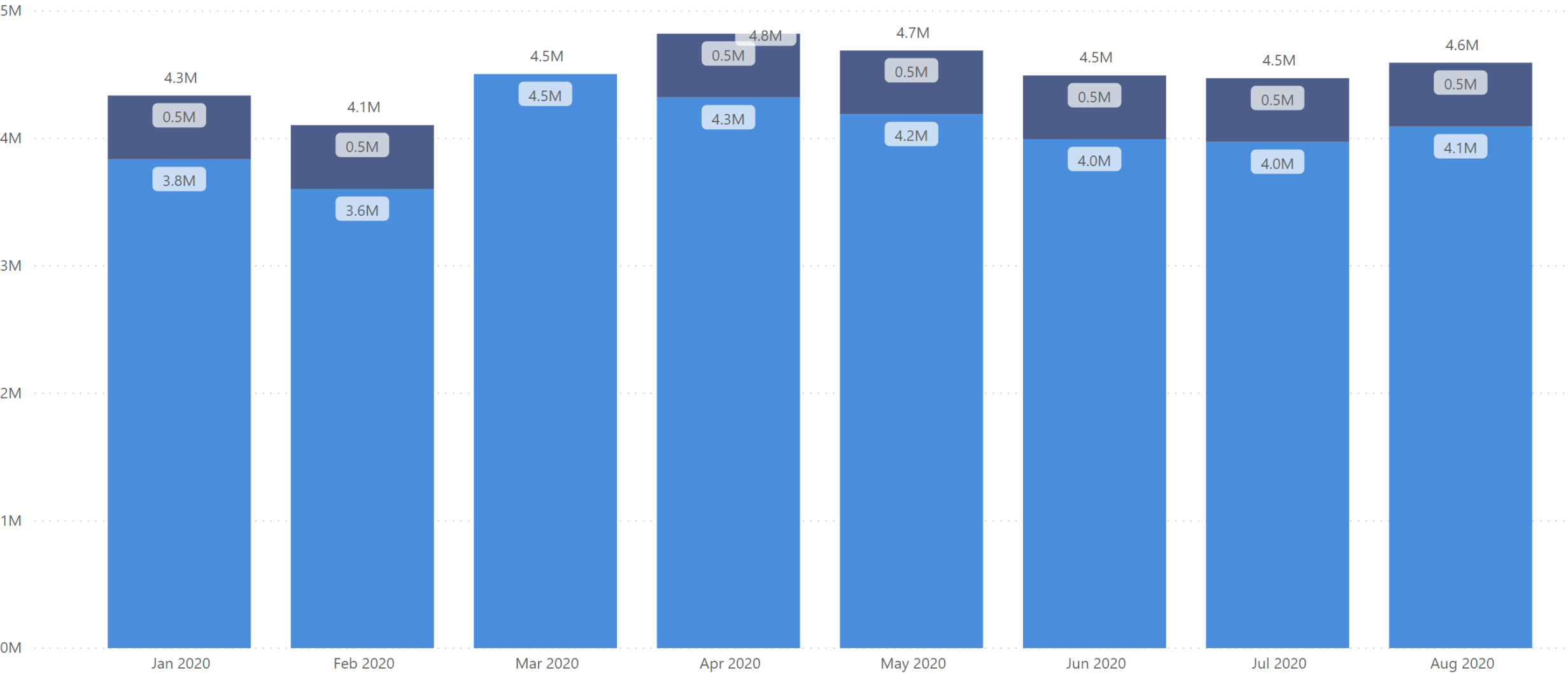**Currency**

| USD ⌄ |

Year

| Current Year ⌄ | **2020**

...

Monthly Liquidity

● Ending Cash Balance ● Excess ABL Availability ● Actuals

Human Capital

$000's	Payroll Expenses by Dept												
	MTD		Var		QTD		Variance	Var	YTD		Variance	Var
	Act	Bud	$	%	Act	Bud	$	%	Act	Bud	$	%
COR	$72	$62	($10)	(14.5%)	$141	$124	($17)	(11.9%)	$665	$502	($163)	(24.5%)
R&D	$257	$297	$40	15.6%	$515	$594	$79	15.3%	$2,100	$2,360	$260	12.4%
Sales & Marketing	$178	$206	$27	15.4%	$349	$411	$62	17.8%	$1,355	$1,541	$186	13.7%
G&A	$85	$69	($15)	(17.9%)	$168	$139	($29)	(17.1%)	$675	$599	($75)	(11.1%)
OPEX Services	$28	$60	$32	116.4%	$72	$122	$49	68.0%	$305	$504	$199	65.3%
Total	**$620**	**$694**	**$74**	**12.0%**	**$1,244**	**$1,389**	**$145**	**11.6%**	**$5,100**	**$5,507**	**$406**	**8.0%**

Payroll Expenses Commentary

- COR/OPEX Services – Overall favorable variance due to lower billing rate of contractor performing internal project work. Allocation of services budget is based on 2019 actuals and may not accurately reflect current activity.

- R&D – Backfill and budgeted open positions is causing a favorable MTD and YTD variance

- S&M – Favorable MTD, QTD and YTD variance due to unfilled budgeted positions

- G&A – Unfavorable MTD, QTD and YTD variance due to allocation of admin time from VP, Service and infrastructure time from consultants doing internal project work (NS & CRM). In addition, the timing of payroll taxes is making an impact, this should start to decrease as individual FICA limits are met (the budget is spread evenly over the year).

Open Positions

Open Position	Type	Annual OTE	Status
VP, Services	New	$250K	Actively Recruiting
Solution Architect	Backfill	$175K	Actively Recruiting
Content Marketing Manager	New	$125K	Filled – Sept 14th Start
Director of Sales Engineering	Backfill	$250K	Actively Recruiting

Termed Staff (Q3 2020)

Position	Exit Reason	Exit Date	Severance
Sr Solution Architect	Voluntary	7/17/2020	N/A
Director of Sales Engineering	Voluntary	09/18/2020	N/A

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Headcount

Headcount (2019-2020)

Legend: R&D · Sales & Marketing · G&A · COR

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