Monthly Operating Review– July 2019

August 19, 2019

Monthly Operating Review Agenda

⊛ **Executive Summary**

⊛ Financial Review

⊛ Governance Reporting

⊛ Appendix

Executive Summary

Hits

- Strong bookings at $4.8m with invoiced sales at $4.9m, compared to target of $4.0m.

- Strong subscription sales at $921K compared to target of $650K

- Record month for order volume – 1,040 (trending up from 993 in June-19)

- New customer adoption – 200 (trending down from prior month of 223)

- Large orders from WeWork ($480k), CBRE ($212k) and McDermott ($188K).

- MTD EBITDA – $184k compared to target of $133k

- Office remodel on hold while we revisit current staffing needs

- Organization/Key Hires

  ◦ Largest hiring month on record, with 12 new team members joining the team in July

  ◦ QA Director, John Schwab, started 7/17

  ◦ Talent Acquisition Director, Rachel Kargas, started 7/17

  ◦ Erin Orsulak promoted to VP of Customer Success

  ◦ Troy Suttle promoted to VP of Product and Channel Marketing

  ◦ No voluntary turnover in July

- Customer Adoption

  ◦ Existing customers – WeWork ($480k), CBRE ($212k),McDermott ($188K), Nike($85k), Iowa State ($70k), Case Western University ($70k), and Chick-fil-A ($65k).

  ◦ New/Land orders – Floor and Decor $60k, HILTI France $59k, Texas Southern University $35k, PineBridge Investments $33k

Executive Summary (Continued)

Misses

- Staffing –
  - We will have at least two regrettable employee departures in August; a Regional Sales Director for the Mountain States, and a Senior Product Manager.
  - In late July/early August took action to exit 4 employees; VP of Product, Content Marketing Director, Sales Engineer Mid-Atlantic, and Sales Engineer France
- Lack of support for audio on HDMI-in continues to be an issue for customers who are used to traditional HDMI capability

Key Go-Forward Actions

- Phantom stock program – finalizing program – expected rollout is end of August
- Solstice LCE - We are nearly complete on our due diligence including research on hardware, feature set and target demographic with special consideration given to margin preservation and cannibalization. At this point believe the fastest and lowest risk path is a down-rev'd version of the Qualcomm 820 board with a deprecated enterprise feature set with Dashboard included. We are meeting to finalize a pro-forma product version and should be ready to present to the BOD by the September MOR.
- Flexera – need to update version based on subscription and maintenance data reporting requirements
- Interviewing Systems Architect to design, manage and maintain internal systems including Netsuite, SalesForce, ZenDesk, Hubspot, etc.

Executive Summary – Risks and Challenges

Description	Potential Impact	Plan to Address
▪ G3 transition	▪ Sales shortfall ▪ Discounting on G2i margin impact ▪ Customer trade-in cost impact ▪ Inventory shortage ▪ Distributor inventory	▪ **G3 based Pods over 69% of July sales (60% June)** ▪ **Lack of audio support on HDMI-in has become an issue for both new and existing customers and we have re-prioritzed the release schedule to move this to a late August/early September release** ▪ **Inventory of G2i is now down to 2500 units – end of sales notification has gone out**
▪ **VP Customer Ops**	▪ **Align customer facing responsibilities to improve communications, economies of scale and accountability**	▪ **Will include Support, Onboarding and Implementation, and Logistics** ▪ **Job posted, have begun interviewing**
▪ AV industry	▪ Industry report exposes security vulnerabilities in Barco and Crestron products ▪ **Barco's newest products specifically target Solstice with dual network capability and Miracast** ▪ Continued competitive pressure from Zoom ▪ Working on room system integration with Zoom	▪ Marketing programs and resources targeted at IT end users ▪ Target Zoom with specific marketing resources such as video, topic specific webinars and position papers ▪ **DisplayNote is up for sale** ▪ **Latest Futuresource report is out and indicates a gain in Mersive market share**
▪ Improve margin/EBITDA while continuing to invest and grow	▪ Failure to take advantage of market timing and growth	▪ **Margin analysis by rep/region**
▪ HR/Staffing/Comp	▪ We need to upgrade leadership to move from tactical/admin to strategic initiatives	▪ Hire VP HR in Q1 – done ▪ MBO program – done ▪ 401K match – done ▪ **Phantom stock – finalizing** ▪ **Professional development – interview training begun**
▪ Sales Team Productivity	▪ Failure to hit FY target, exploit competitors weaknesses, leverage market growth and timing	▪ Hire Sales Ops Director - done ▪ Investigating internal product training – Mersive Academy
▪ Recurring revenue	▪ Impact on enterprise value ▪ Target incremental business with Opex model	▪ Added dedicated sales responsibilities for upfront subscription to insides sales team ▪ Increasing pressure on Kepler dev

	2019 Corporate Priorities	Corporate Quarterly Objectives - Q3 2019	Key Result - As measured by	Owner	%	Status
1	Launch Gen3	Complete all remaining Gen3 hardware tasks	Finalize international certifications, product	Jon	0%	JB: 7/8: created prelim Q3 OKRs
2	Scale Sales Organization	Implement re-org of Erin's SDR/AM org to more tightly align to	Complete and announce re-org by August	Martin/Rick	100%	Completed
		Hiring - TOLA channel Mgr/Initiate Q4 searches	Hire to plan and/or exception hires identified	Rick	100%	TOLA hire complete. Other hires being marketed. Lost Rocky Mtn...discussion alternatives
		Hire West Coast and PNW replacements	Hire to plan	Rick	0%	Interviews happening 1H August
		Start to roll out key sales metrics via Sales Ops	Forecast/close, rolling pipeline + other identified	Craig/Rick	25%	
3	Ensure Product Roadmap Drives Market	Delivery: Fulfill Q3 release milestones at agreed upon scope an	Release 4.2 on 7/31 (engr) within 14 days variance.	Tae	80%	OKR refactored for clarity of delivery
			Release Private Relay Beta to at least 3 customers	Chris/Tae	0%	
			Release 4.3 HDMI-In Audio focused release by end	Tae	0%	
		Delivery: Define and introduce a Low Cost Edition Solstice	Establish LCE strategy and model Q1-20 delivery,	Chris/Tae	20%	
		Delivery: Kepler Dashboard	Complete first Cohort (Spashscreen) and template	Tae	0%%	
		Delivery: Miracast	Assess key gaps in performance, establish action	Tae	0%	
		Risk Mgmt: Improve Solstice Quality	15 P1 or P2 tech debt bugs fixed by end of Q3	Tae	80%	
		Scale Eng: Hire QA director, & Sr Enginering Mgr	QA director Hired onboard by end of Aug	Tae	50%	John Schwab started 7/17, Tom Lee 8/21
4	Scale Marketing and Support	Standardize branding / messaging	Launch localized EMEA versions of brand campaign	Martin	50%	Both objectives progressing to plan.
		Scale digital marketing	Implement automated email workflows and lead routing for EMEA starting week of 8/12; launch redesigned website for first set of countries in EMEA week of 9/23; incrementally increase ad spend in EMEA throughout Q3 to learn prior to spending at scale	Martin	33%	Email workflows and website upgrades on track.
		Scale field marketing internationally	2 Engage events in EMEA in Sep.	Martin	25%	Planning for engage events progressing to plan.
		Scale product marketing / support processes	Launch customer onboarding program week of	Martin	50%	Onboarding program launched / running. 4.2 launch occurred 8/6. Take-out program
5	Invest in our people	Develop & implement key employee stock plan construct	Plan implemented and communicated	Michelle	50%%	Model and allocations determined
		Update Denver office space	Furniture for Suite 150 upgraded	Michelle	25%	Layouts and materials selected, order will be placed week of 8/12, 6-8 weeks for delivery
			Construction on Suite 180 begun	Michelle	10%	Awaiting final contractor pricing, construction scheduled to begin in September
		Scale the HR Team	Hire Director of Talent Acquisition, Talent	Michelle	90%	Offers accepted for all 3 positions. Dir. of TA on board, the other two start 8/21
			Evaluate HR tech stack	Michelle	20%	Determining systems requirements
		Articulate Mersive Culture & Expectations	Talent Brand and EVP Communicated	Michelle	50%	Strawman developed with cross-functional input
			Mersive Leadership Success Profile created	Michelle	10%	Compencies being explored; both general and unique to Mersive
6	Improve business intelligence reporting	Complete recurring revenue reporting	Include monthly reporting in MOR & Board deck	Dan	0%	Pending completion of data project
		Complete Contract Management Module in NS	Inside sales team using CMM for subscription	Dan	0%	Pending completion of data project
		Complete KPI metrics for dashboards in NS	All relevant KPIs in NS dashboard; Exec team has	Dan	30%	Added several board level KPIs to dashboard.
		Rearchitect CRM systems	Launch customer success object in SFDC by end Jul;	Martin	15%	
7	Create Customer Operations group	Hire VP Customers Ops	Align Support, Professional Services, IT and Logistics into one organizations to streamline and increase efficiency of techncial, non-Egineering functions for imprtoved customer service.	Rob	20%	

Big Wins, Key Deals and Losses

Upcoming Key Deals

- **Accenture** – Miracast is an issue. Discussing alternatives
- **Expedia HQ** – Pricing discussion. Limited visibility in PNW
- **TJX** – Pilot pending in UK and N America.
- **CIBC** – Now competing against Barco…on vs. off network decision
- **Comcast** - $155K maintenance renewal
- **Northern Trust** – 300+ rooms by Q3
- **Shell** – Ongoing Q&A related to final decision – TBD on timing
- **Conoco** – AirMedia proving problematic – VTC req for 300 rooms
- **EDF** – Standardized on Solstice…Orders starting this fall
- **IQVIA** –100s of rooms in new HQ…final netsec discussions
- **Toyota** – Been told we are now global standard. Forecast pending
- **Marathon Oil** – Solstice is in the spec for 149 room building
- **Rolls Royce** – Final security testing for standard decision
- **Mastercard Europe** – 250-500 rooms through yearend
- **EY** – opportunity to win global standard for 2020
- **Astra Zeneca** – annual maintenance renewal in negotiation
- **LA Rams** – in final evaluation for up to 300 suites in new stadium
- **Darden Restaurants** – Evaluating for deployment at HQ
- **GA Pacific** - $285K subscription co-term + Gen3 swap
- **Huazhong U** – $150K+ deployment in leading Chinese University

Key Losses/Delays

- **T-Mobile** – formally moving to Cisco and unwilling to renew M/S
- **Rocket Software** – on hold until 2020. HDMI challenges
- **ACTVET (Dubai)** – no budget. Went with $399 WePresent

Big Wins

- WeWork - $479K
- CBRE - $212K
- McDermott- $188K
- Nike - $85K
- Iowa State - $70K
- CWRU - $70K

- Huber Institute of Tech - $67K
- Chick-Fil- A - $65K
- Zappos - $60K
- Floor and Decor - $59K
- Hilti France - $59K
- Peace Corp - $57K

# Product Sales Metrics – Monthly Trend

Invoiced Sales & Bookings
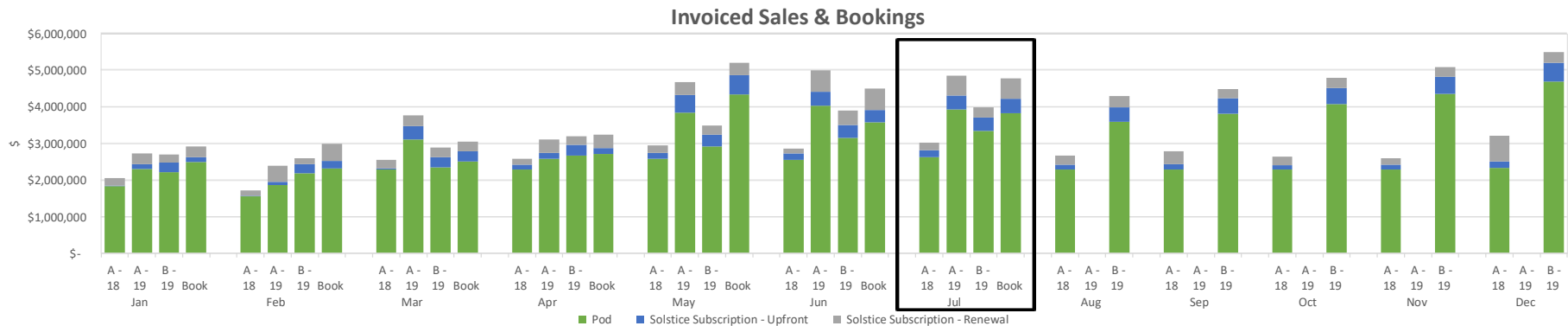
- July Invoiced sales were $4.9m compared to target of $4.0m. Bookings were $4.8m.
- YTD Invoiced sales were $26.6m compared to target of $22.8m. Bookings were $26.7m.

Revenue by Product

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

Pod Sales Metrics – Monthly Trend

mersive technologies inc

Pod Sales by Region

Legend: ■ Americas ■ EMEA ■ APAC
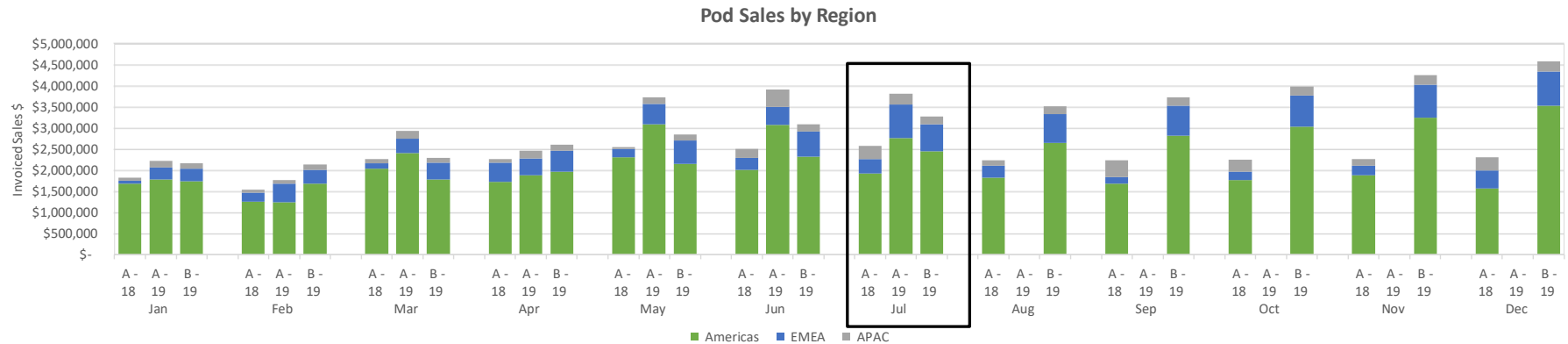
- July pod sales were above budget primarily because of strong performance in the Americas and EMEA regions.
- YTD pod sales were $20.9m compared to target of $18.4m.

ASP - Blended
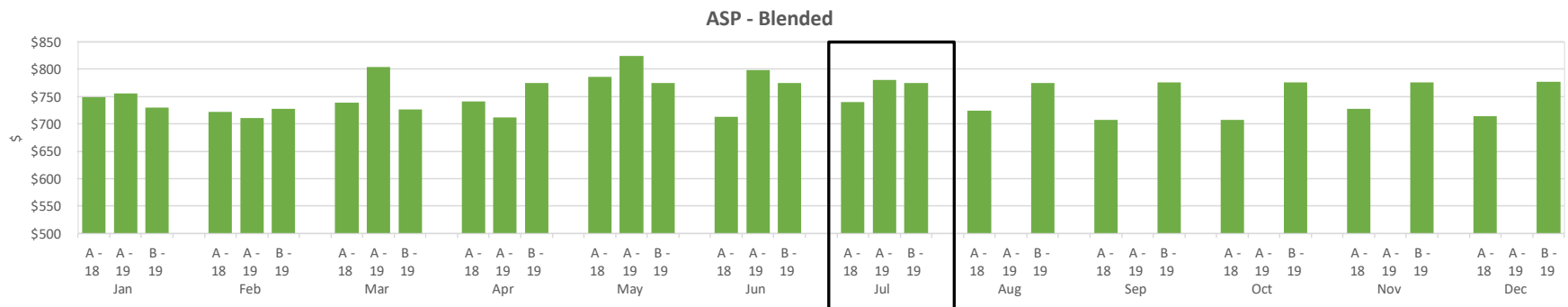
- Graph shows ASP by region historically and planned for remaining 2019
- Overall ASP across all regions was $781, which is above plan of $775 due to higher than expected ASP for all regions. ASP dropped from prior month due primarily to record sales in EMEA (distributor channel).
- YTD ASP was 777 compared to target of 758.

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ASP by Region – Monthly Trend
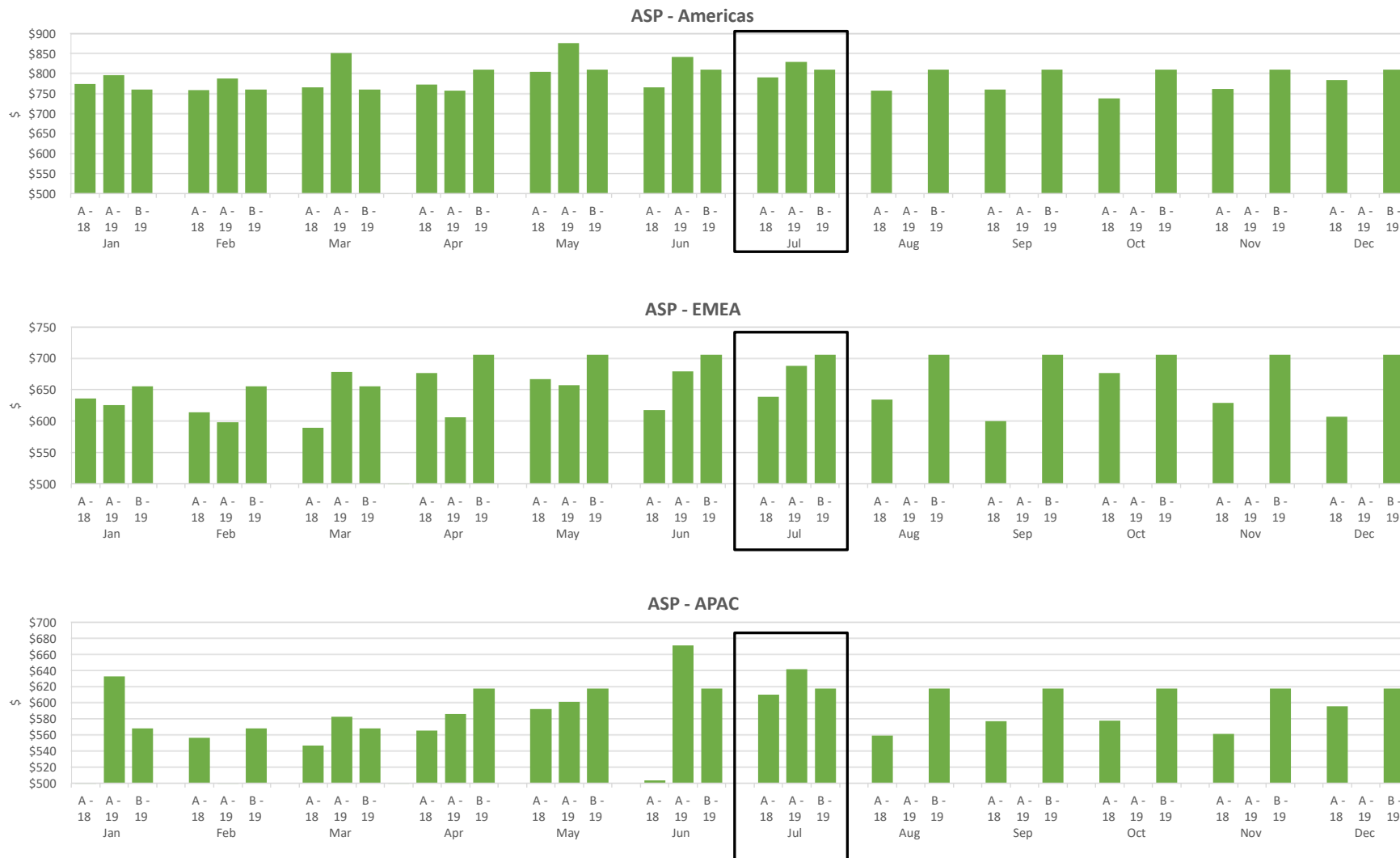
- EMEA and APAC have an overall lower ASP than Americas due to most sales going through distributor channel.
- ASP for EMEA was slightly below budget because of higher than expected Gen 2i sales, as well as increased SGE, enterprise sales mix.
- ASP for Americas and APAC was above budget due primarily to higher than expected ASP on Gen 3 sales.

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Solstice Subscription Metrics – Monthly Trend
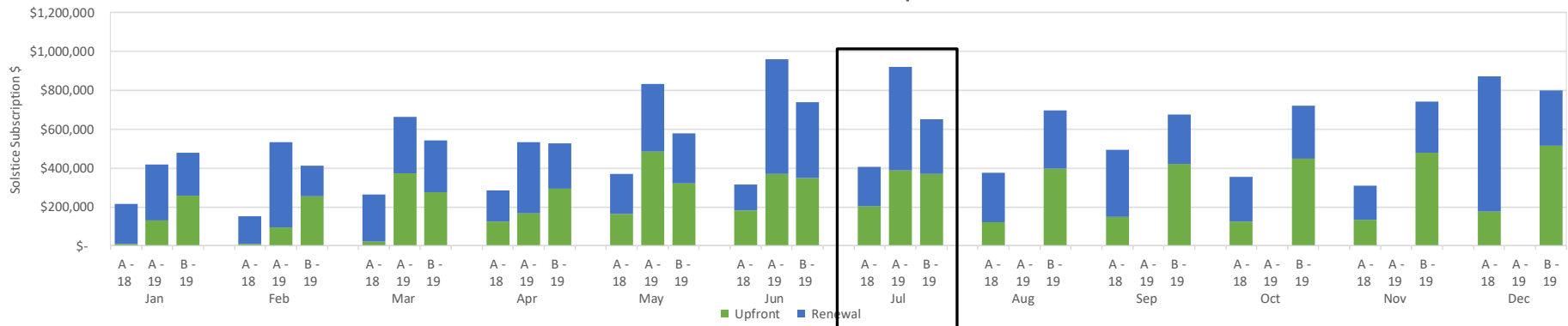

Invoiced Sales - Solstice Subscription

- July invoiced sales for Solstice subscriptions was $921k vs budget of $650k driven by large renewal orders from Chick-fil-A, Zappos, and Nike.
- July renewal ASP was $171 compared to target of $145
- July upfront ASP was $271 compared to target of $225
- YTD renewal sales were $2.9m compared to target of $1.8m, due to large co-terms.
- YTD upfront sales were $2.0m consistent with target of $2.1m.

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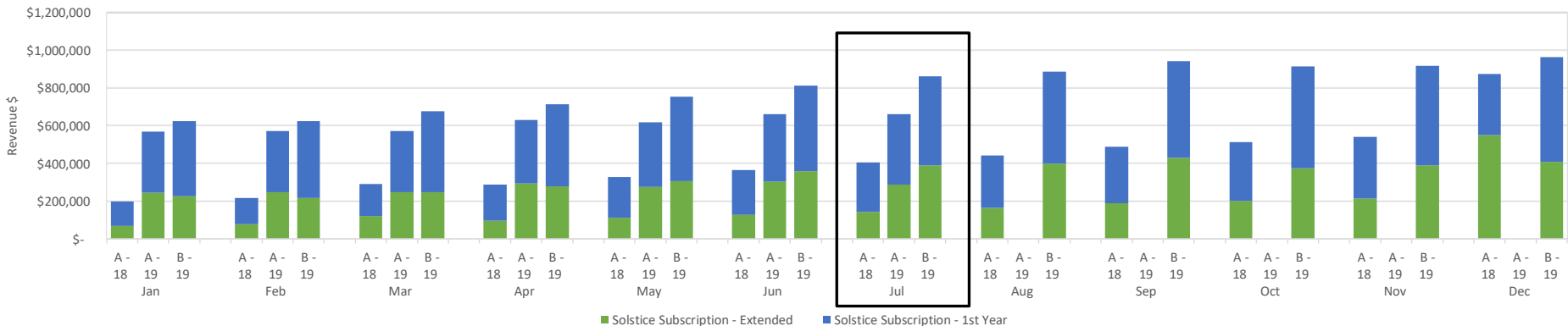
- Revenue in July is slightly below budget. Note there is no direct correlation between invoiced sales in a particular month and revenue. Revenue begins upon activation of pod following sell-through from distributor to end user.

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Product Type & Channel Metrics

Product Type
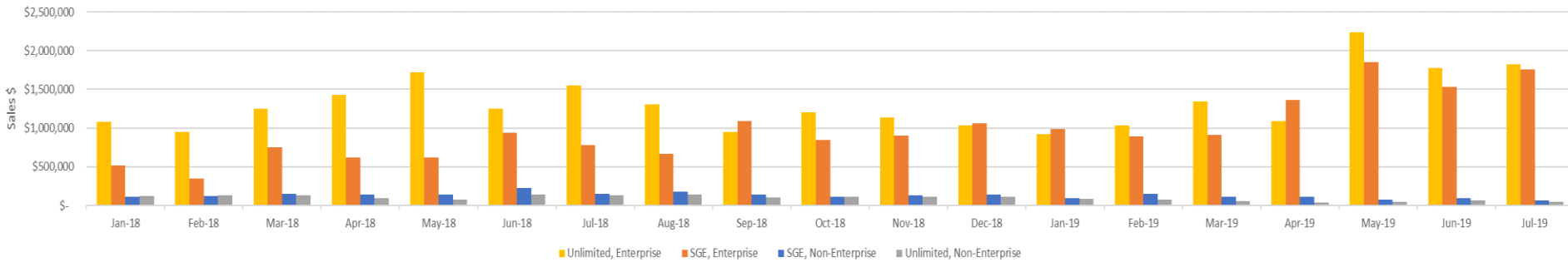
Sales Type
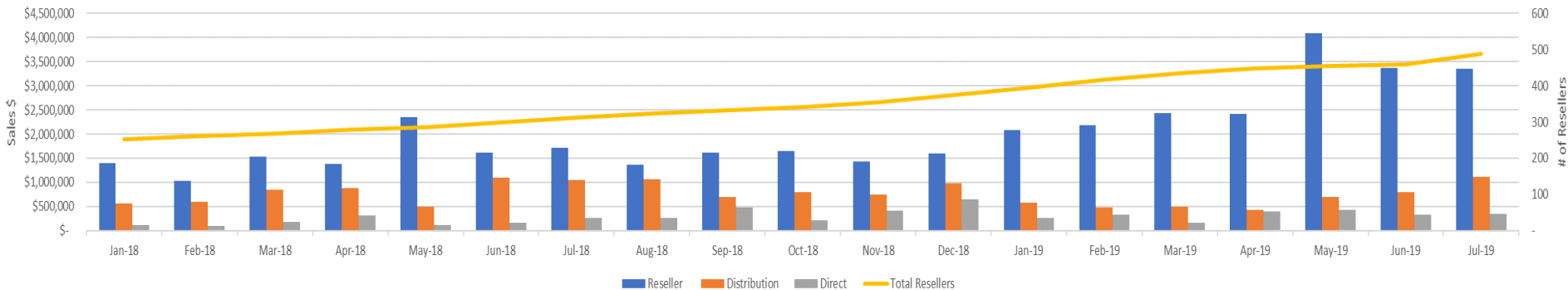
- Bookings
- We changed our presentation from invoice sales in prior months to bookings

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Customer Segment Metrics

Vertical
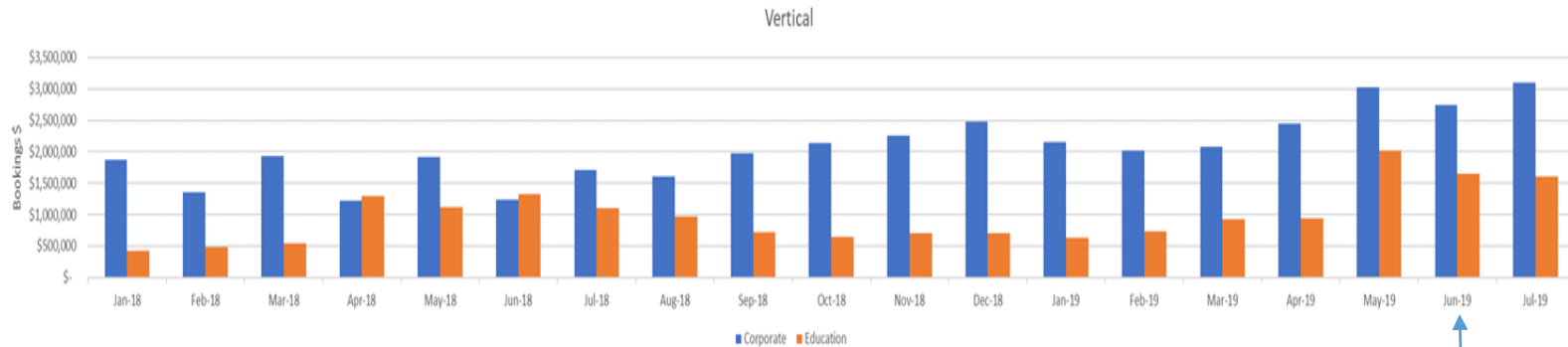
- Graph above represents our new presentation based on bookings rather than invoiced sales.
- Bookings exclude stocking orders and including sales out
- We also removed Govt. Category due to insignificant amounts
- Also, we are correcting a data error from the prior month MOR report that classified WeWork sales as Education resulting in overstating edu sales and understating Corporate sales.
- Graph below is from the June MOR included here for comparative purposes.

Vertical
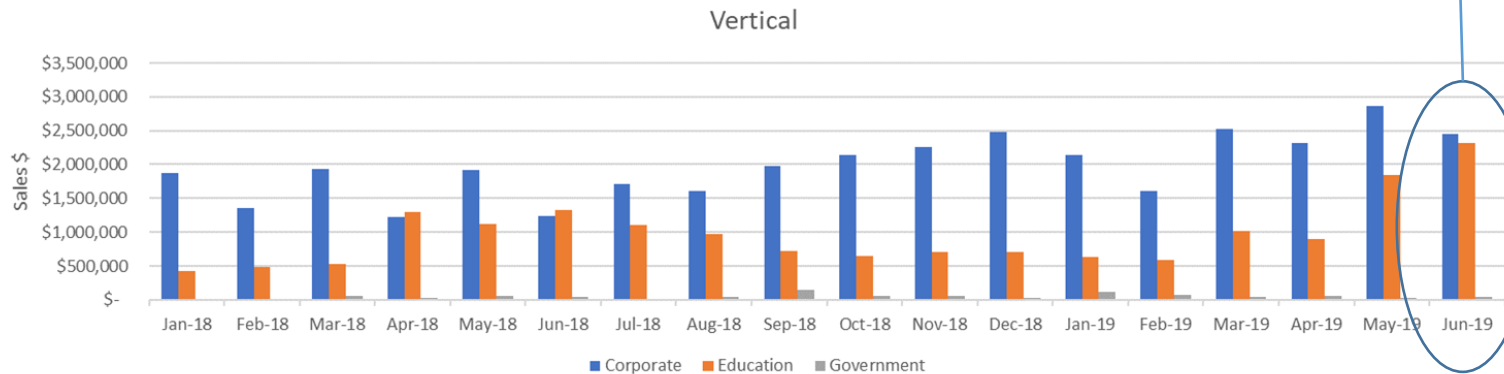
Big Deals and Run Rate Metrics

Big Deals vs Run Rate
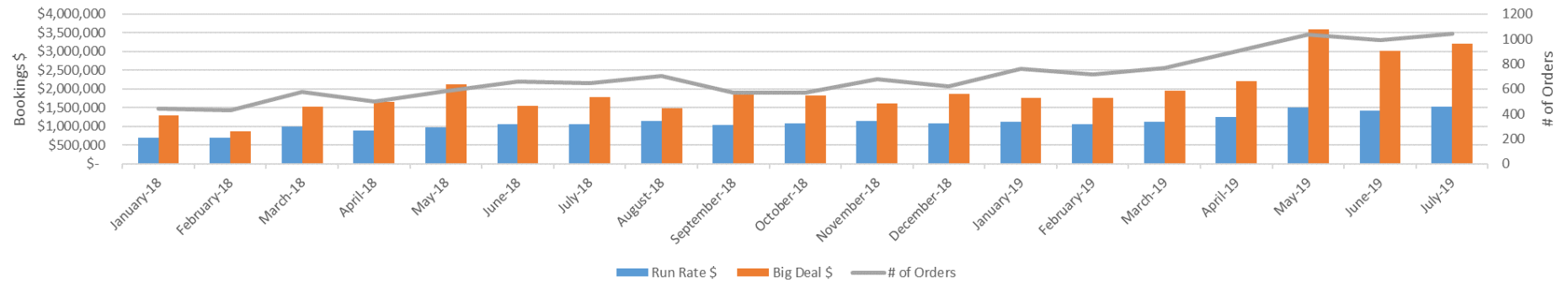
>$25K

- Bookings excluding stocking orders and including sales out

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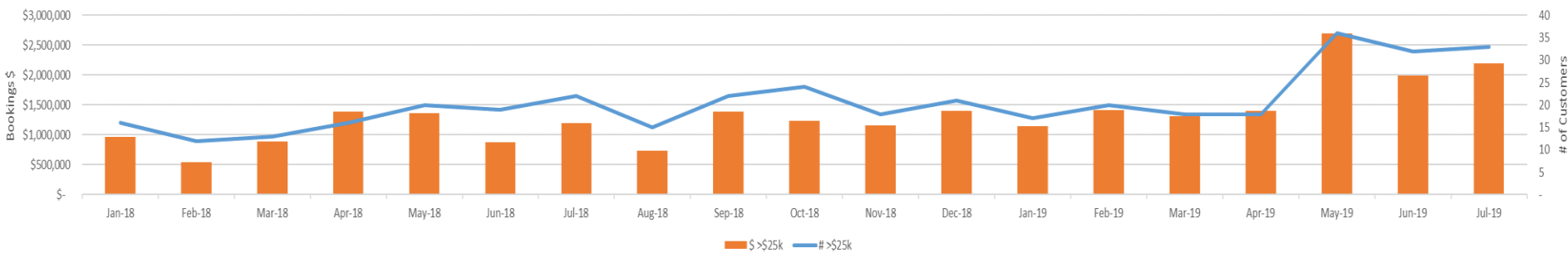
End User Lifecycle Metrics

Lifecycle
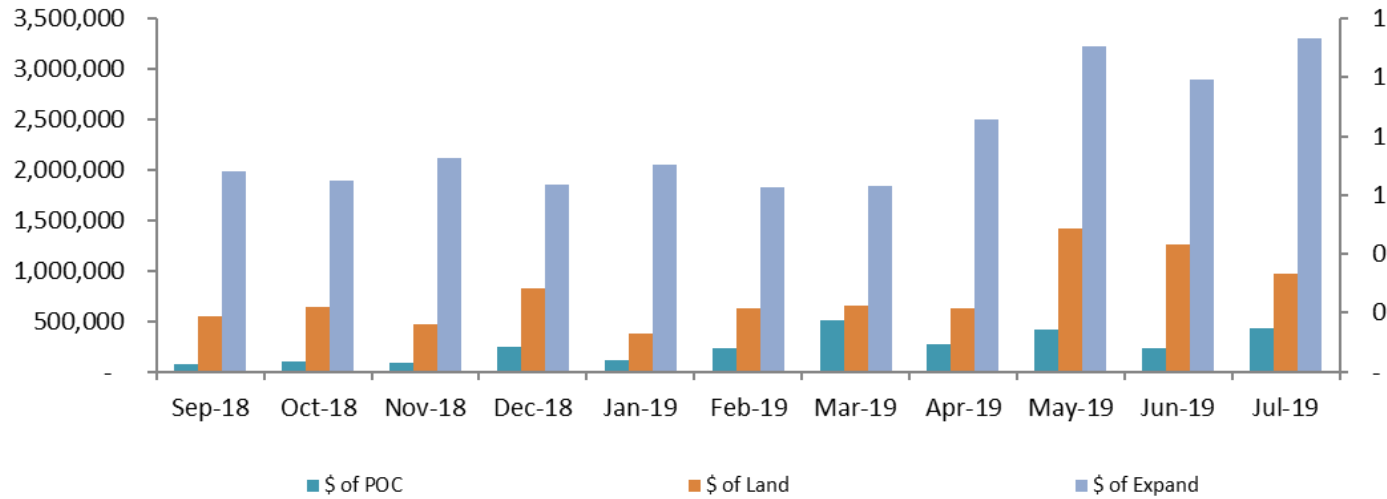
Lifecycle													
	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Total	%
$ of POC	78,454	98,798	82,215	248,107	118,912	226,336	503,914	272,401	416,792	229,211	428,380	2,703,519	7%
$ of Land	545,622	639,324	469,375	824,995	381,964	630,944	650,960	631,466	1,422,369	1,258,717	966,741	8,422,476	23%
$ of Expanc	1,979,358	1,896,181	2,112,443	1,854,519	2,055,559	1,829,387	1,837,827	2,499,749	3,221,062	2,889,865	3,295,942	25,471,892	70%
Total	2,603,434	2,634,303	2,664,032	2,927,621	2,556,435	2,686,667	2,992,701	3,403,617	5,060,223	4,377,793	4,691,063	36,597,887	100%

- Bookings excluding stocking orders and including sales out

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Top Customer Metrics

End User	June Amount	% of Total
WeWork	479,957	10%
CBRE	211,848	4%
McDermott	188,496	4%
Nike	84,559	2%
Iowa State University	70,042	1%
Case Western Reserve University	69,493	1%
Humber Institute of Technology and Advanced	67,141	1%
Chick-fil-A	65,116	1%
Zappos	60,016	1%
Floor and Decor	59,433	1%
Other Customers	3,371,369	71%
Total	**4,727,470**	**100%**

End User	LTM Amount	% of Total
WeWork	4,441,098	11%
Nike	503,806	1%
McDermott	360,012	1%
Kiewit Corporation	355,827	1%
Charter Communications	353,163	1%
Penn State University	335,153	1%
Mastercard	300,745	1%
Time Warner	299,744	1%
CBRE	275,738	1%
Booz Allen Hamilton	263,611	1%
Other Customers	33,216,645	82%
Total	**40,705,540**	**100%**

Bookings Attribution Analysis

Waterfall chart — Bookings $:
- Forecasted Sales: 1,766 (40%)
- Existing >10k: 883 (20%)
- Existing <10k: 1,350 (31%)
- New >10k: 130 (3%)
- New <10k: 263 (6%)
- Bookings: 4,392

Bookings (stacked monthly chart Jul-18 through Jul-19)
Legend: Forecasted Sales, Existing >10k, Existing <10k, New >10k, New <10k
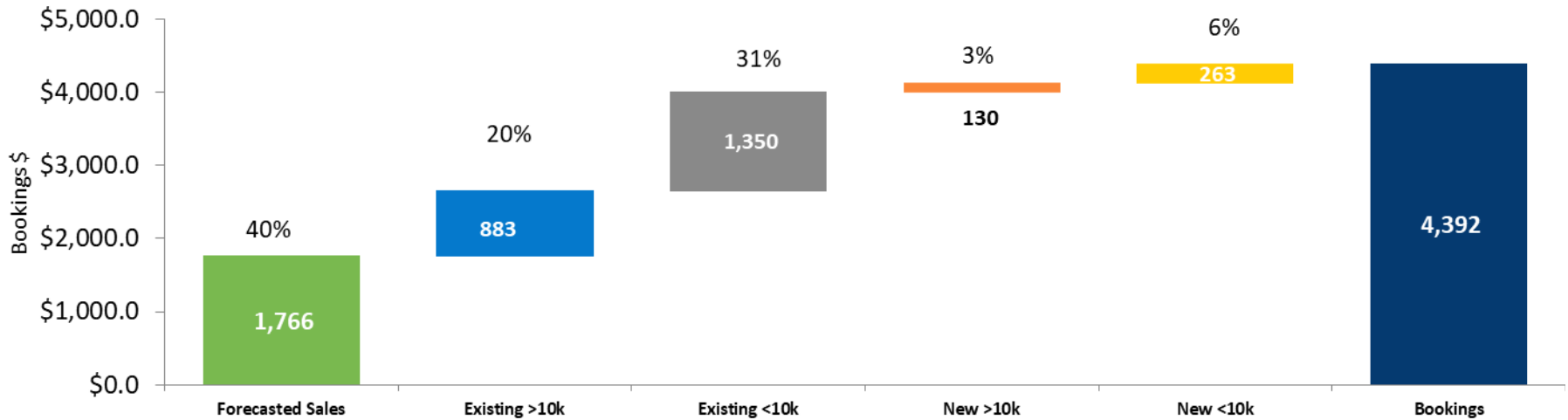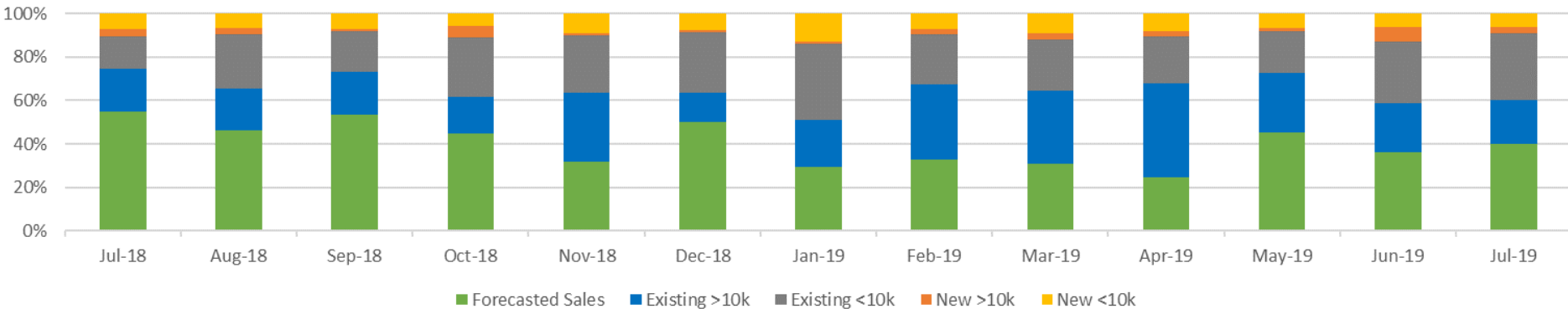
Management Discussion

- 40% of total bookings for the month were included in forecasted sales by the sales team for the month.
- Another 20% of bookings were from orders over $10K from existing customers but were not included in forecasted sales for the month.
- 31% of bookings were from orders under $10K from existing customers and which are not part of forecast.
- Remaining 9% of bookings were from new customers and not included in forecasted sales for the month.

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Rolling Pipeline

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Forecast								
Current Month	$ 2,204,927	$ 3,128,721	$ 3,286,039	$ 2,840,980	$ 3,469,087	$ 3,183,928	$ 3,647,087	$ 4,071,504
Pipeline								
Rolling 3-Month	$ 12,482,347	$ 13,205,386	$ 12,206,719	$ 15,079,546	$ 17,924,979	$ 19,229,563	$ 21,750,699	$ 16,396,264
Rolling 6-Month	$ 16,946,361	$ 18,260,156	$ 19,629,591	$ 21,204,915	$ 25,013,296	$ 27,837,850	$ 33,118,288	$ 25,415,414
All Open	$ 21,933,366	$ 23,059,257	$ 26,461,816	$ 28,688,150	$ 34,252,213	$ 38,841,437	$ 40,244,299	$ 34,145,221

* Red line represents start of updated pipline hygiene practices

Quota Attainment – Aug MTD

August 2019 Bookings vs. Quota

Data pull 8/16/2019 Noon MST
Stacked ranked YTD %

Territory	Aug-19 (MTD)				Q319 (QTD)				2019 (YTD)			
	Quota	Actual	Var $	% of Target	Quota	Actual	Var $	% of Target	Quota	Actual	Var $	% of Target
TOLA	270,594	196,318	(74,276)	73%	520,533	663,066	142,533	127%	1,725,798	2,114,244	388,446	123%
Midwest	811,781	482,859	(328,922)	59%	1,561,598	1,339,044	(222,554)	86%	5,177,394	6,000,511	823,117	116%
Northeast	676,485	224,600	(451,885)	33%	1,301,332	832,286	(469,045)	64%	4,314,495	4,228,421	(86,075)	98%
Southeast	496,089	99,343	(396,746)	20%	954,310	458,003	(496,307)	48%	3,163,963	2,460,193	(703,770)	78%
West	360,792	182,038	(178,754)	50%	694,044	386,328	(307,715)	56%	2,301,064	1,695,068	(605,996)	74%
New England	270,594	128,915	(141,679)	48%	520,533	322,490	(198,042)	62%	1,725,798	1,164,256	(561,542)	67%
Mid-Atlantic	405,891	126,543	(279,348)	31%	780,799	383,707	(397,092)	49%	2,588,697	1,717,000	(871,697)	66%
Canada	180,396	8,050	(172,346)	4%	347,022	111,381	(235,641)	32%	1,150,532	585,316	(565,216)	51%
Rocky Mountain	157,846	7,847	(149,999)	5%	303,644	121,431	(182,213)	40%	1,006,716	477,246	(529,469)	47%
ANZ	136,527	2,213	(134,314)	2%	262,986	55,669	(207,317)	21%	858,900	324,385	(534,515)	38%
Northwest	202,945	22,944	(180,001)	11%	390,400	57,313	(333,086)	15%	1,294,349	400,505	(893,844)	31%
UK	293,143	226,479	(66,664)	77%	563,910	705,801	141,891	125%	1,869,615	1,954,615	85,001	105%
France/Spain	162,356	147,073	(15,283)	91%	312,320	384,163	71,843	123%	1,035,479	632,460	(403,019)	61%
Nordics	155,967	-	(155,967)	0%	300,485	110,090	(190,395)	37%	1,008,044	482,665	(525,379)	48%
Germany/Italy	143,229	-	(143,229)	0%	286,458	76,930	(209,529)	27%	927,083	404,118	(522,966)	44%
MEA	143,229	7,573	(135,656)	5%	286,458	18,446	(268,013)	6%	927,083	106,483	(820,600)	11%
China	136,527	153,000	16,473	112%	262,986	227,237	(35,749)	86%	858,900	578,894	(280,006)	67%
APAC	270,594	177,150	(93,444)	65%	520,533	343,588	(176,944)	66%	1,725,798	1,283,668	(442,130)	74%
EMEA	982,595	383,434	(599,161)	39%	1,923,577	1,351,685	(571,892)	70%	5,882,810	3,693,314	(2,189,496)	63%
World	4,300,000	2,288,946	(2,011,054)	53%	8,300,000	7,072,737	(1,227,263)	85%	27,100,000	29,013,483	1,913,483	107%

Solstice Subscription – Attach Rate

Upfront

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	LTM 2019
Total Upfront Units Sold	76	142	203	616	873	954	848	597	801	853	648	682	549	355	1,395	565	1,680	1,371	1,431	10,927
Total Unit Sales	2,281	1,865	2,945	2,970	3,425	3,034	3,151	2,934	3,142	3,677	3,374	3,297	2,951	2,484	3,645	3,472	4,524	4,916	4,888	43,304
Upfront Rate	**3%**	**8%**	**7%**	**21%**	**25%**	**31%**	**27%**	**20%**	**25%**	**23%**	**19%**	**21%**	**19%**	**14%**	**38%**	**16%**	**37%**	**28%**	**29%**	**25%**

Renewal

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Pods w/ Paid solstice subscription	6,485	6,756	6,992	7,411	8,072	8,628	9,852	9,125	10,319	11,588	12,734	16,809	18,930	21,552	22,042	23,944	25,299	26,324	29,013
Total Pods, post-free solstice subscription	12,088	12,764	13,593	14,551	16,009	17,814	19,060	20,733	22,409	28,731	30,182	32,633	36,845	44,360	47,171	50,356	54,051	56,643	61,940
Renewal Rate	**54%**	**53%**	**51%**	**51%**	**50%**	**48%**	**52%**	**44%**	**46%**	**40%**	**42%**	**52%**	**51%**	**49%**	**47%**	**48%**	**47%**	**46%**	**47%**

Management Discussion

- Upfront attach rate increased in July to 29% below the target of 40%.
- Renewal rate increased to 47% during July consistent with the LTM average of 47% and below target of 60%

![mersive technologies inc logo]

2018-2019 Net New Growth

Total NN Accounts

- 1,457 YTD (21% YoY growth)
- Avg first month revenue = $2820

Marketing-touched NN Accounts

- 301 YTD (87% YoY growth)
- 21% mix of Total NN (14% in 2018)
- Avg first month revenue = $4454

Non-Marketing-touched NN Accounts

- 1,156 YTD (11% YoY growth)
- 79% mix of Total NN (86% in 2018)
- Avg first month revenue = $2395

NN Account Growth

Legend: ■ Marketing ■ Non-Marketing

Months: Jan 18, Feb 18, Mar 18, Apr 18, May 18, Jun 18, Jul 18, Aug 18, Sep 18, Oct 18, Nov 18, Dec 18, Jan 19, Feb 19, Mar 19, Apr 19, May 19, Jun 19, July 19

Attribution % of Total NN Accounts

Legend: ■ Marketing ■ Non-Marketing

	Jan-Dec 2018	Jan-July 2019
Marketing	311 (14%)	301 (21%)
Non-Marketing	1856 (86%)	1156 (79%)

Average Cumulative Revenue per Account

NN accounts that engage with marketing in some fashion prior to their first purchase tend to buy significantly more initially and over their lifetime.

Average Cumulative Revenue for 2018-19 New Accounts by Channel

Cost Effectiveness by Marketing Channel

Channel	NN Accounts[1]	Estimated[2] Marginal Expense	Estimated Marginal CAC
SEO	202	$54,600	$270
Digital Ads	69	$149,374	$2,171
Other Digital	5	$84,607	$16,921
Field Mktg	25	$298,334	$11,933
TOTAL	301	$586,916	$1,950

Summary

- SEO is both the highest volume and least costly source of NN accounts; however it requires the longest lead time

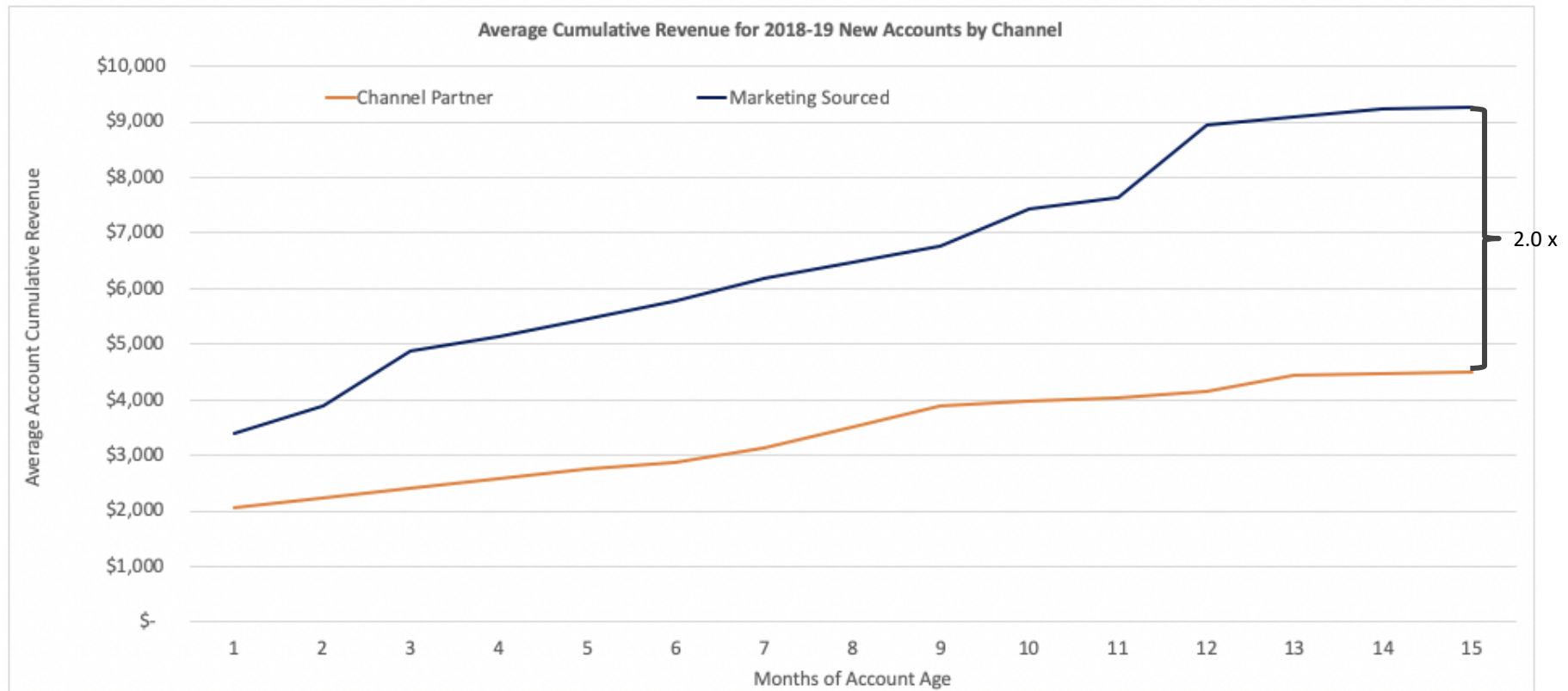- Digital Advertising continues to be an effective / efficient acquisition vehicle and has the benefit of the shortest lead time

- Other Digital (ie, trade publications and analysts) is inefficient; spend has been cut significantly in this area

- Field marketing appears inefficient but is likely overstated due to a lack of granularity that would allocate some of the expense to sales related activities (eg, sales meetings held at events)

[1] *Statistically allocated based on regression model*
[2] *Not validated by Accounting; marginal = fixed costs have not been allocated*

Repeat Orders Breakdown (ie, after first order)

Marketing touches increase with repeat orders / order size increases.

Repeat Transactions by Source - 90 Day Window

Source: data through May 2019

Marketing Metrics

Sessions (Web Traffic)

Marketing Qualified Leads (MQLs)
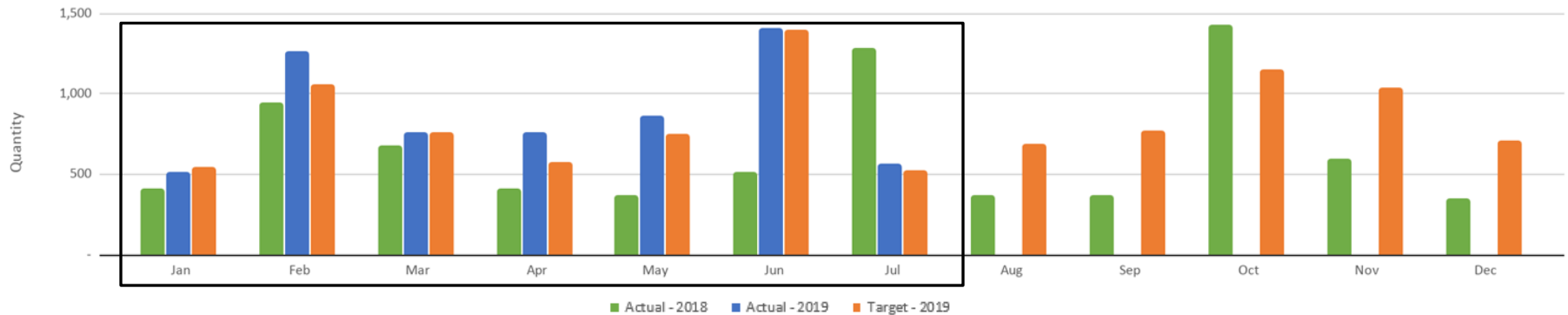
Management Discussion

- Web traffic is 105% of plan YTD mainly due to strong performance in SEO and Digital advertising.
- MQL conversion rates are 116% of plan YTD with particular strength in Direct Traffic and Digital Ads; SEO is now on plan YTD.
- MQLs are 112% of plan YTD due to web traffic and field marketing both being ahead of plan.

New Customer Metrics

Monthly New vs. Existing Customers

Legend: New Customers - $ | Existing Customers - $ | New Customers - # | Existing Customers - #

Marketing Attributed New Accounts

Legend: Actual - 2018 | Actual - 2019 | Target - 2019
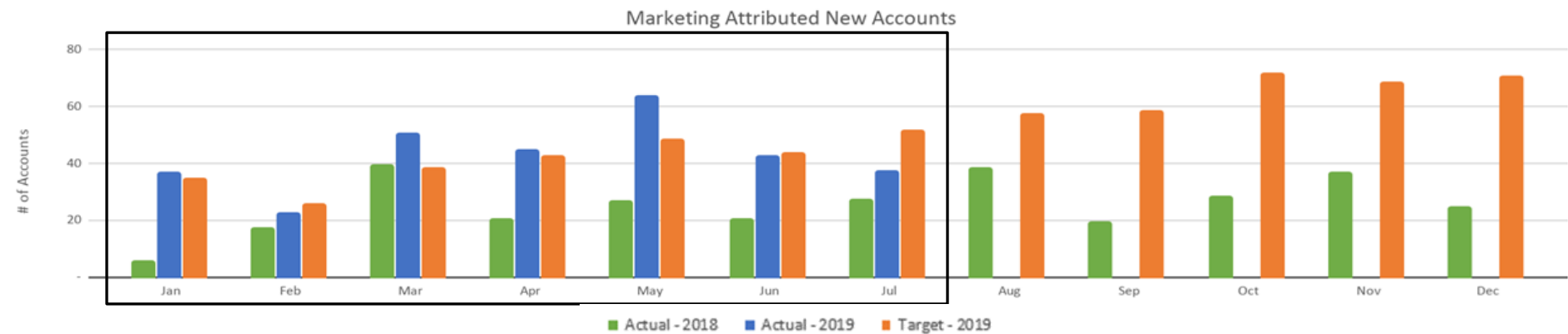
Management Discussion

- New and Existing customers are calculated on a sales out basis (ie, so, they exclude stocking orders by definition). Methodology has been updated / tightened to account for non-standard demo pod submissions that were showing as new accounts inflating both 2018-19 numbers.
- The methodology for Marketing Attributed new accounts now looks out 6 months prior to first sale and also accounts for web visits.
- YTD total NN accounts are up 21% YOY whereas Marketing Attributed NN accounts are up 87% YOY (117% of Plan).

Marketing Spend

Digital Ad Spend
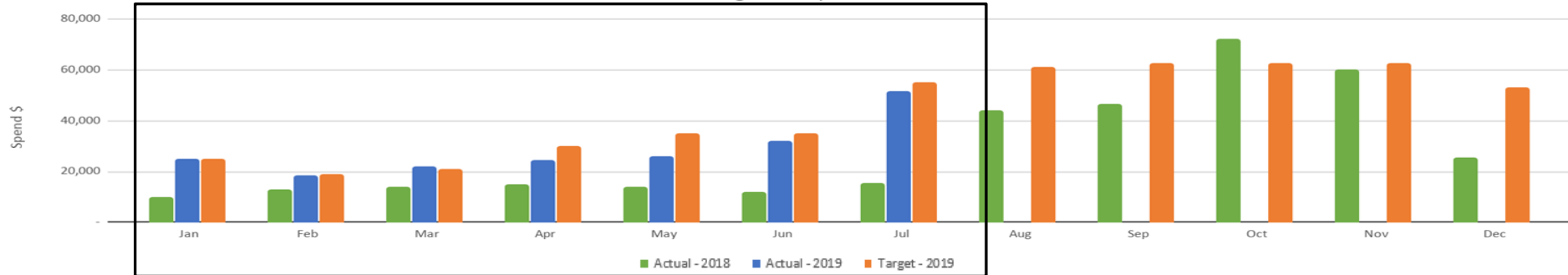
Field Marketing Spend
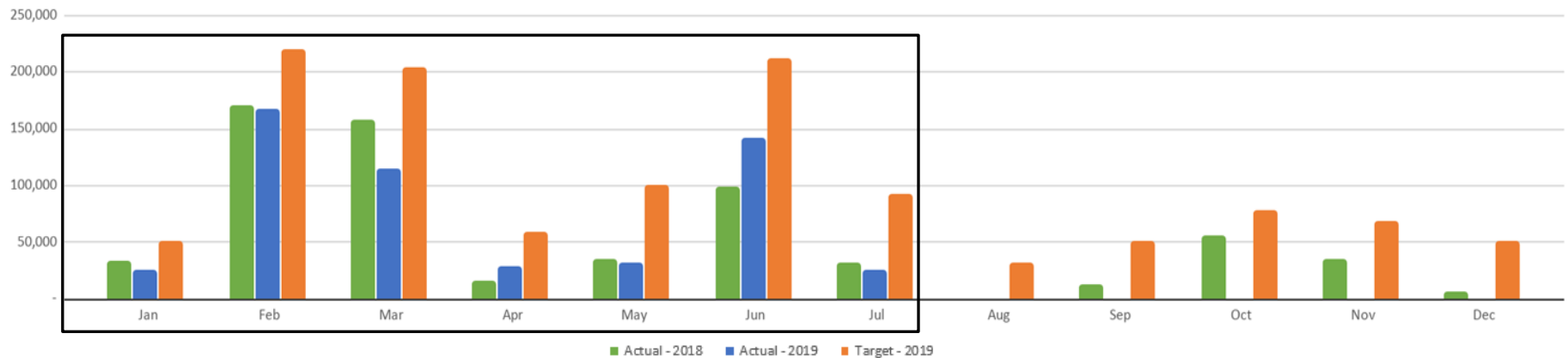
Management Discussion

- Digital Ad spend is at 98% of plan YTD while Digital Ad lead gen is at 187% of plan YTD. Ad spend spiked in Jul as there is a two month lead time for ad spend to affect direct web traffic.
- Field marketing spend spiked in Jun due to Infocomm.

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Kepler - Engagement

Average Number of Sessions per User per Month
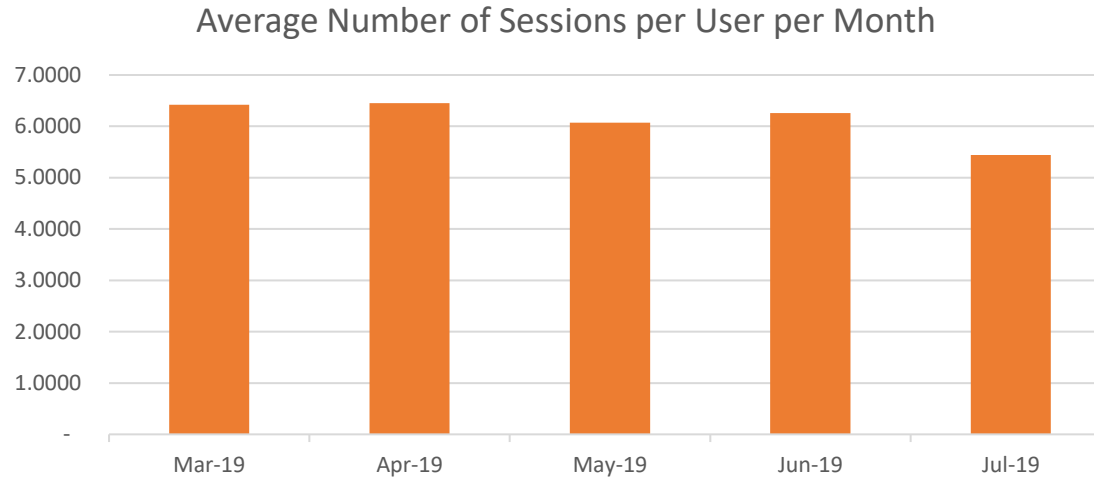
Management Discussion
• Average number of sessions per active user per Month using Kepler.

Kepler - Adoption

% of Top 100 Customers with Kepler

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
%	49%	47%	52%	58%	64%	60%
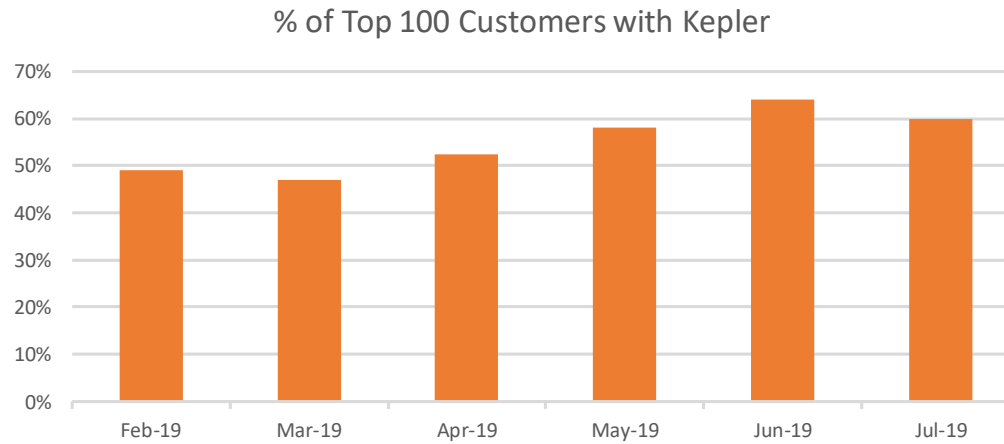
Management Discussion

- % of top 100 customers (based on # of pods) with Kepler.

Staffing Analysis

Headcount by Department
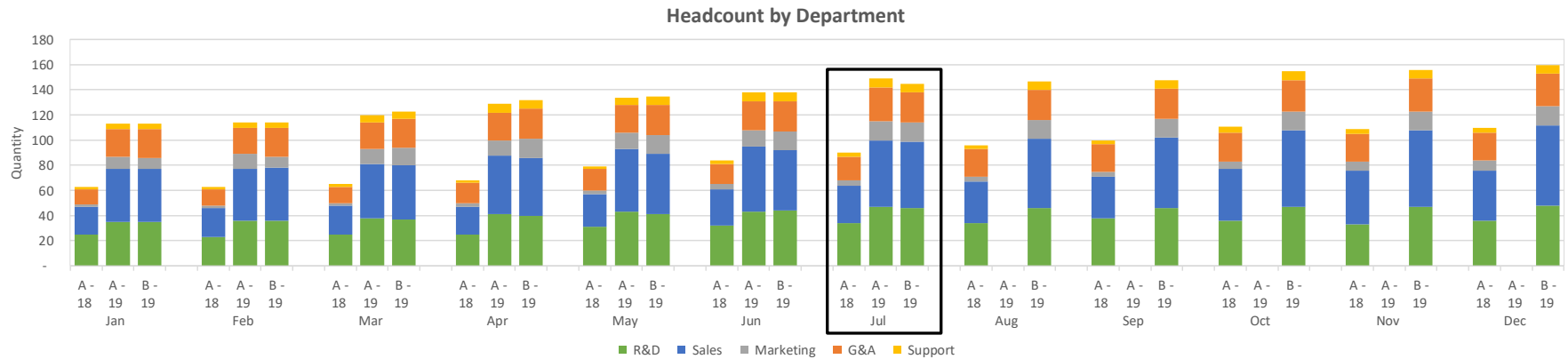
Management Discussion

- Headcount is ahead of plan through July at 149 compared to budget of 145.

7/31/19 Talent Snapshot

Team Members by Geography

Denver (105)

US field (25)

International field (19)

Team Members by Function

Tech (47)

Sales (53),

Marketing (15)

Finance/Ops/HR (27)

Support (7)

Total Team Members: 149

YTD Hires: 60

YTD Departures: 19

YTD Net Headcount Growth: 41

Open Positions as of 7/31/19

Job	Department	Anticipated Start date
Regional Sales Director- CA	Sales	September
Regional Consultant Liaison	Sales	October
Sales Engineer- France & Spain	Sales	November
Sales Development Representative II	Sales	August
Sales Engineer- Mid Atlantic	Sales	November
Regional Channel Manager - France & Spain	Channel Development	September
Regional Channel Manager - Germany	Channel Development	October
Sr. QA Engineer	Engineering/Product	September
Sr. Automation Engineer	Engineering/Product	October
Fullstack Engineer	Engineering/Product	September
Product/ UX Designer	Engineering/Product	October
Senior Software Engineer- RUST	Engineering/Product	October
Senior Software Engineer- RUST	Engineering/Product	October
Business Analyst	Marketing	October
Product Trainer	Marketing	October
Technical Content Manager	Marketing	October
Talent Acquisition Coordinator	Operations	August
HR Generalist	Operations	August
Network Engineer	Operations	October
VP Customer Operations	Operations	October
Technical Support Engineer- EMEA	Operations	November

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Monthly Operating Review Meeting Agenda

⊙→ Executive Summary

⊙→ **Financial Review**

⊙→ Governance Reporting

⊙→ Appendix

Summary P&L Through July 2019

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$'000	MTD		Variance		PY MTD	Variance		YTD		Var		PY YTD	Variance	
	Act	Bud	$	%	Act	$	%	Act	Bud	$	%	Act	$	%
Gross Revenue	$ 3,800	$ 3,649	$ 151	4.1%	$ 2,575	$ 1,225	47.6%	$ 22,161	$20,704	$ 1,457	7.0%	$ 14,986	$ 7,175	47.9%
Adj. to Gross Revenue	(48)	–	(48)	N/A	(33)	(15)	46.8%	(111)	–	(111)	N/A	(82)	(29)	35.7%
Net Revenue	3,753	3,649	104	2.8%	2,542	1,210	47.6%	22,051	20,704	1,346	6.5%	14,904	7,146	47.9%
Material	1,085	909	176	19.4%	550	535	97.2%	5,441	4,622	819	17.7%	3,059	2,382	77.8%
Labor	74	64	10	15.8%	45	29	65.5%	463	411	52	12.7%	270	193	71.7%
Total COGS	1,159	973	186	19.2%	595	564	94.8%	5,904	5,032	871	17.3%	3,329	2,575	77.3%
Gross Margin	2,594	2,676	(83)	(3.1%)	1,948	646	33.2%	16,147	15,672	475	3.0%	11,576	4,571	39.5%
Gross Margin %	*69.1%*	*73.3%*			*76.6%*			*73.2%*	*75.7%*			*77.7%*		
R&D	563	631	(68)	(10.8%)	383	180	47.0%	3,726	3,858	(132)	(3.4%)	2,224	1,502	67.6%
Sales & Marketing	1,262	1,282	(19)	(1.5%)	600	662	110.3%	7,492	8,091	(599)	(7.4%)	3,967	3,525	88.9%
Administrative	584	617	(33)	(5.3%)	634	(50)	(7.9%)	4,119	4,302	(183)	(4.2%)	2,462	1,657	67.3%
Other Opex	–	14	(14)	(100.0%)	–	–	N/A	–	70	(70)	(100.0%)	–	–	N/A
Total Opex	2,409	2,543	(134)	(5.3%)	1,617	792	49.0%	15,337	16,321	(984)	(6.0%)	8,653	6,684	77.2%
EBITDA	184	133	51	38.5%	330	(146)	(44.2%)	810	(649)	1,459	(224.7%)	2,922	(2,113)	(72.3%)
EBITDA %	*4.9%*	*3.6%*			*13.0%*			*3.7%*	*(3.1%)*			*19.6%*		
Net Income (Loss)	$ (589)	$ (285)	$ (304)	106.7%	$ (18)	$ (571)	3159.8%	$ (2,325)	$ (3,566)	$ 1,241	(34.8%)	$ 509	$ (2,834)	(556.3%)
Capex	$ (196)	$ (20)	$ (176)	879.8%	$ (12)	$ (184)	1603.0%	$ (481)	$ (297)	$ (184)	61.9%	$ (127)	$ (354)	277.8%

Management Discussion

- Invoiced sales were $4.9m compared to target of $4.0m, including $921k of solstice subscription invoice sales recorded. Bookings were $4.8m, resulting in backlog of $164k at month end. Gen 3 comprised 70% of the total invoiced hardware sales during July at $2.6m. YTD invoiced sales were $26.6m compared to budget of $22.8m.

- MTD invoiced sales mix by region: Americas 73% actual vs 75% budget, EMEA 21% actual vs 20% budget, APAC 6% actual vs 6% budget. YTD invoiced sales mix by region: Americas 79% actual vs 76% budget, EMEA 14% actual vs 18% budget, APAC 7% actual vs 5% budget.

- MTD revenue of $3.8m includes approximately $3.1m of pod revenue and $664k of deferred solstice subscription revenue from prior months amortized into net revenue. Pod revenue of $3.1m is 111% of budget of $2.8m for the month. YTD revenue outperformance to plan largely driven by Pod sales and Solstice subscription renewals. Appr. $540K of the positive variance in YTD revenue & GAAP EBITDA is due to changing revenue allocation related to ASC606 following completion of AOP.

- Units shipped for the month were 4,888 vs budget of 4,224 and overall invoiced ASP was $781 vs the budget of $775. ASP overperformance to budget driven by the Americas and APAC region, with Americas at $829 invoiced ASP vs $811 budgeted and APAC at $642 invoiced ASP vs $618 budgeted. EMEA ($689 vs $706) invoiced ASP was down versus budget.

- Renewal solstice subscription licenses sold MTD were 3,114 compared to target of 1,945 resulting in invoiced sales of $534k compared to budget of $282k. YTD renewal invoiced sales of $2.9m is $1.1m above budget of $1.8m. Increased focus by Inside Sales on co-term deals are having significant impact on outperformance.

- Upfront solstice subscription licenses sold MTD were 1,431 compared to target of 1,635 resulting in invoiced sales of $387k compared to budget of $368k. Upfront attached rate was 29% compared to a budgeted attach rate of 40%. YTD upfront invoiced sales of $2.0m is $119k below budget of $2.1m.

- Gross Margin % slightly down vs prior month due to 1) higher mix of distributor sales and 2) higher mix of Gen 3 sales. YTD GP % remains below budget due to higher than budgeted Kepler and Labor costs.

- MTD S&M OpEx under budget due to unbudgeted deferred commissions related to ASC606. Normalized, total MTD S&M Opex was over budget by $28k. YTD S&M Opex, normalized for deferred commissions, is $303k below budget rather than the $599K presented above. This is because $296K of commission expense has been reclassed to the BS per ASC606. Total YTD OpEx remains below budget primarily due to being behind on hiring plan.

- YTD GAAP EBITDA positive variance, normalized for ASC606 adjustments noted above totaling $836K, is closer to $623K rather than the $1.5M presented above.

- Capex was higher than expected due to timing of IT additions relative to budgeted dollars.

Balance Sheet

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$'000	Dec-18 Act	Apr-19 Act	May-19 Act	Jun-19 Act	Jul-19 Act	Jul-19 Bud	Variance $
Current Assets							
Cash and cash equivalents	$ 5,777	$ 3,800	$ 3,684	$ 4,661	$ 6,485	$ 3,272	$ 3,213
Short term investments	–	–	–	–	–	–	–
Accounts receivable, gross	5,113	5,940	6,816	7,879	7,635	5,889	1,746
Accounts receivable, reserves	(82)	(74)	(74)	(105)	(105)	(59)	(46)
Accounts receivable, net	5,031	5,865	6,742	7,774	7,531	5,830	1,701
Inventory, net	1,390	3,448	2,596	2,104	1,797	2,410	(613)
Prepaid expenses and other current assets	1,105	2,100	1,850	1,638	2,324	1,219	1,105
Total Current Assets	**13,304**	**15,213**	**14,872**	**16,177**	**18,137**	**12,731**	**5,406**
Non-Current Assets							
Property, plant & equipment, gross	908	1,134	1,166	1,193	1,389	1,208	181
Accumulated depreciation	(216)	(321)	(334)	(358)	(386)	(115)	(271)
Property, plant & equipment, net	692	813	832	835	1,003	1,093	(90)
Goodwill	20,675	20,675	20,675	20,675	20,675	20,675	(0)
Identifiable intangible assets, net	6,711	5,643	5,371	5,160	4,886	4,661	225
Deferred tax asset	6,488	6,488	6,488	6,488	7,467	6,689	778
Other non-current assets	214	334	407	573	621	275	346
Total Non-Current Assets	**34,780**	**33,952**	**33,772**	**33,731**	**34,651**	**33,393**	**1,258**
Total Assets	**$ 48,084**	**$ 49,165**	**$ 48,644**	**$ 49,907**	**$ 52,788**	**$ 46,124**	**$ 6,664**
Current Liabilities							
Notes payable	3,500	3,500	3,500	3,500	3,500	3,500	–
Accounts payable	900	2,370	649	859	2,042	863	1,179
Accrued liabilities	(243)	251	381	310	349	177	172
Accrued compensation	1,941	1,321	1,534	1,504	1,535	1,572	(37)
Income taxes payable	694	694	694	694	2,000	67	1,933
Other current liabilities	70	338	374	422	370	234	137
Total Current Liabilities	**6,861**	**8,473**	**7,132**	**7,289**	**9,797**	**6,413**	**3,384**
Long-term liabilities							
Long-term unearned revenue	5,863	7,244	8,055	8,970	9,924	8,989	935
Deferred liabilities	154	151	163	178	186	188	(2)
Total Long-Term Liabilities	**6,017**	**7,394**	**8,218**	**9,148**	**10,110**	**9,178**	**933**
Total Liabilities	**12,878**	**15,868**	**15,351**	**16,437**	**19,908**	**15,591**	**4,317**
Shareholders' Equity							
Total Shareholders' Equity	**35,206**	**33,298**	**33,293**	**33,470**	**32,880**	**30,533**	**2,347**
Total Liabilities and Shareholders' Equity	**$ 48,084**	**$ 49,165**	**$ 48,644**	**$ 49,907**	**$ 52,788**	**$ 46,124**	**$ 6,664**

Management Discussion

- Cash increased month over month primarily driven by timing of Inforce invoices related to inventory and accounts payables (see below and CFS) and continued strong AR collections and invoicing. While we are showing a strong cash position, we are expecting significant tax obligations in Q3 and Q4 based on continued strong invoice sales, and fully utilizing prior year tax payments to offset current year obligations YTD. We recently accrued $2M for Q3 and perhaps Q419.

- AR is higher than budget due to invoiced sales being ahead of budget.

- Inventory 'days outstanding' at 48 vs budget of 77 due primarily to a production hold causing delay in Gen3 supply chain. This has been rectified and inventory will return to normal levels in August at a targeted 63-day supply. Total ending inventory balance: Gen 2i – 2,908 pods, Gen 3 - 5,192 pods.

- Deferred tax asset increased due to our income tax accrual per below.

- Prepaid and OCA balances are higher than expected due to receivable from landlord, trade show prepaids, supplier deposits, and additional prepaids from various vendors.

- AP 'days payable outstanding' at 55 vs budget of 28. Dollar increase to budget largely due to timing of inventory bills.

- Income taxes payable was larger than expected due to accrued estimate for State & Federal tax liability for expected Q3 tax obligations that will be due in Sept 2019.

- Deferred revenue is above budget primarily due to strong invoice sales exceeding budget (Free Year Subscription).

Cash Flow Statement

$'000	MTD Act	MTD Bud	Var $	PY-MTD Act	Var $	YTD Act	YTD Bud	Var $	PY YTD Act	Var $
Cash flow from operations										
Net Income (Loss)	$ (589)	$ (285)	$ (304)	$ (18)	$ (571)	$ (2,325)	$ (3,566)	$ 1,241	$ 509	$ (2,834)
Depreciation, amortization and other	311	289	22	277	35	2,117	2,003	114	1,909	208
Deferred income tax	(980)	(42)	(938)	–	(980)	(980)	(201)	(778)	–	(980)
Change in operating assets and liabilities:										
Accounts receivable	244	(550)	794	(234)	478	(2,499)	(851)	(1,648)	(1,729)	(770)
Inventory	306	219	87	(229)	535	(407)	(1,020)	613	(1,106)	699
Prepaid expenses and other current assets	(686)	8	(694)	(79)	(607)	(1,219)	621	(1,840)	85	(1,304)
Accounts payable	1,183	156	1,027	(365)	1,548	1,143	209	934	640	503
Accrued expenses	70	24	46	207	(137)	187	(239)	426	259	(72)
Accrued income taxes	1,306	67	1,239	–	1,306	1,306	(627)	1,933	–	1,306
Other changes in operating assets and liabilities	962	356	607	445	518	4,094	2,130	1,964	2,628	1,465
Other cash flow from operations	(103)	(4)	(99)	(24)	(79)	(110)	(626)	516	38	(149)
Total Cash Flow from Operations	**$ 2,025**	**$ 238**	**$ 1,787**	**$ (21)**	**$ 2,046**	**$ 1,307**	**$ (2,168)**	**$ 3,475**	**$ 3,233**	**$ (1,926)**
Cash flow from investing										
Additions to property, plant and equipment	$ (196)	$ (20)	$ (176)	$ (12)	$ (184)	$ (481)	$ (297)	$ (184)	$ (127)	$ (354)
Investment in intangibles	(5)	–	(5)	396	(402)	(118)	(40)	(78)	263	(381)
Total Cash Flow from Investing	**$ (201)**	**$ (20)**	**$ (181)**	**$ 385**	**$ (586)**	**$ (600)**	**$ (337)**	**$ (262)**	**$ 135**	**$ (735)**
Cash flow from financing										
Total Cash Flow from Financing	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**
	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Net change in cash	**$ 1,824**	**218**	**$ 1,606**	**$ 364**	**$ 1,460**	**$ 707**	**$ (2,505)**	**$ 3,212**	**$ 3,368**	**$ (2,661)**
Beginning cash	4,661	3,054	1,606	5,480	(819)	5,777	5,777	–	2,476	3,301
Change in cash	1,824	218	1,606	364	1,460	707	(2,505)	3,212	3,368	(2,661)
Ending cash	**$ 6,485**	**$ 3,272**	**$ 3,212**	**$ 5,844**	**$ 640**	**$ 6,485**	**$ 3,272**	**$ 3,212**	**$ 5,844**	**$ 640**

Management Discussion

- Cash is increased primarily driven by strong sales performance, by increased accounts payables, income taxes payable, and deferred revenue. As laid out in the budget, we expect cash to 'trough' in Q3 as a fully ramped sales team coupled with efficiently managed working capital push cash to a consistent upward trend.

- Cash conversion' at 56 days vs budget of 99.

- Large variance in AR and deferred revenue vs target is primarily driven by invoiced sales exceeding budget (Jul was $921k above budget, YTD $3.8m above budget).

- Cash from changes in Inventory has exceeded both MTD and YTD as strong demand for Gen 3 and inventory delays have reduced days inventory outstanding vs budget expectations.

- AP variance to budget is due to timing of inventory bills.

- YTD Prepaids variance is driven by higher than expected receivable from landlord, trade show prepaids, and additional prepaids from various vendors

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:	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:	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

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→ **Appendix**

YTD Opex Analysis

$'000

	YTD			Explanation of Variance				Variance Impact		
	Act	Bud	Variance B / (W)	One-Time / Non-recurring	Timing	Change in Run-rate	Other	Total Variance B / (W)	YoY Impact B / (W)	Annualized Impact B / (W)
Payroll	$ 7,685	$ 8,473	$ (788)	$ –	$ (788)	$ –	$ –	$ (788)	$ –	$ –
Benefits	1,027	1,159	(131)	$ –	$ (131)	–	–	(131)	–	–
Bonus	856	1,019	(163)	$ –	$ (163)	–	–	(163)	–	–
Commissions	822	921	(99)	–	(99)	–	–	(99)	–	–
Marketing	1,443	1,482	(39)	–	(39)	–	–	(39)	–	–
Travel and Entertainment	898	932	(33)	–	(33)	–	–	(33)	–	–
Rent and Facilities	827	544	283	–	–	283	–	283	283	283
Insurance	34	29	5	–	5	–	–	5	–	–
Professional Fees	539	458	80	–	–	80	–	80	80	80
Utl., Repair, Maint., & Sec.	176	247	(71)	–	(71)	–	–	(71)	–	–
Office Expense	127	28	99	–	–	99	–	99	99	99
IT	778	910	(132)	–	(132)	–	–	(132)	–	–
Other Expenses	125	120	5	–	5	–	–	5	–	–
Total Opex	**$15,337**	**$16,321**	**$ (984)**	**$ –**	**$(1,446)**	**$ 462**	**$ –**	**$ (984)**	**$ 462**	**$ 462**

Management Discussion

- Payroll is under budget due to employee turnover and being behind plan on a $ basis. Budgeted employee headcount was 145 versus actual of 149 as of July-19.
- Commissions, normalized for 606 adjustments, are $197k above budget.
- Rent is over budget primarily due to increased CAM, addition of 180 (vs budget start date of 9/1), and higher than expected monthly parking cost.
- Professional Fees are over budget due to 1) higher than expected recruiting costs and 2) additional consulting hours related to systems improvements.
- Office expenses are largely due to unbudgeted dollars. Monthly trend has been consistent.
- IT is under budget due to timing of data related IT projects.

Operating Expenses Summary

$'000	MTD		Variance		PY MTD	Variance		YTD		Var		PY YTD	Variance	
	Act	Bud	$	%	Act	$	%	Act	Bud	$	%	Act	$	%
Opex Overview:														
Payroll	$ 1,220	$ 1,359	$ (140)	(10.3%)	$ 711	$ 509	71.6%	$ 7,685	$ 8,473	$ (788)	(9.3%)	$ 3,990	$ 3,695	92.6%
Overtime	–	–	–	N/A	–	–	N/A	–	–	–	N/A	–	–	N/A
Benefits	142	179	(38)	(21.0%)	144	(3)	(1.9%)	1,027	1,159	(131)	(11.3%)	800	227	28.4%
Bonus	145	160	(15)	(9.2%)	218	(73)	(33.6%)	856	1,019	(163)	(16.0%)	492	363	73.8%
Commissions	168	186	(17)	(9.4%)	121	47	38.9%	822	921	(99)	(10.7%)	726	96	13.2%
Marketing	192	208	(16)	(7.6%)	75	117	155.7%	1,443	1,482	(39)	(2.6%)	830	613	73.8%
Travel and Entertainment	146	125	21	16.8%	45	101	227.4%	898	932	(33)	(3.6%)	357	541	151.5%
Rent and Facilities	160	78	82	105.6%	81	78	96.1%	827	544	283	52.1%	421	406	96.6%
Insurance	5	4	1	32.0%	7	(1)	(18.9%)	34	29	5	17.1%	31	3	10.1%
Professional Fees	41	61	(20)	(33.4%)	74	(33)	(44.7%)	539	458	80	17.6%	383	156	40.8%
Utl., Repair, Maint., & Sec.	29	36	(7)	(19.7%)	17	12	67.8%	176	247	(71)	(28.7%)	143	33	23.0%
Office Expenses	24	4	20	500.3%	58	(34)	(58.4%)	127	28	99	352.5%	189	(63)	(33.1%)
IT	123	127	(4)	(2.8%)	37	86	231.1%	778	910	(132)	(14.5%)	143	634	442.3%
Other Expenses	15	17	(2)	(13.2%)	9	6	69.4%	125	120	5	4.3%	130	(4)	(3.3%)
Total Opex	$ 2,409	$ 2,543	$ (134)	(5.3%)	$ 1,617	$ 792	49.0%	$ 15,337	$16,321	$ (984)	(6.0%)	$ 8,653	$ 6,684	77.2%

Management Discussion

- Please see previous slide on expense analysis.

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Operating Expenses Summary

OPEX by Department

Legend: Research & Development, General & Administrative, Marketing, Sales
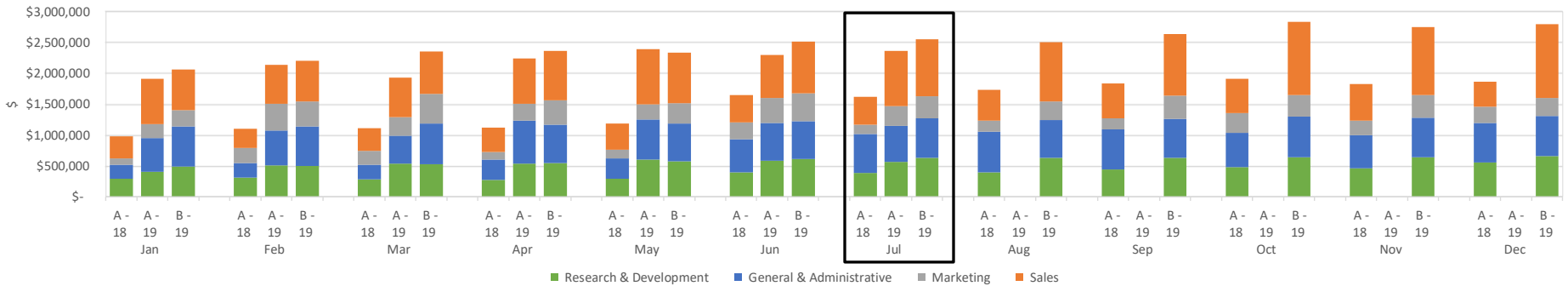
Management Discussion

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

AR and AP Aging Detail

$'000

AR Aging					
Days		May-19		Jun-19		Jul-19
0-30	$	5,612	$	6,878	$	6,433
30-60		742		605		744
60-90		311		288		194
>90		151		108		264
Total Gross AR	$	6,816	$	7,879	$	7,635
Reserves		(74)		(105)		(105)
Total Net AR	$	6,742	$	7,774	$	7,531

AP Aging					
Days		May-19		Jun-19		Jul-19
0-30	$	380	$	728	$	686
30-60		141		2		1,240
60-90		58		27		3
>90		71		103		114
Total	$	649	$	859	$	2,042

Management Discussion

- AR decreased due to increased collections. Increase in past due balances was due to WeWork (55K), Getronics (106K), and Twisted Pairs (109K) overdue balances. Twisted Pair made a 90K payment in August.

- Increase in >30 AP is due to timing of inventory and deposit payments to Inforce for Q3 inventory production. We have held off paying pending correction of production delays and getting current with shipments.

2018-2019 Net New Growth

Total NN Accounts

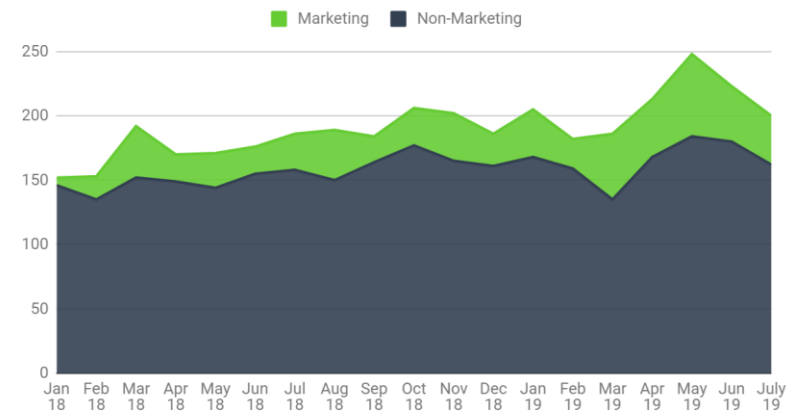- 1,457 YTD (21% YoY growth)
- Avg first month revenue = $2820

Marketing-touched NN Accounts

- 301 YTD (87% YoY growth)
- 21% mix of Total NN (14% in 2018)
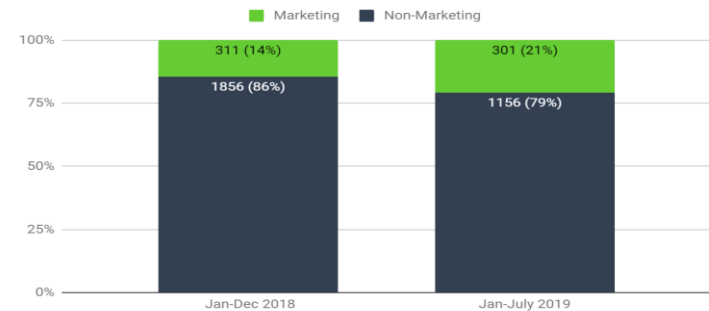- Avg first month revenue = $4454

Non-Marketing-touched NN Accounts

- 1,156 YTD (11% YoY growth)
- 79% mix of Total NN (86% in 2018)
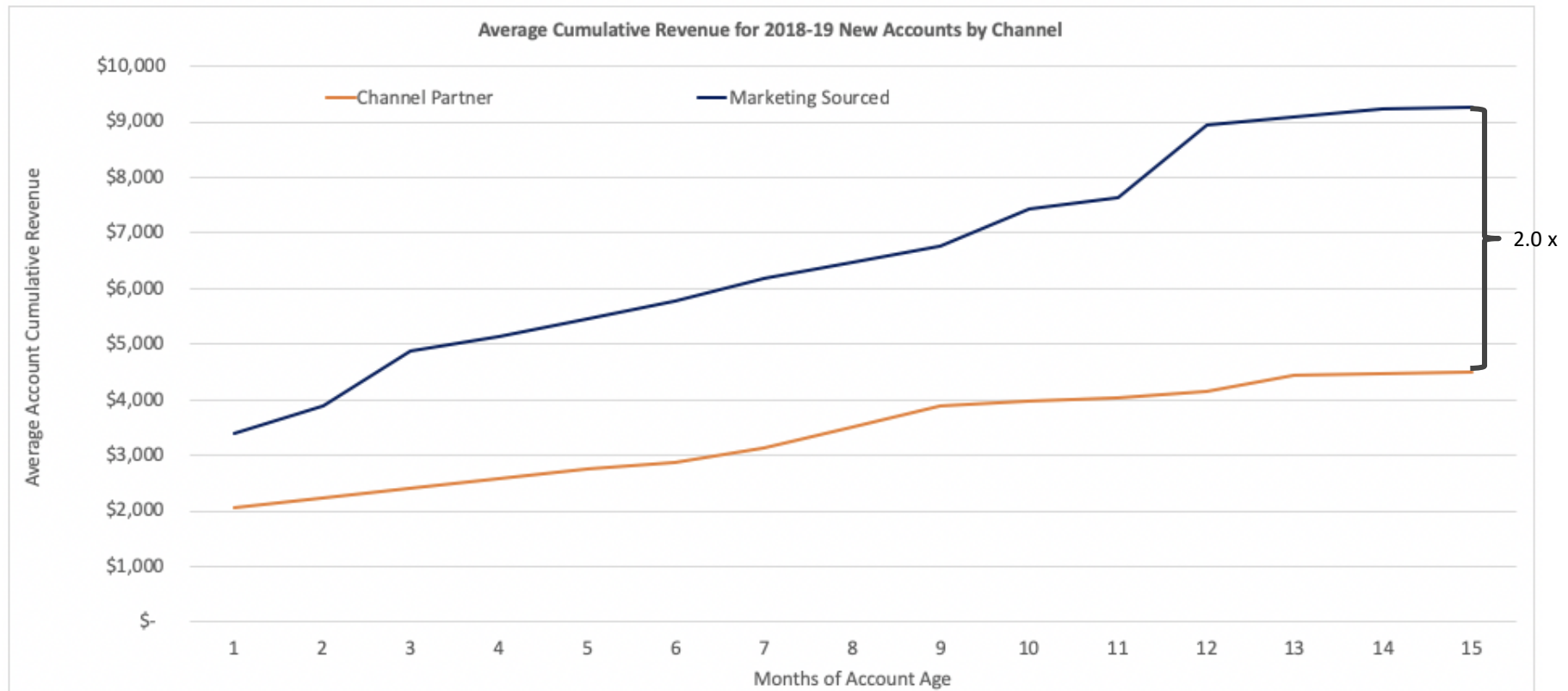- Avg first month revenue = $2395

NN Account Growth

Attribution % of Total NN Accounts

Average Cumulative Revenue per Account

NN accounts that engage with marketing in some fashion prior to their first purchase tend to buy significantly more initially and over their lifetime.

Average Cumulative Revenue for 2018-19 New Accounts by Channel

Cost Effectiveness by Marketing Channel

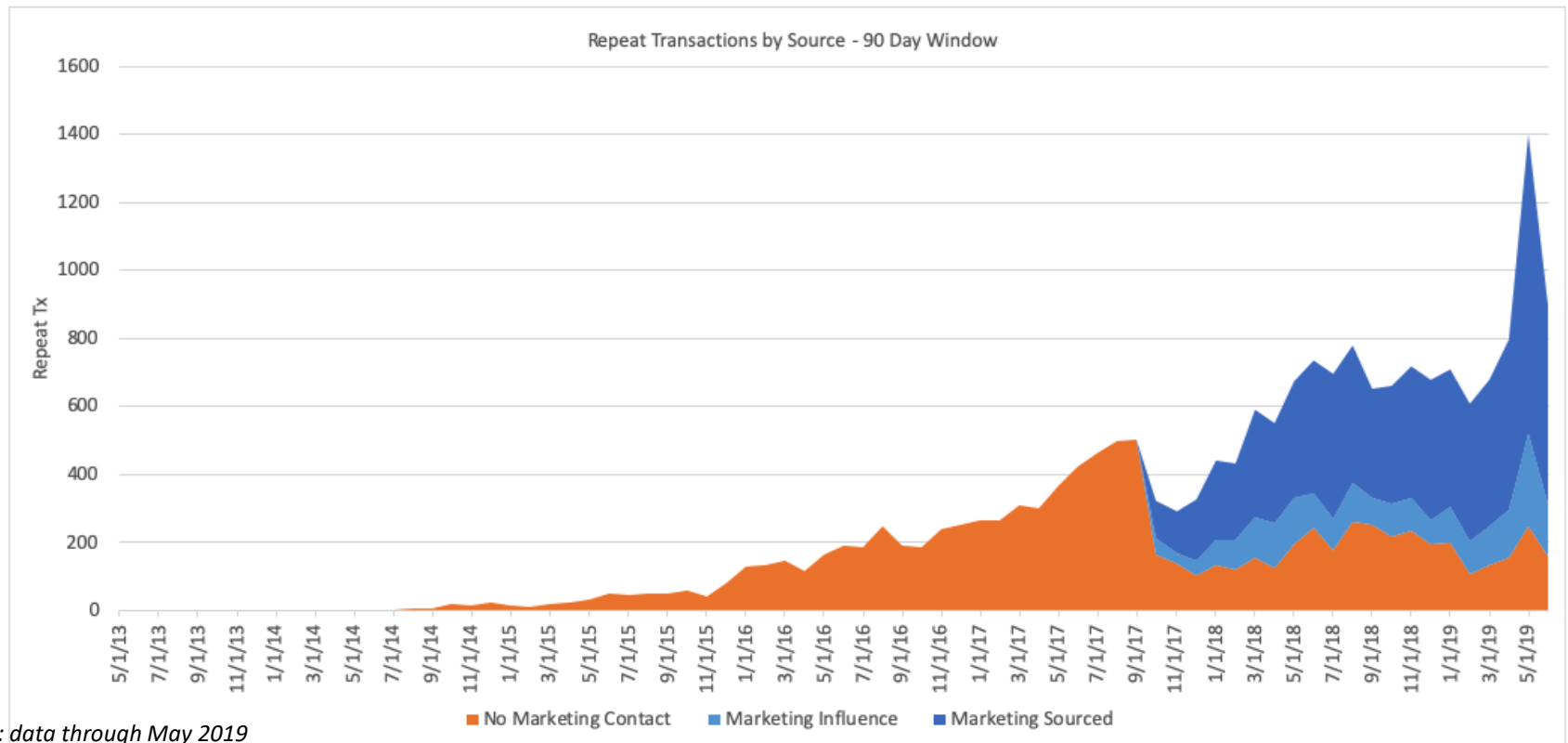| Channel	NN Accounts[1]	Estimated[2] Marginal Expense	Estimated Marginal CAC
SEO	202	$54,600	$270
Digital Ads	69	$149,374	$2,171
Other Digital	5	$84,607	$16,921
Field Mktg	25	$298,334	$11,933
TOTAL	301	$586,916	$1,950

Summary

- SEO is both the highest volume and least costly source of NN accounts; however it requires the longest lead time

- Digital Advertising continues to be an effective / efficient acquisition vehicle and has the benefit of the shortest lead time

- Other Digital (ie, trade publications and analysts) is inefficient; spend has been cut significantly in this area

- Field marketing appears inefficient but is likely overstated due to a lack of granularity that would allocate some of the expense to sales related activities (eg, sales meetings held at events)

[1] *Statistically allocated based on regression model*
[2] *Not validated by Accounting; marginal = fixed costs have not been allocated*

Repeat Orders Breakdown (ie, after first order)

Marketing touches increase with repeat orders / order size increases.

Repeat Transactions by Source - 90 Day Window

Legend: No Marketing Contact · Marketing Influence · Marketing Sourced

Source: data through May 2019