The Constant Investor

The opposite to Google: Knosys

Alan Kohler February 5, 2018

John Thompson is the CEO of Knosys. Knosys floated in 2015 and was around for a couple of years before that. It famously signed ANZ as its first customer and basically it hasn't been doing much since then. It signed CITIC Telecom in Singapore, 2016, nothing really came of that. It negotiated with Citi and nothing really came of that. Finally in January, they announced that they've actually done a deal now with SingTel and Optus in Singapore and Australia for $6 million, and the share price promptly tripled, or more than tripled, from 5 cents to 18 cents.

They're now capitalised at $14 million. The technology is basically a sort of an operating system for employees in the company that pulls together all of the different sets of information that a big company like ANZ or SingTel has sitting in various sorts of software within the company. Company's always have a dozen different sorts of software running their business. Knosys brings that all together in the one screen for the employees so that it all comes together.

It's an interesting thing and it certainly seems to have validated for the first time really, their system and that they might be able to make some sales by selling it to SingTel and the market's very interested in that. John Thompson reckons that they're close to breakeven, but as point out to him, I reckon the closer they get to breakeven, the further it gets away because he's going to want to invest in sales and to go for growth now that the share price is up and they've started to get some

traction. Investors should not come into this company expecting to make profits in the short term, that's for sure.

But it's an interesting business, interesting technology and worth a listen to **John Thompson, the CEO of Knosys**.

You've just announced a deal with SingTel and Optus, tell us about that deal, what does it mean?
Look, for us it's been a fantastic result. It commenced about June last year when the parties went out to the market to look for a replacement system for their existing platforms and technology in the space. It was a closed tender process whereby they evaluated parties and then shortlisted down and then ran through the traditional tender process, which took about three months to get to a sort of preferred vendor position. That took us up to around that September period and then we had a number of months of contract negotiations.

It was a relatively short period, six months for such a large project, not bad. But for us it's been significant because firstly we were able to secure the contract against a number of global players, global software vendors, major players in the…

John, were those other outfits that you were bidding against, were they selling the same sort of thing that you are?
They sell technologies which can ultimately do the same. One was a very strong CRN vendor, whose platform originally started out as that its focus, but includes a knowledge base as part of that offering. The other was a direct competitive product in terms of a knowledge and information management solution. There is a mixture of direct competitors and then some which are bolt-on to their main products.

And did you win on price?
We won on three things, apparently. One was technology assessment, our platform was deemed to be more flexible and considered more of a corporate platform that could go horizontally across their entire business as opposed to just particular

business units in it. The second aspect was the people. They believed that they could work with us in their team better than they could some of the other respondents. Then third was price, we were very strong in the pricing side of things.

The price announced was $6.1 million and the term was five years for SingTel in Singapore I think and three years for Optus in Australia. So in terms of figuring out how much cash it all means per annum, do we just divide that $6 million by eight?
It'd be nice if we could do it that simply, it's actually a bit more complex. Basically, out of that $6m, you're probably looking somewhere in the order of $1 million for professional services and implementation that will occur in the first four to six months of the lifecycle of the project. Then we go into, fundamentally, the recurring revenue side of it, which is comprised of three elements. One is licencing per user; second is actually hosting the platform in the cloud in…; and the third element of that recurring revenue is us managing the platform for them, so we offer it as a true SAS offering to them and deliver it into their businesses for them.

If you look at that you're probably looking at, once the initial deployment goes out you're looking at somewhere in the order of a $1 to $1.2 million a year in its recurring revenue. Very significant for our business, as you would expect, from where we were, and really pushes the business, gets it more towards that breakeven profitability stage.

Well indeed, I think you're burning $2 million cash a year at the moment, is that roughly right?
That's about right, yeah. It was $2.5m.

So you need another one of these?
Well, we also currently get somewhere in the order of over $1 million now from existing customers such as ANZ, the OPP, we signed up SBS Bank. So in terms of our recurring revenue, we are pushing more towards over $2 million – $2.5 million in recurring revenue as of June 30.

You probably better tell us what your platform does. As I understand it, it brings together or overlays for employees taken out of a variety of different softwares and solutions that the company has?
Yes, back in 2015 when the business floated, that certainly was the primary selling point. What we saw – and I wasn't with the business at that time as you're well aware, but during the 12 months after float, being out in the marketplace, talking to a much broader array of customers, what was found is that there are other aspects that the broader customer base were also looking for beyond that ability to tap into existing information repositories. Basically, what we've seen over the past two

years, massive content explosion. Businesses are generating content at a phenomenal rate, one figure I saw was something like well over 4 billion articles or content created daily throughout the world.

What we're seeing happening – and it's really started to ramp up because of the digital age mobility coming into space – is content explosion, the information siloed and organisations struggling where – how do we manage it? It's great that people can google things, but googling things bring back a thousand hits and then it's up to the individual to say what's good and what's bad, and what we're finding is businesses, particularly businesses that are in highly regulated markets or in areas where the information is changing frequently, want to present to their employees and to their end customers, information which is said to be correct and represents the brand, represents the company.

We see ourselves as the opposite to Google, we're trying to minimise people searching and our platform is all about actually based upon a person's role, based upon what they're looking at, how often they spend with certain areas of the information. We actually dynamically update the presentation to them, so we reduce their need to search. We actually try to predict what they need to do their job day to day. That's the real key that we've found over the last 12 months. People are looking for more of that predictive reducing search and having an element of compliance and governance.

There was a real trend when we floated towards collaboration based systems and particularly in the US. What they found was that's great for people who in the business collaborate, but they lost control of, was that information correct? Was the advice being given by a person appropriate? What we've added in the last 12 months – and we've really taken the technology along – is we've added things such as the system looks at trends within information usage, who created articles or who's been working on particular areas of the business.

We set them up, it identifies them as experts. So if you were to suddenly come along and you hop onto your system and for example, you may be interest in – what's the latest on checking the identity of someone calling in? The system will look at that and it will actually tell you and recommend people who just looked at that and have actually gone through that work and you can then – internally it will hook them up through instant messages, Skype for example, and you can have a chat with that person if you want to. But behind that, the information that all of them are using is very controlled and published and authored, so that you know it's correct. It's all about productivity improvement…

So are you presenting Knosys as an alternative to Google in some way?
Actually I phrase it that we're the opposite. From an internal business usage, we are the opposite to Google, where we don't want employees to search, a good

business should be able to present employees with the right information and reduce search. But if they do have to search, we'll only present them with the things that are validated by the business, that says, 'Yes, this is okay material for you to consume.' We try to stop them going out to the world-wide web, as it were, and to look up at what is validated information within my business.

But presumably your customers, say SingTel, can't stop the employees searching on Google. How does it actually work? You know, when the employee logs onto their screens, what do they get? Do they get the ability to have a Google search or you just get Knosys?
You just get Knosys, fundamentally. Knosys is the screen or the application that they work with daily, as such. They can certainly go into their browser and go googling if they wish, but in terms of their business activity they have to use the presentation provided by Knosys as such.

I mean, your first customer was ANZ, way before you joined the company back in – Knosys signed up ANZ in 2014. But I mean obviously the share price went up a fair bit after it was floated in 2015, but it's been sinking ever since. Obviously, there was not a lot of excitement about that, about the ANZ contract. Then you signed or at least announced signing CITIC Telecom, that was just a month before you joined, I think, in 2016. The share price kept sinking and all of a sudden the deal with SingTel is announced and bang, it triples. So what's changed? What's different?
I think what's different there is – and you see this in a number of technology stocks – sometimes companies can get lucky, you can get one contract. The real substance and one of the reasons I was actually brought into the business is, you need to be able to repeat it, you need to be able to demonstrate that you can capture more customers as such. The market I believe has really been waiting for the business to demonstrate that whilst it's great to have the foundation customer, which in this case was ANZ, are you able to pull it in from new customers in either the same industry or different industries to show that people want the technology or are interested in it.

The company was very young when it floated and it's taken a bit of time for it to establish its market presence, its credentials… And I think now the spike in the price is really a reflection of people saying, 'Well, they have delivered. It may have taken them longer than they originally planned but obviously these organisations aren't going to invest in a small company if they don't think the technology is certainly competitive, if not, very good. ' So that's what I think, and also it brings us towards going from losses, being into a position now where we're towards that breakeven. You're doing those steps of a growing company, you know?

Do you know what the other big four banks are doing? Like Westpac, NAB and CBA? Are they using a competitor or not doing anything along the lines that you're providing ANZ?
The other banks have systems or platforms that do similar – some of them are multiple platforms but two of the banks we're aware of have developed something internally some years ago, as such. They have solutions they work around, but certainly we see them as being potentials for us. I think that's one of the things that we tried to change our strategy a little bit is, we had a very big focus on the top end of town and the top end of town longer sale cycles as we all know. What we've changed over the past 12 months is also looking at mid-tier as well as the enterprise sized customers.

It sounds like you're equally competing against internal IT departments as opposed to…?
Yeah, that's right. Sometimes you do in some of these larger establishments, as such. But we are very confident, our product does things out of the boxes. A lot of the other solutions that these groups have put in, they've invested millions to customise them or develop them per se. That's a big investment for them. We understand they need to get a return on their investment, but when they come looking to the market they're going to see Knosys is there and Knosys is designed specifically for their industry and for their size operation and we think we'll be very well placed in a…

So what happened to CITIC? I mean, the last announcement I've seen was June 2016, which said you've moved into commercial negotiations for a stage rollout with CITIC Telecom Singapore, but nothing since. What's going on there?
When I came in we put in place a pilot with CITIC, a proof of concept. That proof of concept is still in operation, but at this stage we haven't had an indication from them for a broader rollout, which obviously was the expectations of the people within the business at that point in time. My view at the moment is with the announcement of the SingTel contract that we're now in a very good position to at least go back to them and say, 'Look, you've had the proof of concept, it's gone well for you, let's talk about do you wish to go for a broader deployment?'

They've been running a sort of proof of concept for what, 18 months now or something have they?
Yes, that is correct.

But presumably as a customer they've gone cold?
Look, we haven't had a requirement to spend a lot of time with them. Whilst they've been operating the proof of concept, we've been focused more upon companies where we think we can actually get a commercial outcome in the short term. Because obviously that's with the stock price and what our investors wanted

as such. Like everything, you have opportunities which take a period of time. 24 months sometimes seems long but that's how some of them work out. But we're more focused on those where we get an outcome in 6 to 12 months, is our target.

What does your pipeline look like?
Pipeline looks good at the moment. Once again, we've got a good mixture of large opportunities, in similar scale to what we've managed to accomplish with SingTel and Optus. And we've also got, which we're quite excited about, is mid-tier opportunities as well. So we've got a good mix of it at the moment that we think will deliver some more outcomes over the next 3 to 6 months is our target for that. Having said that, obviously our focus is to make sure that these two new customers are serviced well and that deliveries go as planned, because there's nothing better than having a very satisfied customer. We're very focused on them but we continue to look at other sales as we sit here.

You finished the 2017 year with $1.7 million cash in the bank. What are you actually burning right now and will you need to raise any more money?
The burn rate at the moment is probably – we're doing probably about $700,000 a quarter, so you're looking at in the $200,000's a month per se as our burn rate. As we sit here today we are looking at – we have a convertible note which is due in May, towards the end of May.

How much is that for?
That's for initially $1.6m and then there's interest accrued on that, so it probably takes it up to about $1.8m or thereabouts. But, as we sit here there's also obviously a lot of interest. We're fielding a lot of queries on conversion of those convertible notes into equity, which brings in obviously cash into the business as such. At the moment we're just really waiting to see over the next month or so, what happens with the note holders and also it depends on where the board wants to take the business. We can continue in a very similar model to where we are at the moment and maximise our earnings and profitability. The board may decide to look at, well do we want to accelerate some of our growth plans further into South East Asia and maybe the US, start having a look?

A lot of it will depend upon the long term plans the board comes up with and that will affect cash, and that obviously will affect do we wish to raise some additional funds as growth capital for the business?

I'm fully expecting you to do that, John. I reckon you're going to put to the board that we need to hire some more salespeople and really go for it, that's what you'll say.
That's very intuitive of you, it is. Yes, and look, I think that's what we'll do. I mean, we've taken the small steps, we got off to a slow start. We've now started to get some traction again which is great. We wanted to build up some confidence

with the investor base as well, but I think that the next stage was looking at the growth. We're close to breakeven, or will be breakeven depending on what we do, if we want to be, but we need to invest for growth going forward as well. Because ultimately, as a listed technology company we need to be and we want to be a lot bigger than we are today.

I'd say, just as a guess, the closer you get to breakeven, the further away it's going to be. [Laughs]
[Laughs] It's a double-edged sword, I totally agree with you there. But maybe not as much – we want to show progress, that's the main thing. We want to bring the investors along with us to make sure that they understand why we may do certain things going forward and have that transparency for them.

That was John Thompson, the CEO of Knosys, symbol on the ASX: KNO.

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