Company Announcement 24th November, 2017

PROPHECY INTERNATIONAL HOLDINGS LIMITED AGM 2017

CHAIRMAN AND CEO REPORT TO SHAREHOLDERS

Ladies and Gentlemen welcome to the Prophecy International Holdings AGM for 2017.

Please welcome our new CEO Brad Thomas to present the details of the FY17 financial year and our future plans for Prophecy.

Thank you, Ed for your kind introduction. It's a great pleasure to be here again. This is my second AGM but my first as CEO. I would like to thank Ed and the board for giving me this opportunity. It's a great honour to be guiding the fortunes of a doyenne of the Australian IT Industry and I am incredibly excited and optimistic about the future of the company and our opportunities for growth.

I think it is fair to say that the FY17 financial results were not what we had hoped and ultimately, we all have to take responsibility for the fall in revenues in FY17. In the defence of the team across the business, there have been a number of substantial changes in the business over the last 6 months that are having had an impact on the results and I am confident that we have progressed a long way in creating a strong platform for future growth.

We will get to the details of the FY17 results in a few minutes.

Comments on FY17

Before we move to the numbers I would like to comment of the last financial year as there have been substantial change that have been made.

On the eMite side we have been focussed on a few key deliverables.

1. Transitioning the product from a large, complex, long sales cycle, consulting led offering to a much more transactional and packaged offering focussed on a few key solutions and moving the architecture from an on premise solution to a true multi-tenanted SaaS offering.
2. Changing the standard pricing model from perpetual license to one that is primarily subscription based. This is often a reason for a fall in revenues, this was certainly the case with eMite in FY17. In the long term as we continue to add new customers the compounding effect of subscription revenues will give us significant advantages in cashflow, revenue forecasting and growth.
3. Modernising our marketing to ensure that we can position ourselves in a global market and with the largest vendors and customers in the world.

All of these key activities have been completed in FY17.

In the Intersect Alliance business with Snare there were a number of factors that need to be considered in our result which did see a fall in revenues from FY16.

1. A few of our key sales resources failed to fire in FY17 as competition increased and we did not invest enough in skills development.
2. As the level of competition increased and the Snare product came back to the market somewhat in FY17 losing some product advantage.
3. No significant new products were released as the focus was on ensuring a stable and reliable product in our core offering. This involved a fair amount of re-architecting our core software.
4. We were too reactive to the market. The vast majority of our revenues come from our log collection agent for Windows and we need to sell our entire solution for log management.
5. Significant efforts have been made to integrate eMite and Snare products to enable us to enter the log analytics market with a differentiated offering. More on that later.

All of these activities were undertaken with little or no increases in resources or investment.

As a small business playing in a very crowded global market we have to ruthlessly prioritise our future product development around the market opportunity.

As a small business, we are dependent on the quality of the candidates and employees that we can attract to the business. This year sees a change in a number of personnel and particularly those at a leadership level. Not only did I start in the CEO role in an acting capacity in March 2017 but we also had a number of new faces or new responsibilities for existing leaders.

Significantly Leanne Challans retired this year after more than 20 years with the company in a number of roles. Most lately as the MD and COO of the group. I would like to thank Leanne for her years of service and the excellent work she has done over many years for Prophecy.

I was very pleased to announce the appointment of Christine Bishop to the PRO leadership team as Chief Marketing Officer. Christine joins us with a Blue Chip corporate background as well as strong academic credentials. Experience at companies like Telstra, Microsoft and IBM will enable her to take marketing at PRO to the next level.

Steve Challans has a change and moves to the Chief Information Security Officer role where we will be able to leverage his deep industry experience as a thought leader for our security business.

Stuart Geros takes the product reins as Chief Product Officer. Stuart's passion for technology and his ability to engage with the market to deliver innovative new offerings will be critical in our success going forward. He is our resident ideas man.

These changes and a reorganisation of the structure give us more alignment and clear responsibilities across PRO and will drive better results.

Peter Barzen continues as the Sales lead for North America and EMEA and I am acting sales lead for APAC.

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As many of you know last year I presented here but my qualifications were not really discussed. Most importantly I am a shareholder with shares that I have purchased myself.

My remuneration is based on company performance. I have a base salary and an at risk component that is linked to the top line revenue and bottom line profit of the business. The executive team at Prophecy shares the same measures and goals. We are all aligned on achieving success for the business and growing shareholder value.

I have over 20 years driving growth and delivering go to market strategies for technology companies across the globe.

In FY17 there were a number of key milestones achieved but two the major ones were the divestment of both basis2 and Promadis. Basis 2 within the FY17 reporting period and Promadis immediately after it.

The disparity in our offerings I feel was a potential challenge in obtaining a clear strategic alignment in the business and presented obstacles in developing a clear growth strategy. With little synergy between the offerings and each business was stand alone. We had limited ability to leverage IP or customers across the group and the decision was taken by the board to increase our focus on our growth opportunities rather than keep a business simply for the sake of it.

basis2 was sold as a going concern to Novatti Group. A fellow ASX listed small cap who focus on billing solutions. basis2 was sold for UAD$2.75M in cash and this enabled PRO to capture the cash flows of the business up front rather than over the next few years. This strengthened our cash position and enables us to focus more heavily on our growth opportunities with Snare and eMite.

Promadis as a stand-alone business was not profitable for PRO and had only a few customers still actively using the product. By selling this back to Darren Shaw we were able to remove a loss-making business from the books and enable Darren to give the remaining customers a greater degree of attention than we were prepared or able to do.

In my first presentation to the board on my vision for PRO I expressed a strong desire to see the business grow and scale. To achieve this, we need to achieve synergies between our offerings. We now have a platform that enables that to happen.

While I am on this topic I should indicate that we have one remaining legacy business. E-Foundation. There are only a few customers using this software, its profitable for the business and its unlikely a buyer could be found. As a result, we will continue to maintain this business while we have customers maintaining their support agreements.

One of key differentiators for our investors is that PRO is a truly global business. Over 70% of our revenues from outside Australia. We currently have approximately 57 staff and contractors across 5

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major locations. Over half of those are Australian based with the USA and the UK next in size. We expect to expand across our key regions through FY18 with new hires planned in Australia, UK and the US.

We work in incredibly large but crowded and competitive markets.

Gartner estimates that the BI & Analytics market is growing to USD$18.3B in 2018 which is eMite's primary market. On the Snare side the Log Management market is a USD$1.25B market according to marketsandmarkets.com with the Cyber Security Market growing to worth an estimated USD$1 Trillion for the 5 year term from 2017 to 2021 as reported by the Cybersecurity Market Report by CyberSecurity Ventures.

eMite plays in a few segments of the BI & Analytics market – most notably in the IT Service Management and IT Operations space where we have developed deep IP and industry experience in running and reporting on complex IT operations environments. Some of the largest banks in the world run eMite to monitor their IT Operations.

The other major market is the Contact Centre market with our partner Genesys. We have agreements where the Genesys sales teams and partners sell our solution. This is particularly true for their SaaS solution, PureCloud where we offer a completely embedded and seamless solution for PureCloud customers. Frost and Sullivan have estimated that the cloud contact centre market is growing at 35% CAGR and will grow at this rate over the next 5 years.

According to Nomura Research, the 3 top drivers for IT spend are Security, Big Data and analytics and Cloud. PRO plays in all three markets.

Snare plays in the log management market. This is by no means fully penetrated and we have significant opportunities in every market where we sell. New regulation like GDPR continue to deliver new drivers for compliance management and the Snare software.

This is a market reported to be growing at 12% per annum and our share of this market is approximately 1%.

Now that we understand the business situation, let's take a look at the results for FY17.

As I mentioned previously revenue fell in FY17 for all the reasons that I have talked about previously. In FY17 we finished with revenues of AUD$11.5M down from AUD$14.7M in FY16. This represents a drop of 22% which is significant and disappointing.

Net Profit (EBIT) ended the year at AUD$1M a very significant drop. This fell due to the double whammy of slower Snare sales and transitioning eMite to subscription based licensing.

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We also must recognise the impact of the sale of basis2. This contributed AUD$2.75M to the business.

However, we did generate a profit over the course of the year and our cash position remains strong. This has been boosted through the injection of cash from the basis2 sale.

Our cash balance at end of June was AUD$3.31M with receivables of $1.9M leaving us in a solid cash position with no debt.

So let's take a look where that revenue comes from. As you can see from this chart in FY17 the revenue splits were this.

- Legacy 21.12% of revenue
- eMite 26.9% of revenue
- Snare 51.9% of revenue

In FY18 we expect the legacy revenue to reduce to approximately AUD$600K as we no longer collect revenue from basis2 and Promadis.

The eMIte revenue will growth substantially over FY17 as we expand our reach with Genesys.

As far as revenue by Geo goes we generate more than 70% of revenues from outside Australia.

- The US makes up 61%
- Australia 28%
- Europe 9%

and the remaining 2% coming from Asia, South America and Africa.

New customer acquisition is incredibly important to us.

Approximately 80% of all revenue comes from new business. In FY18 we have a substantial opportunity to sell more to our existing Snare customer base.

We are also starting to see a move to channel revenue as our engagement with partners like Telstra and Genesys start to bear fruit.

In FY18 we have solid plans to return to growth over FY16, however there are a number of key dependencies and strategies that must be executed.

If I had to summarise the plan for FY18 it would be to modernise PRO. This includes consolidation of the business operations, establishing a single operating platform for the business and reorganising for growth.

For me the strategic imperatives are the following:

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- Organic growth – optimising sales and marketing capability and execution. The right people with the right skills selling the right offer to the right customers.
- Product Innovation – ensure we develop and release the products that our customers want and need faster and better than our competitors
- Customer Experience – improve global support as well as improve all the touchpoints we have with our customers. Be easy to do business with where-ever you are in the world.
- Operational efficiency – making sure we have the right systems and process to operate at the lowest cost with the highest efficiency awhile delivering an enterprise level grade of service for our customers.

In 2017 we achieved major milestones in a number of these areas:

- Consolidated 2 sales forced instances into one
- Moved all businesses onto Xero from disparate accounting systems.
- Enabled electronic billing for IA customers.
- Implemented global support desk tool for all products
- Implemented global support team based in Manilla in the Philippines to deliver 24x7 support across our global footprint.
- Implemented regional sales structure to ensure sales coverage for all products across all geographies
- Enabled end to end visibility of customer in relation to sales, support, billing and payments.
- Retired some very old IT infrastructure within PRO moving to O365.

In the back half of FY17 we also increased sales resources by adding new roles in APAC to further drive eMite sales with Genesys as well as establishing new resources in ANZ to drive Snare sales.

We also increased sales coverage in the US and have aligned our sales resources to the industry verticals that have the largest opportunity for Snare. In Europe we have moved to a geographic territory model based primarily on language.

In Australia and NZ we have moved to Industry based with a focus on Public Sector initially.

We have also increased our focus on renewals and upselling to existing customers.

The recruitment of our new CMO and the creation of the Chief Product Officer also ensure we have clear lines of responsibility for marketing and product development. As we grow, sales leaders for each region will be established. Peter Barzen continues to manage both the Americas and EMEA while I am the APAC sales lead.

In FY18 I expect global head count to increase primarily in revenue producing sales roles.

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We currently have 14 head count focussed on revenue generation in sales or partner roles and have doubled our marketing headcount to 2. Future growth will come in sales roles in all of our major regions.

So, what were the significant sales milestones achieved in FY17. In the eMite business here were a few:

Interactive Intelligence/Genesys

As many of you know eMite has been working with Interactive Intelligence since 2016. In late October 2016 ININ was acquired by the largest player in the contact centre software market, Genesys. This acquisition took Genesys to the largest and fastest growing player in their market and the only company to be recognised as a leader in the Gartner magic quadrant. This combined entity has approximately 10,000 customers globally and one of the fastest growing cloud based contact centre solution called PureCloud.

In May 2017 eMite signed a global agreement for Genesys to resell the eMite dashboards and analytics for contact centres on their paper as an unbedded solution inside PureCloud. Since signing that agreement in May we started taking orders on their paperwork in July and have signed more than 45 customers representing more than 5000 seats under licence. The Genesys acquisition of ININ did slow us down and that is also a contributing factor to the eMite revenue in FY17.

As a result of this relationship with Genesys we have also signed separate global agreement with Telstra. In this agreement Telstra will resell eMite dashboards to a number of customer that they are transitioning from legacy platforms across to PureCloud.

In another example of how the embedded Analytics or OEM approach can be successful we have also signed an agreement with a local Australian software company called Prospecta. Prospecta provides solutions in the SAP market and trade in Australia, USA and India through their subsidiary company called Connekthub. We have generated our first sales through this agreement although the revenue is small at this stage.

eMite continues to identify new opportunities to work with other vendors to embed our capability to extend and enhance their core offering.

Looking beyond FY18 we look to continue to build our sales structure and migrate more of our resources to channel based resources. We want to increase the revenue generated by partners to more than 50%. Our ability to scale is increased as we expand our indirect channels.

Channel strategy – selective and OEM

- Genuine partners who want to grow the business
- Must be capable of bring new business in the door not just fulfilling demand created by PRO.

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Expand in to adjacent markets.

- Threat Intelligence/SIEM
- FIM
- Cloud logs
- Other OEM solutions
- Managed Service Providers
- Managed expansion of consulting

Look for acquisitions

- Must be strategically aligned
- Complementary product offerings
- Add customers and capability
- Ability to achieve synergies quickly.
- Positive impact on balance sheet and P&L from day 1.

One of the solid pillars for our future success are our products. Snare is an end to end log management suite used by thousands of customers like the US Military, Boeing, Lockheed Martin, Northrup Grumman, Delta Airlines and many more to collect IT system and security logs, analyse, report and store these logs and to send them to analytic engines like IBM QRadar or to a Managed Security Service Provider like SecureWorks. We have solutions for Windows, Linux, Unix, Mac and for a variety of log formats. We have rock solid reliability and scalability and are still one of the most comprehensive product offerings in the market. Combined with Snare Central to manage compliance and reporting, our management console to manage deployment and maintenance of thousands of agents monitoring thousands of end points, both servers and desktops, and our new capability in Snare Store for forensics and retention of logs for compliance, we have a very comprehensive solution suite.

Going forward we intend to enter new markets in File Integrity Monitoring as well as collecting and analysing cloud logs to deliver an end to end Enterprise Log Management and SIEM solution..

The customers that require these types of solutions are those that have regulatory requirements for compliance – including SOX, HIPAA, PCI or GDRP. These customers typically have complex and critical IT Infrastructure that runs their business. These customers can be financial institutions, government departments including defence and military or customers with valuable IP to protect.

Snare Value for customers come sin various areas:

- Rock solid and reliable cross platform log collection including Windows, WEC, Linux, Unix, Desktop and Mac

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- Military grade software capable of supporting the largest and most demanding IT environments
- Easy configuration and management to ensure compliance against a number of industry standards and regulations
- Support all the major SIEM vendors and MSSP's.

eMite is a multi source data capture, analysis and visualisation platform that enables us to collect, correlate and analyse data from multiple sources and systems in real time, displaying instantaneous updates as critical thresholds are reached or as incidents or events occur. By combining real time and historical data in a single easy to deploy, easy to use, no coding required dashboard we bring immediate value to customers. In the contact centre, we are strongly aligned to Genesys and I will talk about the market opportunity with Genesys shortly.

eMite's value for customers comes from a number of areas:

- Existing large number of connectors to industry standard applications and systems for the extraction of data.
- An adaptor framework that makes adding new data sources simple and quick
- A big data indexing and analytics engine that does not rely on expensive database technology, schema or expensive BI tools.
- The ability to correlate data from various disparate data sources to enrich data and turn it into meaningful metrics and KPIs
- A user friendly drag and drop visualisation layer that puts the information in the hands of business rather than IT
- Multilingual out of the box.
- In our core markets we have delivered best practice IP to deliver operational efficiency in ITSM and Contact Centres out of the box.
- Quick to deploy
- Cloud or on premise based
- Simple subscription based pricing

We continue to generate Consulting revenue from large enterprise customer for eMite and will continue to have that revenue as a key offering. Our primary focus is to continue to deliver software and will use consulting as a way of getting software in the hands of our customers.

We do have an opportunity to add consulting into the mix with Snare and we will explore this in FY18. We have moved a long way towards a new offering in Cyber Security with Snare and eMite.

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We will be careful to not encroach on our partners revenue opportunity but we need a level of expertise for large customer installations and for partner enablement.

Snare Threat Intelligence is a new market for the group – substantial work has gone into delivering eMite capability integrated with Snare log collection. Using our deep log management expertise we have developed a set of OOTB reports and dashboards that deliver real time insight into system performance allowing security analysts to either take action or have an action initiated by the software.

eMite for PureCloud – an embedded and integrated analytics and reporting solution without of the box IP and immediate value for Genesys customer running PureCloud. Appearing natively inside PureCloud and supporting Single Sign on this is a seamless experience for customers delivering immediate value.

We have also transitioned to a full multi-tenanted cloud hosted solution with eMite giving us flexibility to either deploy on a customer's premises, in the cloud or as a hybrid solution.

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