ALC

QnA

## Changes/info

- **Gross profit – sales staff & wages have been moved into OPEX, meaning gross profit & gross margins will look more attractive.**
    - **Cost of sales – restructure/reclassification, as above.**
    - Going forward, all salary related expenses are now classified in OPEX, not cost of sales.
    - These include – Product management, product development, sales & service delivery.
    - Cost of sales now only consists of – fees for resold products, managed cloud hosting, sales commission, travel costs.
- Information surrounding the first cash receipt from the SouthTees contract, signed in November. Given that the receipt came in Jan 1st, its not shown in H1 results.
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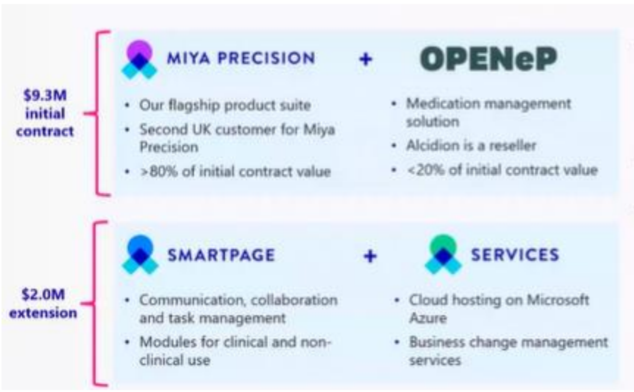
- Kate claims that ALC are doing this to “more appropriately align with other ASX listed software companies that investors will compare alcidion to” …..ugh yeah sure. (its not reaaaaally material so I’m not bothered).
- Another thing that bugs me is the metric ‘contracted revenue out to FY2026’. This can be misleading for some and I don’t like them quoting it all the time. JUST SAY RECURRING!!

## Breaking down the SouthTees contract

Resell

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| **Update:** Alcidion CEO Kate Quirke has gotten back to me and said: “The announced total contract value of $9.5M over 5 years includes all components of the total solution sold, including the resold OPENeP ePMA solution. <u>This solution however represents less than 20% of the total value of the 5 year contract</u>.” |

A Rich Life.

Ty Claude!

- So in the worst case scenario, OpenEP represents 20% of contract, still ~$6.8m is sold at the gross margin that we are used to as alcidion investors (~85%)
- See later that the OpenEP reseller margin is between 30-40%, as I asked during the QnA
    - This translates to between 0.5m – to 0.68m of gross profit under the resell.

<u>Short term contracts</u>


- To demonstrate low churn & extreme stickiness, it will be very interesting to see if management can get these short-term contracts renewed – see my notes on the question I put to Kate on contract renewal.

<u>Questions & answers</u>

*Q – What is the revenue target*

A – No guidance given at all. “very confident to see the types of increases that we are currently seeing”

- Good to see confidence.

*Q – How is OPEX expected to grow relative to revenue, given the big increases in OPEX over FY20.*

A – Getting to a stage where most of the investments have been made and expecting a plateau. However, H2 (so the rest of FY21) is expecting a “slight increase). Some investment not yet reflected in results.

Costs related to travel, marketing are expected to climb post covid. (as one would expect)

*Q – given the recent investment into sales, how can we best observe the OPEX on an annual basis?*

A- ~22m annualised OPEX. – no major increased expected. (+ cost of sales). Not expecting a major increase to this, but it will naturally curve upwards as revenue climbs.

- This seems like things are being pushed back a year further back than expected. Not overly happy with this answer. It seems we may wait longer for an opening of the 'cost-revenue jaws'.
- I think this is impatience from me, given that I expected this to be happening now.
- If costs still blowing out in Q1, Q2 FY22 then its **time to reconsider….**

*Q – What is the margin for reseller products? (my question)*

30-40%.

(much lower than other selling of products as you would expect)

Need more future clarity when a contract is put together and what % of it involves the reselling or other products and what % is alcidion product. Approx. 10% of revenues represents reseller product.

*Q – Any particular impacts of covid bringing sales in directly?*

A – Matt Hancock, NHS. Funding must be spent in calendar year. He has announced round 2 of spending hospital digitisation.

So effectively, no. However, this spending announcement gives much better chance of contract winning & the spending is a result of COVID thus indirect result.

Pipeline growth is more promising in the UK, given that more and more funds are made available for the NHS to spend. **Need to follow the spending announcements & budgeting for this NHS spending!!**

Has a digital health conference in 2 weeks, giving Kate the opportunity to show off ALC's products!

*Q – Contract renewal (my question)*

A – A letter is sent out, no contact is made until date of expiration approaches. Kate can't remember when any customer has not renewed, given they use the product.

Seemed very lax, but also in a confident & swagger of answer. Almost like 'yeh, we don't really do anything but they always resign anyway'

Some contract renewal process is automatic. How do they revalue the contract doing this..?

Moat !,

*Q – Gross margin target (my question)*

A – 85%, around that. Achieving profitability by FY22 at this stage.

*Q – New product pipeline*

A – Combining with other firms product offers. E.g the Lanarkshire contract has OpenEP as well as the miya suite….

Miya Suite to sit on top of ERP…..

Q – Contract stickiness, can you increase prices..? (mike question….?)

A – She mentioned going up by CPI each year naturally. Not sounding good charging more for the same product suite. Some chance to observe the rising value of the product offering and price "accordingly".

Not a particularly great answer, or what we wanted to hear..

I guess Kate is never going to come out and say "yes, we are hiking everyone's costs up" as not really ethical to say this.

The part about "increased perception of value" in relation to increasing the price sounded much better.