ASX Announcement

16 June 2020

Founders Letter to Shareholders

LiveTiles Limited (ASX:LVT) (LiveTiles or the Company), the global leader in intranet and workplace technology software, will shortly mail the **attached** letter to shareholders and investors from its co-founders Karl Redenbach (CEO) and Peter Nguyen-Brown (CXO), providing reflections and an investor update amid the COVID-19 situation.

The matters covered in the letter include:

- LiveTiles increased its cash balance by 14% or $4.7m in the month of April to $38.5m as at 1 May – a result of reduced underlying operating cash burn and receipt of government grants;

- LiveTiles to launch a refined brand architecture in July 2020, simplifying and realigning its product portfolio consolidating products into a simpler value proposition for customers;

- The Australian Financial Review (AFR) announced in March 2020 that LiveTiles is the fastest growing technology company in Australia, and 5th fastest growing company across all industries;

- Industry research and advisory firm Gartner profiling LiveTiles in its recent digital workplace Cool Vendor report, further credentialing LiveTiles and the emerging category;

- Reiterated $18m cost savings realised as a result of April 2020 restructure, and reconfirmed objective to achieve operating cash flow breakeven point during calendar 2020, subject to market conditions; and

- Strong medium and long-term outlook, with COVID playing a global role to accelerate digital workplace software adoption.

This announcement has been authorised for release by the Board.

Letter to Shareholders

16 June 2020

From the Co-Founders: Karl Redenbach (CEO) and Peter Nguyen-Brown (CXO)

16 June 2020

Dear shareholder,

We hope you, your families and friends are safe.

We are writing to you on behalf of the Board of LiveTiles in our capacity as co-founders and executive directors of your Company. The last few months have caused us all to reflect, and we hope this letter provides additional context to our experiences, and our focus for the path ahead as we build a world-class technology business.

Our **vision** is to **revolutionise the way humans interact with technology, and the way in which technology interacts with humans.**

To progress towards that vision, our **purpose** at LiveTiles is to **focus on simplifying the complex, by designing solutions that focus on the human experience that gives everyone the ability to thrive. We believe that the world is a better place when people are free to do their best work.**

With that vision and purpose in mind, we founded LiveTiles and started with a seemingly simple proposition to develop intranet software, and turn a critical but under-developed, under-appreciated and under-invested hub in the technology stack of companies around the world, into something more beautiful and fun to engage with.

Since our first paying customer in 2015 our team has been working hard to progress against our vision and purpose with increasingly personalised experiences for people at work. Recent COVID events have redefined for many of us what and where work entails, providing additional meaning to our vision and purpose. Our team is hugely energised with the opportunity to help customers, supporting their employees to communicate and collaborate in the new world of remote and work from home.

We passionately believe LiveTiles is well positioned to flourish and as co-founders, shareholders, directors and executives we take a long-term view in building shareholder value.

In terms of progress against our vision and purpose, we are proud of our team and their role in delivering some recent milestones. In March 2020 the Australian Financial Review (AFR), through its Fast 100 growth index, announced that LiveTiles was the fastest growing technology company in Australia, and the 5th fastest overall. Further, the team has expanded to a truly global footprint, over 1,200 enterprise customers, over 1,000 recurring subscription customers, over 200 partners and over A$55m ARR as at 31 March 2020.

Safety and Wellbeing

We wanted to provide an update on how your business has responded to the pandemic challenge and provide some insight into our recent priorities and actions. One of our core values since we founded LiveTiles is to "Be Decent Human Beings".

In early March we received a call from our US leadership recommending the closure of our two offices in Washington State in the US due to a local outbreak in that region. One of those offices was in Kirkland, soon to become the epicentre of coronavirus in the US during March. Although unthinkable now, alert levels remained low across our major markets. Nonetheless, we had recently returned from a US and European trip with our CFO in early March and heard firsthand from a range of business leaders, and we were on alert. Our global leadership team immediately stepped up its constant communication and we asked for daily developments, however minor. Feedback came in from the Wizdom founders in Denmark, CYCL in Switzerland, and our team in Ireland. We soon appreciated that society would undergo a managed shutdown in all of our key countries, and ahead of government mandated "lock-down" procedures, we closed all of our offices across 6 countries, moving immediately to a work-from-home setting, impacting all of our 200+ staff.

Every single role in our business was able to work remotely prior to the pandemic, supported of course by our own LiveTiles digital workplace software. For us, the shift in work habits was relatively straightforward and not nearly as stark as it was for many of our customers' businesses, but the change in our personal and family lives impacted us all.

Notwithstanding, it still took effort to make it all work. We immediately cancelled all business travel, a big deal in a global operation, and repatriated a number of staff seeking to return to their home countries as we had no clarity on the length of disruption, other than it was likely to be extended. We used our software to request the location of each employee and understand their home working environment. We provided training and briefing materials from relevant health authorities on hygiene procedures and created a page on our intranet with live COVID updates and instructions from the World Health Organisation.

Since the pandemic commenced and our remote working operations began, our use of collaboration software, including meetings and calls, more than doubled — skyrocketing past even our own expectations of a global team that had already made digital workplace central to our way of working together.

Our teams were empowered to purchase home office tools needed to ensure a sustainable remote working operation, and we immediately held global calls and started a schedule of daily and weekly stand-ups to check-in with colleagues and support each other. One of our employees encouraged us to adopt the home office term "Battlestations", and soon our team was sharing vision of working from home across Ireland, Australia, Denmark, the USA, Switzerland and more.
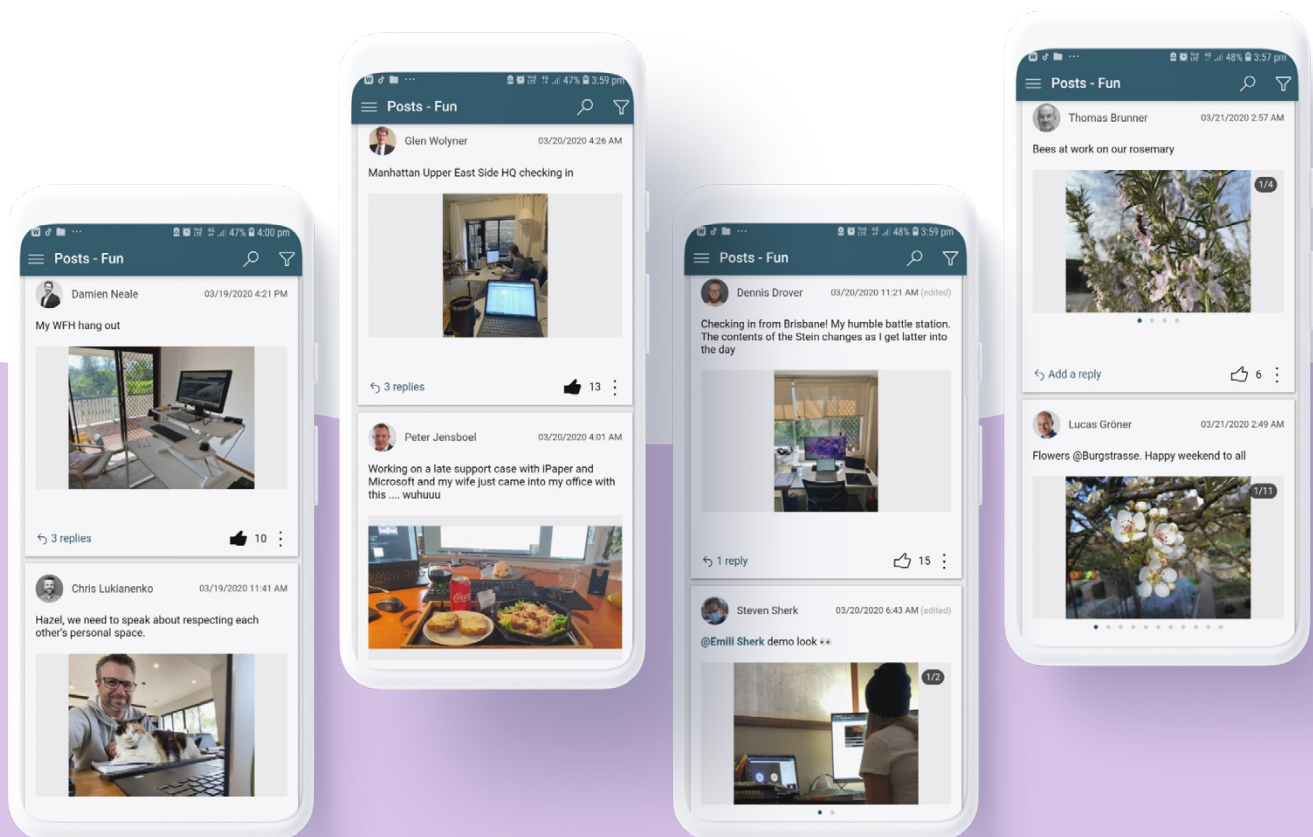
LiveTiles employees sharing their newly prepared 'Battlestations' using our LiveTiles Reach product

Leadership

At the same time as getting our teams and our own families settled into unfamiliar routines, we took some time to consider strategic direction and key decisions. During the early stages of the pandemic, and on an ongoing basis, we have been fortunate to draw on networks with founders and leaders of other leading Australian technology companies, sharing advice and experiences on how to handle new situations, how to lead during a crisis and be strong leaders for our teams. We are both grateful for these networks and advice, as it has shaped our thinking and decision-making over the course of the pandemic situation.

Life goes on

Whilst we have been busy with work, our teams were digitally introduced to babies born during the pandemic, a handful of new pandemic puppies and even a rabbit. Our teams have participated in regular global yoga and fitness classes run by our team, and even held live musical events.

Wellness

During the pandemic, necessity was the mother of invention and so building further on Peter's vision for making wellness an intrinsic part of the workplace, LiveSmiles, we developed and are testing a new freemium product, Vibe, that we are currently trialling with select customers within our intranet experience.

LiveTiles Vibe lets you stay connected to your remote workforce to understand how employees are feeling, track communication easily, and analyse real time feedback with these intelligent features:

- Wellness check-in tool
- Day-to-day experience surveys
- Communication and engagement analysis
- Feedback and improvement assessments
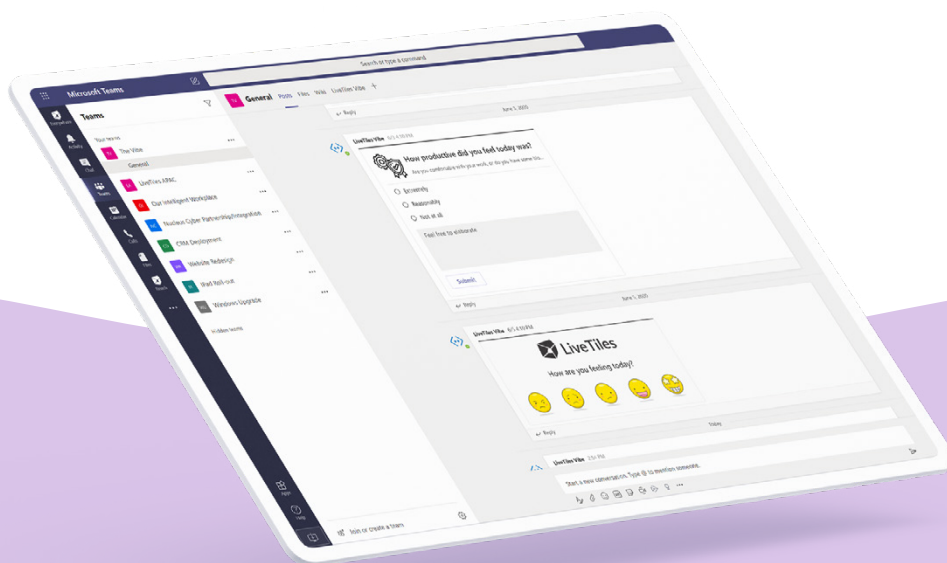
*LiveTiles Vibe — a new freemium wellness product arising from COVID-19*

The Digital Workplace and Remote Working

The pandemic has caused us all — to varying degrees — to change both what we do at work, and how we go about our work. LiveTiles is no different, but we have a particularly relevant and yet unchanged customer mission considering this pandemic.

At LiveTiles our vision and purpose laid the foundations to create the world's foremost intranet software company. This has always seen our purpose aimed at supporting organisations to create a thriving digital workplace, especially our support for the individual people (we dislike the word 'users' — we're all human beings!) that together make organisations possible. In light of recent months, a robust digital workplace is more important than ever to our customers. It is with this backdrop that we moved quickly to position key aspects of LiveTiles both during and after the pandemic, guided by our over 20 years working together across the technology sector.

The sudden move to switch over 200 employees to remote working was, as you might expect, underpinned by our own LiveTiles technology. Internally, we use our own digital workplace solutions to connect, work and have fun.

Supporting customers has also meant some changes to our interactions with customers.
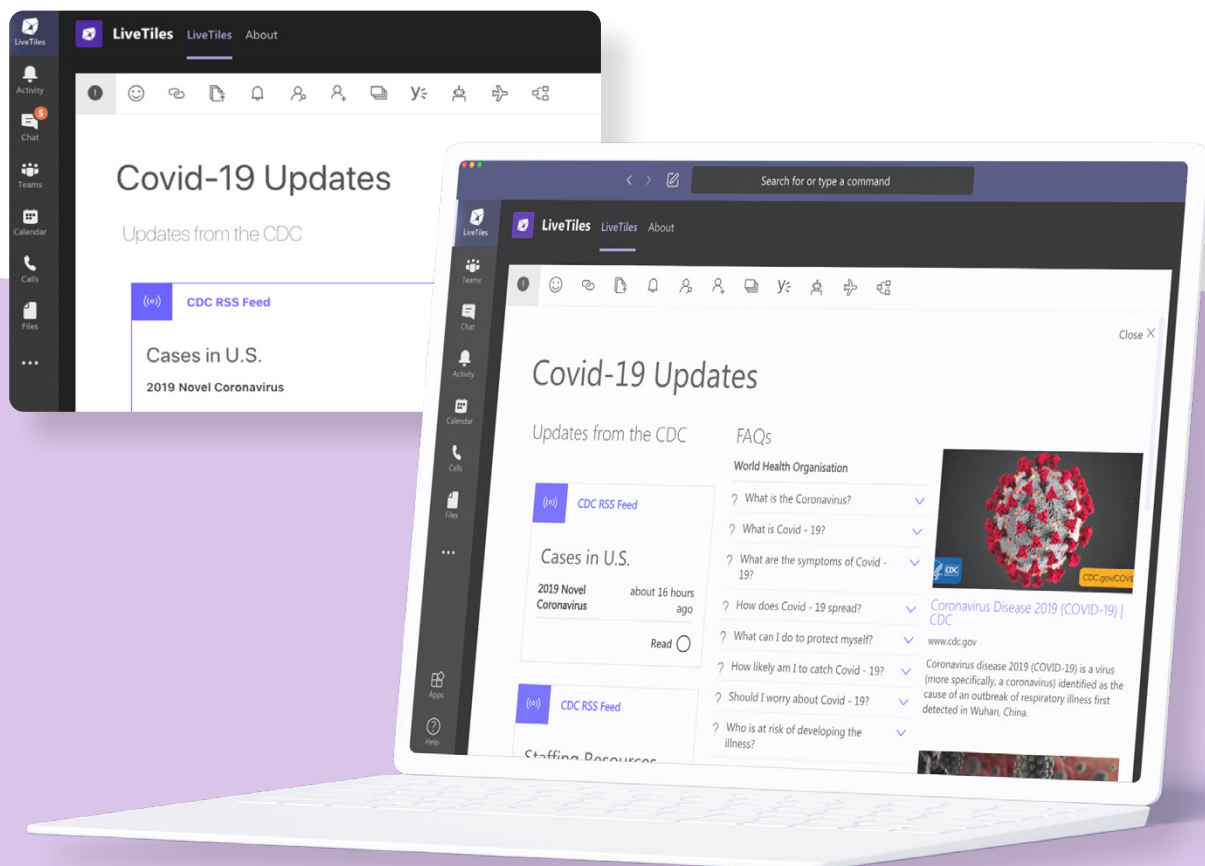
100% Digital Delivery

Another of our core values, a proudly Australian one at that, is that "We Get Sh!t Done". As soon as it became apparent that we would have to interact with current and prospective customers, partners, Microsoft and other stakeholders, our team quickly pivoted to a digital-first model. This included:

- Accelerating the integration of our support teams globally to ensure a single platform and process to support customer requests for assistance;

- A 10x increase in the number of customers joining our webinars with thousands of attendees already this year. This saw a like-for-like 285% increase in webinar sales leads for our team;

- A doubling of global web traffic to our websites;

- Launching a free trial campaign of our Condense product, initially in Switzerland and coronavirus-impacted regions of Italy — and then expanded globally. This was aimed at supporting organisations to rapidly implement our cloud-based mobile intranet and communications product within hours and saw significant increase in awareness resulting in a number of new enterprise trials; and

- Launch of several new campaigns to Keep Business Running and Keep Government Running under lockdown, with several virtual workshops and sales leads created that bode well for future customer activity.

We haven't solely changed how we market and sell, but also extended our digital delivery of projects and customer support. We have had requests for assistance from partners including Microsoft to:

- Support the implementation of Microsoft Teams for the staff in one of the largest public education organisations in the world with over 100,000 employees;

- Advise on the implementation of Microsoft Teams for the US employees of a major global financial brand;

- Help accelerate the digital transformation of a major global bank to drive employee communications and connectivity; and

- Implement chatbots with enterprise customers who are looking to engage with employees and customers on business-critical needs.

One of our recent COVID customer additions has been the Tasmanian Department of Health, where their Chief Information Officer Warren Prentice noted that "LiveTiles has been instrumental with both their expertise and technology in transitioning The Department of Health, Tasmania, to Microsoft Teams, reducing the workload on the help desk by providing Teams support for 14,000 users. This has been a critical piece of work in optimising our adoption of Teams across our workforce".

Successful Microsoft Partnership

We are often asked by shareholders, 'how should we think about Microsoft?' in the context of LiveTiles. All our products extend beyond Microsoft's product suite and enhance the value they provide, whilst we also connect customers to the myriad of other applications they use.

LiveTiles technologies have always — and continue to — extend underlying Microsoft platforms such as Office365, SharePoint and Azure. As Microsoft continuously improves their platforms, as we do with our products, our customers benefit from these improvements, and our tools become even more attractive to existing and potential customers. Tools like Microsoft Teams and Internet Explorer are some of the channels through which LiveTiles can be accessed and leveraged by customers.

LiveTiles creates significant value-add and enhancements to the underlying platforms that address common business needs and priorities, innovating on top of the Microsoft platforms has been the foundation of LiveTiles and our previous business over the last 20 years. Having such a close relationship with Microsoft is of strategic value to us, from our deep connection with the Microsoft engineering and product teams, and close working relationships with the Microsoft Sales and Marketing functions, including co-selling together, to drive broad and global awareness of our joint value.

"LiveTiles continue to strengthen its partnership with Microsoft, driving momentum by engaging with Microsoft sales teams and customers across the globe. LiveTiles is a very important strategic partner of ours in the Data & AI space, and its vision and approach to AI aligns perfectly with the Microsoft vision as set out by CEO Satya Nadella at our annual Microsoft Build Conference last month."

— Lili Cheng, Corporate Vice President, Microsoft AI and Research

"It is fantastic to see one of our strong partners in the U.S. successfully achieve GSA approval given the opportunity that is in front of us to jointly help the U.S. government achieve its technology and digital goals."

— Kirk Arthur, Senior Director of the Microsoft Industry for Government

"We are thrilled that LiveTiles are building on SharePoint innovations like home sites, to deliver unique experiences and solutions that empower our joint customers to achieve more."

— Dan Holme, Senior Product Marketing Director of SharePoint and OneDrive at Microsoft

Creating Unforgettable Experiences

Our third and final core value is "We Create Unforgettable Experiences". Although COVID-19 will be unforgettable for a range of reasons, some extremely sombre, our team has been taking this ethos across LiveTiles.

Simplifying our Brands

After the initial adrenaline surge, we also spent a heavy amount of time taking feedback and input from across our network, including our internal teams from around the world, founders from Wizdom, Hyperfish and CYCL, our customer advisory groups, partners, our Board and most importantly our customers.

We had commenced our integration and simplification work in 2019, and the temptation was high to defer until things got "normal". Instead, we reached a different conclusion, that it was critical for us to simplify our brand and product story for a range of stakeholders, and that it absolutely could not wait.

We look forward to launching more detail around our new brand architecture in the coming weeks and months, however we thought it would be helpful to explain to shareholders the key principles of simplifying our brand and product portfolio.

Our Brand and Product History

Since launching LiveTiles with our Page Designer product some five years ago, we have come a long way. Since our first paying customer in February 2015, as of 31 March 2020 we have $55 million in annualised recurring revenue and over 1,200 enterprise customers. The portfolio has changed significantly since then, with:

- Multiple versions of Page Designer, including SharePoint and Cloud versions;

- The addition of Intelligence and Bots through internal R&D and product development;

- The acquisition of Hyperfish in 2018;

- The acquisition of Wizdom and its accompanying PowerPanel feature in March 2019;

- The acquisition of CYCL in December 2019, including MatchPoint and Condense; and

- The addition of software support services and related services to support customers build incredible digital workplaces.

Taken together, we have made huge progress, and that requires some realignment along with way. However, the singular LiveTiles vision and purpose remains untouched, and we are thrilled a number of founders and partners have chosen to align their businesses with LiveTiles.

We are encouraged by the support of our teams worldwide as we move to simplify and realign our branding.
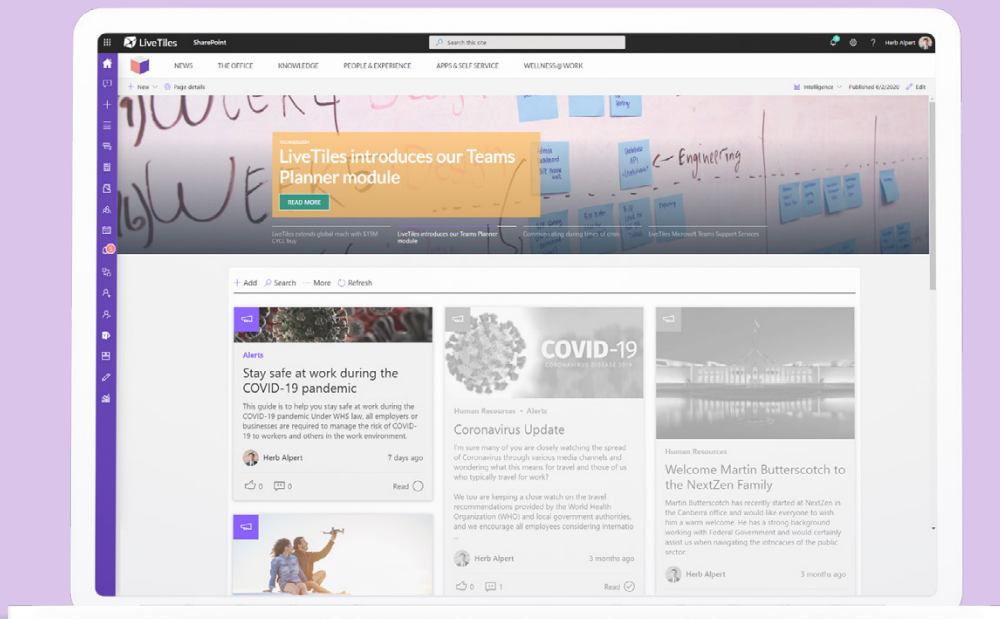
LiveTiles is a workplace technology company, creating digital workplace solutions that revolutionise the modern workplace. We deliver ground-breaking tech products that are modular and highly configurable and are supported by professional expertise. This combination of technology and expertise improves people's productivity, creativity and connection in the workplace. At this very moment, millions of people are doing their best work thanks to LiveTiles.

Firstly, the key component of our brand architecture is that the LiveTiles name remains central to our future. Secondly, we have three pillars that support the holistic customer experience:

LiveTiles Expertise	This is the combination of our professional services, consulting, and customer support expertise — the human touch helping customers to bring our platforms alive.
+	
LiveTiles Products	We have grouped our technology capabilities under four connected products, where customers can choose one or more products (and their modules) to build their digital workplace.
	A key element of each product is that they contain what we call 'intelligent experiences', where employees have data and notifications surfaced to them in a way that supports their context — in the office, mobile, late at night, the software applications they like to use. To achieve this, other key attributes include the products being highly data-driven, with the use of our AI investment alongside Microsoft, low-touch, modular and secure.

- **Intranet** — LiveTiles is the world leader in intranet software and this is what we have been traditionally known for, this product takes the combined power of our rich modern intranet software, incorporating flexibility, personalisation and delivering value by connecting people to each other and their key workplace apps. The LiveTiles Intranet was recently profiled by Gartner in its digital workplace Cool Vendor report.[1]

- **Reach** — Pocket intranet with accompanying mobile app to seamlessly reach, engage and align your entire workforce with a focus on non-desk/front-line workers. Reach has been produced based on emerging market demands for light-weight deployments with a very sharp focus on connecting and communicating with employees particularly in industries that have significant remote and casual employee bases, such as retail, health and manufacturing.

- **Everywhere** — You no longer "go to the intranet". Everywhere is an experience that can sit alongside other applications. Previously known as our PowerPanel, this product can be used within apps such as Microsoft Teams, and is aimed at connecting people wherever they prefer to work. Everywhere accompanies users wherever they are, or whatever application they are using, or whenever it's required, to provide personalised information and data relevant to them and their role. The power of a modern intranet experience with a sleek taskbar giving fingertip access to alerts from your organisation's internal communications, your recent documents, frequently used apps for booking travel, purchasing, sales reports and more.

- **Quantum** — Intelligence, Assistance, Insights. This platform helps organisations make the most of their digital workplace by connecting data from multiple applications, through the application of AI. This extends far beyond the modern intranet. Drive your entire workplace experience by data, context and user behaviour, intelligent employee profiling and business modelling. Provide automation and support to facilitate daily routines and make your employees more productive. Get actionable insights into how your solutions are being used and make data-driven decisions to enhance user experience and your content. Quantum includes as modules some of our existing products such as LiveTiles Intelligence and LiveTiles Bots, and also includes some soon-to-be-released technology that has either been developed based on customer demand or as part of recent acquisition strategies.

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LiveTiles Solutions	This is the aggregation of our capability, tailored and applied to enhance outcomes for specific customer sectors and operating functions, extended through technology partnerships such as Linius in meeting transcription and Go1 in learning & development.

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[1] https://www.livetiles.nyc/livetiles-named-in-gartners-cool-vendor-report-2020

Case studies

Company/organisation:
Novartis

Industry:
Pharmaceuticals

Country/region:
Europe

Employees:
100,000+

Challenge:
Multiple intranet solutions caused information chaos across the organisation. Novartis were looking for that single-point solution to consolidate and communicate as one company with one vision.

Solution:
LiveTiles Intranet for enterprise was deployed to deliver a global intranet for the pharmaceutical giant.

"Novartis is a leading global health company committed to reimagining science. As part of its focused data and digital transformation, Novartis will launch a new global corporate intranet for its 100,000+ employees."

— **Philip Martuccil, Director of Content & Channels, Novartis**
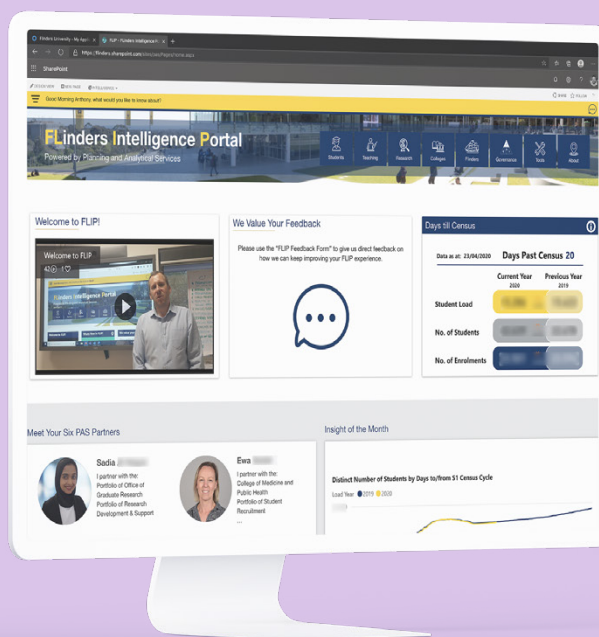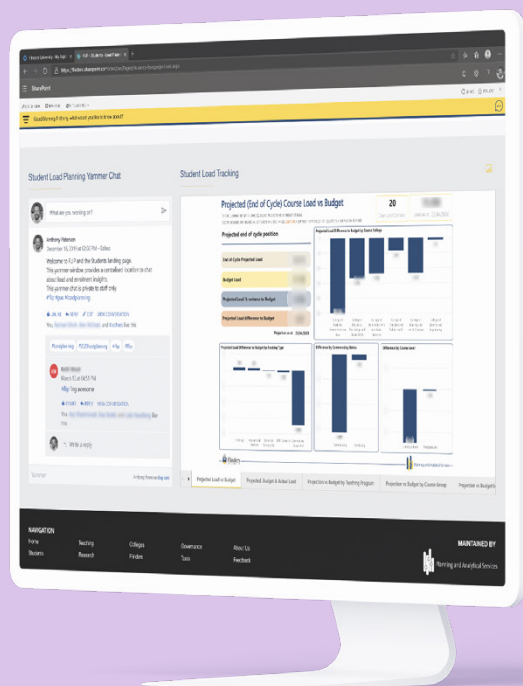
Company/organisation:
Flinders University

Industry:
Education

Country/region:
Australia

Challenge:
The IT team needed to find a portal solution to surface data to both technical and non-technical users across their 2656 staff members who oversee 25,757 students. The data and insights provide critical information to key staff members who are then enabled to make proactive decisions around student numbers and off-campus study.

Solution:
LiveTiles Intranet was deployed to deliver an intelligence portal that provides rapid insight for senior leadership, the ability to respond to questions in real-time and make decisions with accurate data. The university has been able to respond to information requests from students on the impact of the move to online lectures which has helped inform the university's planning.

Company/organisation:
World-leading supplier of athletic shoes, apparel and sports equipment

Industry:
Manufacturing/Retail

Country/region:
United States

Challenge:
The marketing team wanted the freedom to create branded dashboards and content portals independent of Microsoft SharePoint and the IT dept so they could quickly scale across their global marketing teams and stakeholders.

Solution:
LiveTiles Intranet for Azure and LiveTiles Support Services were all activated to provide this customer with a world-class, enterprise-level experience that is scalable and easy to use.

Company/organisation:
Department of Health Tasmania

Industry:
Public sector — healthcare

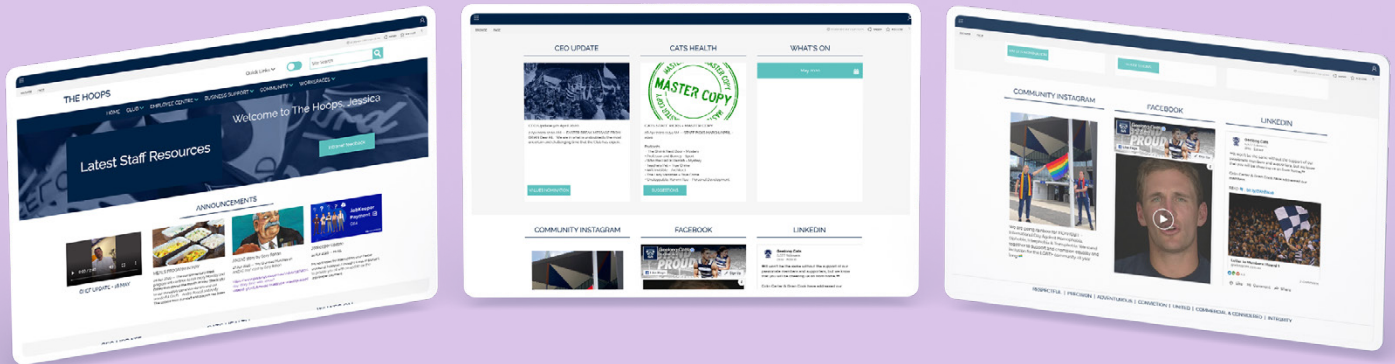**Country/region:**
Australia

Challenge:
Migrating a broad network of users to Microsoft Teams during COVID-19 lockdown is no easy task, but one that required expertise and a nimble approach to make it happen quickly and to ensure immediate adoption due to the lock-down measures that came into effect.

Solution:
Microsoft Teams Support Services were deployed with the result of successfully migrating 14,000 employees with 100% adoption achieved during the lock-down period.

"LiveTiles has been instrumental with both their expertise and technology in transitioning The Department of Health Tasmania to Microsoft Teams, reducing the workload on the help desk by providing Teams support for 14,000 users. This has been a critical piece of work in optimising our adoption of Teams across our workforce."

— Warren Prentice, CIO at Department of Health, Tasmania

Company/organisation:
Geelong Football Club

Industry:
Sports & Entertainment

Country/region:
Australia

Challenge:
Heavily reliant on email, the Geelong Football Club was eager to find a way to easily communicate between administrative teams and develop a clean, intuitive, and secure platform for documents and policies. It proved to be a saving grace when their staff suddenly moved to a work-from-home situation. The club is also implementing LiveTiles Reach to extend communications to frontline workers and third parties.

Solution:
LiveTiles Intranet, LiveTiles Quantum, LiveTiles Reach were deployed late last year, which was a significant communication platform for the club as it went through the lock-down period. It has enabled them to keep close contact with all their staff and players and ensure important communications and information are received bi-directionally.

"Our intranet has been paramount in keeping staff informed while working remotely."

— Stacey Towers, Corporate Partnerships Account Manager

Our Business Model

Since inception we have pursued a recurring revenue subscription model (a feature of world-class Software as a Service ("SaaS") businesses. This initially related to our Page Designer product, and later we introduced an accompanying support and services offering available as companion subscriptions. Each of our acquired businesses; Hyperfish, Wizdom and CYCL all share this common business model.

As long-time participants in the technology industry, including many of the older perpetual licensing and inefficient delivery models, we firmly believe that SaaS and subscription bundles are the best long-term business model for both our customers and shareholders. They provide customers with regular updates to the value of their product subscriptions, and enhanced value-in-use over time, whilst shareholders and the Company gain the increased visibility of customer commitment and ability to continually invest in the product to drive retention and growth — and most importantly — pursue our underlying purpose.

Significant Growth Achievements

What we call internally our "hypergrowth" has seen us hit a range of milestones in recent times.

In March 2020 we were announced as a leading organisation on the Australian Financial Review (AFR) Fast 100 2020 list as the fastest growing technology company in Australia and the 5th fastest growing Company in Australia overall.

LiveTiles is also a founding constituent in the recently launched S&P / ASX All Technology Index, comprised of the largest technology companies listed on the exchange (the ticker is ASX: XTX).

Investing in Long-Term Value

One of our benchmarks has been how quickly we have grown our ARR. We assess the intrinsic shareholder value in a few ways, but one of the most important measures for a SaaS business like ours is the implied lifetime value ("LTV") of the recurring revenue pool we are building.
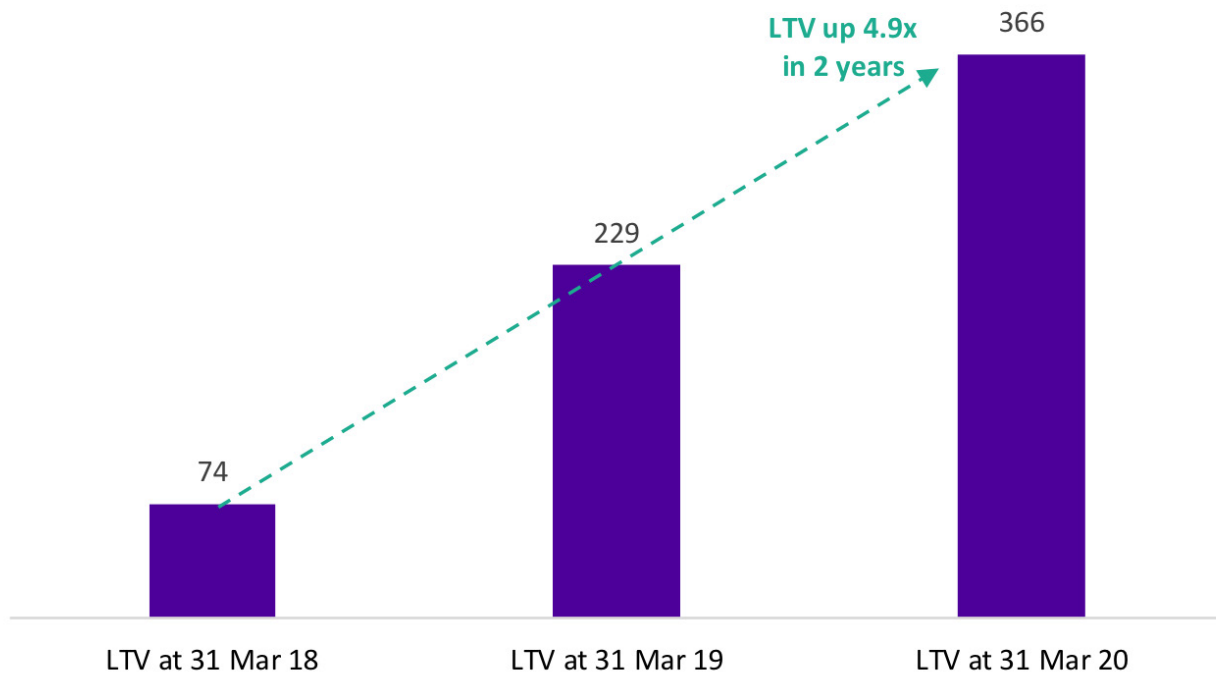
Footnote: LTV = Lifetime Value. Assumes 80% gross margin, 95% net retention and an 8% discount rate. Gross margin assumption reflects mix of recurring product and services revenue following the acquisitions of Wizdom and CYCL. Net retention = (ARR expansion from existing customers less churn in trailing 12 months) / ARR at beginning of 12-month period.

Strategic Priorities

COVID-19 has caused us to revisit our balance between cash burn and growth. Although we are pleased with the book of recurring revenue we are building, it became clear that the prudent step was to ensure we maintained our strong balance sheet and see the pandemic through successfully. We ultimately concluded that we had to prioritise lowering cash burn and do so in a way that established a firm operating platform for the future.

Shift Towards Digital Workplace Software — Strategic Opportunity Remains

There has been no change in long-term strategy or market opportunity for LiveTiles, but a short-term disruption ahead of what we believe to be strong medium and long-term tailwinds towards adoption of digital workplace software.

McKinsey recently published a paper entitled *From surviving to thriving: Reimagining the post-COVID-19 return*,[2] outlining the various ways COVID-19 will accelerate business trends, including investments in digital technology, with four elements to this agenda for companies re-opening and recovering:

1. Refocus digital efforts to reflect changing customer expectations;

2. Use data, Internet of Things, and AI to better manage operations;

3. Accelerate technology modernisation; and

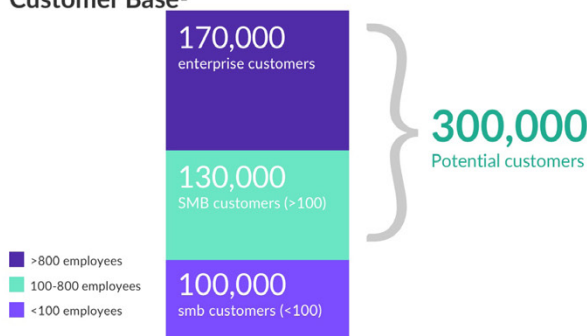4. Increase the speed and productivity of digital solutions.

We share this view and believe organisations will allocate more budget towards business continuity, employee communications and engagement as well as productivity tools.

One of the ways in which we highlight the scale of our market opportunity is by looking at the Microsoft Office 365 customer base. The total potential addressable market size has been estimated at over $14 billion and we believe that to date the entire industry category, including LiveTiles' own software, has reached a little over 1% penetration of this addressable customer pool.

$14 BILLION GLOBAL MARKET OPPORTUNITY

Microsoft Office365

Customer Base[1]

170,000
enterprise customers

130,000
SMB customers (>100)

100,000
smb customers (<100)

- >800 employees
- 100-800 employees
- <100 employees

300,000
Potential customers

1 LiveTiles estimates.

Total Potential Addressable Market

Segment	Potential Customers	Estimated ARR per Customer	Potential Addressable Market
Enterprise (>800 employees)	170,000	$60,000	$10.2 billion
SMB (100-800 employees)	130,000	$30,000	$3.9 billion
Total	300,000	$46,667	$14.2 billion

Each 1% market penetration = ~$140m ARR

- Almost all organisations with >100 employees utilise some form of intranet or employee portal
- Strong growth in Microsoft's Office365 Commercial revenue: +31% YoY[2]

[2] https://www.mckinsey.com/featured-insights/future-of-work/from-surviving-to-thriving-reimagining-the-post-covid-19-return

MARKET PENETRATION

Large and rapidly-growing addressable market of ~300,000 organisations

Software-based intranets are in the early stages of replacing custom-coded intranets

- LiveTiles is the clear global market leader with software revenue more than 4x larger than its nearest competitor
- Most competitor software vendors are embedded within systems integrator (consulting) businesses
- Internal organisation intranets and portals have historically been custom-coded - common frustrations with cost, lack of features and lack of dynamic change
- LiveTiles pioneered the market for low/no-code intranet software in 2015

■ Potential addressable market (300,000 organisations)
■ Current market penetration of intranet software (~1%)
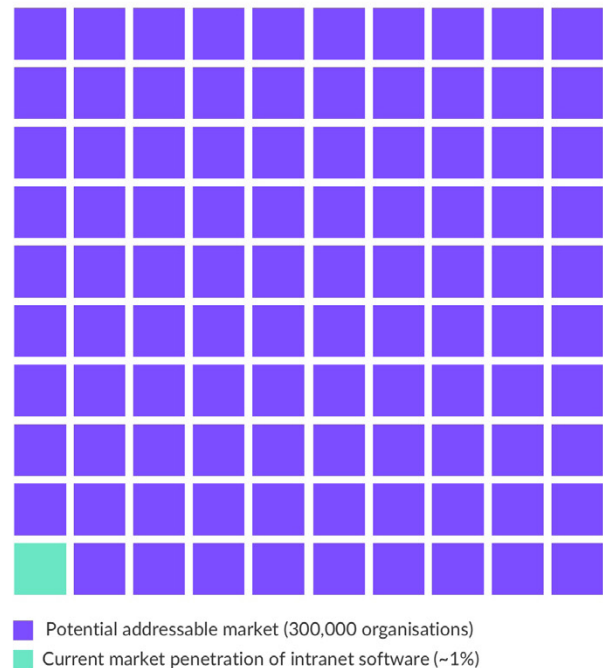
There are some key themes underpinning why we see our category moving towards a 'must address' status compared with perhaps a 'nice to have' approach by some organisations heading into the pandemic. These include:

- The need to understand where your people are and how they are;

- The need to foster speedy and comprehensive communication to all people in an organisation — not just those with desks and offices and not just direct employees;

- The need to achieve improvements in employee productivity and engagement in a range of work settings; and

- A sometimes overwhelming range of software and technology interactions required to perform the role of a 'knowledge worker'.

March 2020 — Tough Decisions

Notwithstanding our increased conviction around the longer term outlook, as a growing software business with an explicit growth strategy and accompanying operating cash burn, we saw in the early stages of the pandemic that we needed to review our current business structure more urgently. We had growing advice from a range of stakeholders that both the lockdown and subsequent economic slowdown may reduce our cash runway. We knew we wanted to be unquestionably financially stable both during and after the pandemic and did not want to burn cash at the same levels for any extended period of disruption — whether lockdown or economic.

We, with your Board and leadership team, therefore reviewed both the external situation and our internal business settings on a daily basis during March and in the early part of April. We took a number of immediate initiatives to drive efficiency:

- Consolidated office locations, with all remaining offices currently unoccupied and all employees successfully switching to remote working;

- Lowered travel and event marketing expenses due to COVID-19;

- Reduced our spend on external contractors and consultants;

- Implemented temporary reductions in hours and salaries across the global workforce, including 20% reductions for the Board and all senior leadership. These reductions will be in place for an estimated six months from implementation, subject to performance; and

- We started work on the accelerated integration of CYCL and Wizdom including the consolidation of global functions, a more focused product roadmap and flatter management structures.

Notwithstanding these initiatives, we found they were insufficient to achieve our objectives.

Restructured Operating Model

As a result of our March review, our operating model and structure quickly shifted in March and April. We took the incredibly difficult decision to substantially reduce our headcount through a restructure and accelerated integration of Wizdom, and to a lesser degree, the recently acquired Swiss business CYCL. To give some sense of magnitude, this was roughly 1 in 4 employees across our entire employee base.

This was one of the toughest decisions we have ever had to make in 20 years of business together. We ended the employment of some really talented people who had done absolutely nothing wrong.

We are both proud of how those impacted, and our whole team, handled an extraordinarily difficult decision. We, along with the entire leadership team, were extremely open with our global team about the challenges facing the business, and the rationale behind accelerating our efforts to reduce cash burn.

We restructured our teams to align to a leaner operating model and as a result now have more clearly defined global and regional teams with fewer layers of management and enhanced local empowerment across each of our three key regions: Asia-Pacific (APAC), Europe and Middle East and Africa (EMEA) and the Americas. Other key elements include:

- Partners retaining a strong role in our ongoing strategy for growth across both sales and customer project implementation;

- Geographic consolidation — increased centralisation of common activities (e.g. customer support, marketing) and fewer offices (e.g. closure of Washington State offices); and

- In-sourcing of our inside sales function previously provided by a contractor.

Cost Reduction

As previously advised to ASX the Company estimates the initiatives noted above have resulted in total annualised cash cost savings implemented to date of over $18m (excluding implementation costs), comprised of:

- Reduced headcount by over 50 roles resulting in annualised savings of over $9m, with savings to commence from May 2020 (excluding redundancy costs). Several new roles will be required as a result of this internal restructuring. These will be hired in a controlled manner having regard to our previously stated objective of achieving the operating cash flow breakeven point in calendar 2020;

- Further to these savings over the next six months the reduction in hours across the global workforce will save an additional $2m; and

- Non-employee related initiates are estimated to save over $7m. Some of these savings, such as travel and event marketing, will reduce as various markets open up once more, leading to higher activity levels, however the Company is committed to lower expenditure patterns and converting this activity to growing the base of recurring revenue.

An underlying reduction in cash burn will commence in the current (June) quarter, with the quarter's savings offset by one-off redundancy payments. The full benefit of the cost reduction initiatives will be realised during the September quarter.

We are also reviewing additional options to reduce cash burn, including short-term revenue and cost initiatives, to achieve our goal of achieving operating cash flow breakeven during calendar 2020.

LiveTiles increased its cash balance by 14% or $4.7m in the month of April to $38.5m as at 1 May — a result of reduced underlying operating cash burn and receipt of R&D funds of $5.6m.

Outlook

As noted throughout this letter, COVID-19 has thrown up both opportunities and challenges in the short-term. Most importantly, our people are safe, and we are continuing to deliver for customers under a recurring revenue business model. LiveTiles continues to develop its unique product suite aligned to customer needs. Notwithstanding recent optimism, the global macroeconomic outlook is highly uncertain, and the Company has elected to take a conservative position on cash burn.

Notwithstanding short-term challenges in terms of sales and decision-making we believe COVID-19 will undoubtedly accelerate market adoption of digital workplace software. A recent McKinsey Global Institute analysis and survey of the impact of COVID-19 on the US workforce highlighted the following:[3]

- 83% of employees willing to work remotely (compared with 37% pre COVID-19);

- More than 50% of employees recommend their organisation improve tech tools and review company welfare policies to enable virtual working 'at scale'; and

- On average employees saw an increase in efficiency from virtual/remote working.

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[3] Source: McKinsey Global Institute, Lives & Livelihoods: Assessing the near-term impact of COVID-19 on US workers, April 2020

COVID-19 has created large ongoing challenges for businesses, and therefore large opportunities for LiveTiles to play a role in assisting with their response, particularly when it comes to working from home. Whether for example, simplifying the complex by helping organisations access applications need when and where employees need it, or redefining the intranet as a truly connected digital hub.

Recently the technology research and advisory firm Gartner proclaimed the death of the traditional intranet, noting that "the modern intranet both consumes and produces services — it isn't just a website… The modern intranet should go well beyond basic content management into collaboration, social interaction, application delivery, employee communications, mobile support, and applied artificial intelligence.[4]" We were early in market with our AI-powered chatbot products and continue to invest in AI as part of our product offering? Why? We believe it is a critical component of our customer's future. McKinsey Australia estimates that almost 50% of work tasks performed by people could be displaced by automation by 2030.[5]

As outlined earlier we believe customer interest and spending in workplace technology will increase to reflect the importance of robust digital workplace infrastructure in business continuity. The $14 billion market opportunity we outlined earlier remains in the early stages due to customer awareness and adoption. We are more optimistic than ever about the external forces shaping our future.

Our vision for LiveTiles is deliberately long-term in nature and we look forward to continuing to pursue a bold but long-term strategy.

We are extremely grateful to all shareholders and investors for their ongoing support and interest in LiveTiles.

Sincerely,

Karl Redenbach

Co-founder and CEO

Peter Nguyen-Brown

Co-founder and CXO

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[4] Traditional Intranets Are Dead — Modern Intranets Are Alive and Well: Part 1 https://www.gartner.com/doc/reprints?id=1-1Z0P0L26&ct=200512&st=sb
[5] McKinsey & Company 2019, 'Australia's automation opportunity: Reigniting productivity and inclusive income growth, viewed May 2019, https://www.mckinsey.com/featured-insights/future-of-work/australias-automation-opportunity-reigniting-productivity-and-inclusive-income-growth