

## // CHIEF EXECUTIVE'S REVIEW

We have brought Tungsten Network to an inflection point. We are now a diversified, multi-product business focussed on profitable growth.



## OUR STRATEGIC OBJECTIVES

Our goal is to be the world's most trusted business transaction network, using data intelligently to strengthen the global supply chain. In early 2016 we identified four strategic priorities to achieve this goal and this year we made great progress in each of them.

# 01

### Focus on our core

Elevate our customer engagement by driving network benefits.

🔗 See pg 14

# 02

### Improve operational performance

Use end-to-end digital processes to ensure that our people and processes deliver effectively.

🔗 See pg 15

# 03

### Distinctive invoice financing

Leverage our Network and its data to deliver innovative financing products.

🔗 See pg 15

# 04

### Expand adjacent services

Increase the value we provide to customers through adjacent services.

🔗 See pg 16

In early 2016, after conducting a detailed evaluation of the Group, I set out Tungsten Network's strategic objectives and introduced its new management team. We had identified four areas of strategic emphasis: focus on amplifying our core network effect, improve operational performance, offer distinctive invoice financing and expand to adjacent services both on and off-Network. I outlined a profile of the development of the Tungsten Network's turnaround citing three distinct phases to be delivered over the course of a five-year plan.

We saw the stages of our development consisting of: first, stabilising the business; second, achieve profitability by remediating our customer proposition, operating model and legacy infrastructure; and, third, accelerating profitable growth. With the reporting of EBITDA profitability at the end of FY18, the Company enters its growth phase. Half way through the five-year programme, we are now at the inflection point where developing business and doing great things for our customers has become our primary focus.

When I was appointed Chief Executive Officer I assumed responsibility for turning a distressed business around. The business was in a downward spiral operationally and without a clear strategy. It was losing key customers and the staff turnover rate was high. Vital systems were defective and management disciplines and processes were weak or non-existent in many areas.

What has followed has been a fundamental rebuilding of Tungsten Network. The Board now represents an experienced, engaged, independent governing body. A committed management team of high-calibre executive talent is in place. They in turn have filled skill gaps and reorganised the Company for effective delivery of our strategy.

Over FY18 we made significant progress in repairing core systems and transitioning from an expensive, legacy operational environment. These changes allow the Company to process invoices at 25% less cost per invoice and 9x faster throughput, including 40x faster at peak production periods.

We have restored Tungsten Network's fundamental value and innovative spirit. We have moved from being a pure play e-invoicing company to a multi-product one and as a result have been able to change the way we think about our 300,000 customers, which offers us multiple ways of initiating business development. Today we have more to offer our customers than ever before and our people are focussed and motivated.

With our expanded range of products Tungsten Network can now consider our customers not as 'Buyers and Suppliers' but 'Network members', each of which faces friction in both their accounts payable and accounts receivable processes. Therefore this year we put in place the systems needed to offer a comprehensive service for handling outbound transactions to serve accounts receivable departments, significantly expanding Tungsten Network's addressable market.

We have also improved our off-Network services with intelligent data capture and workflow software that lets Tungsten Network support its customers earlier in their digital journey. These two services enhance what we can do for our customers, have had the result of increasing average contract values and revenue per transaction and are further complemented with our trade finance and foreign exchange products.

This has been a breakout year for our trade finance activities, which were relaunched in January 2017. Since then Tungsten Network Finance has in aggregate supported the extension of more than £300 million of funding to the global supply chain. We did so with a capital-light funding model, with low operating costs and from a broader range of finance solutions. Daily average invoice outstandings in April 2018 grew 94% compared with October 2017, while that month was up 60% on the level of outstandings six months previously. The sequential six-month increase in outstandings in April 2017 was 17%.

The Board of Tungsten wish to take this opportunity to acknowledge the vision set by Edi Truell when he founded the Company. We are pleased that the Company is now well placed to deliver upon that vision. While this has required a fundamental rebuild of the operational systems and processes, we are now leveraging the proprietary trade flows of the Network. I should like to thank the current Tungsten Network Finance team for their successful execution of our plans.

Over the past two years we have instituted tight financial control across the business and moved to a more effective, lower cost, shared service centre approach. Additionally, we have renegotiated vendor and customer contracts, which has helped us to decouple our cost growth from rising revenues. We have successfully filled many needed skill gaps at the Company, whilst continuing to reduce our operating expenditure base each year.

# CHIEF EXECUTIVE'S REVIEW CONT.

## 01 Focus on our core

Through the successful introduction of expanded services (strategic focus number four, below), our core Tungsten Network has been strengthened. We can now process more types of transactions for our customers, including e-invoicing, purchase orders, e-billing and invoice data capture. During the year, we processed 17.7 million transactions, an increase of 0.6 million from the prior year. This number excludes over 5 million purchase orders that Tungsten Network processes as part of its e-invoicing product, but do not provide a separate revenue stream. By value the invoices processed totalled £164 billion, an increase of £9 billion.

Total invoice volume	m
<b>17.7m</b>	
2018	17.7
2017	17.1
2016	16.1

We aim to grow the value we provide our customers through increasing the number of transactions that we process for them. This includes offering them additional services and adding digital connections to more of their trading partners. In FY18 we had 300,000 customers on Tungsten Network.

Total customers	k
<b>300k</b>	
2018	300
2017	251
2016	203

Our customers included 187 users of our accounts payable automation products. We made sales of our range of accounts payable product solutions to eight new customers in FY18, including six that will use our core e-invoicing products and two that will use our invoice data capture service.

These new sales contributed revenue of £0.9 million in FY18 and have an aggregate contract value over three years of £2.3 million. Half of this contract value will be derived from two new multinational customers, one in the media industry and Conagra Brands in the packaged foods industry, to which Tungsten Network will provide its range of accounts payable automation services internationally. Due to signing these two sales towards the end of the financial year, a significant proportion of the revenue will be recognised in FY19 rather than in FY18.

Group revenue	£m
<b>£33.7m</b>	
2018	33.7
2017	31.3
2016	25.9

Pricing was renegotiated for 35 customers of our accounts payable automation products at an average increase of 38%, contributing additional revenues of £0.7 million. A further 11 customers had contracts that allowed for renewal at the same price and nine customers that contributed total revenues of £0.2 million have chosen not to renew their contracts.

Total transacted invoice value	£bn
<b>£164bn</b>	
2018	164
2017	155
2016	133

## 02 Improve operational performance

We now have an operating cost base that can be leveraged to support profitable growth in Tungsten Network. This has been achieved over a three-year period through taking a systematic approach to identifying the drivers of cost in our business and how to do more for less.

Our adjusted operating expenses in FY18 decreased by £4.8 million, or 12%, from the prior year, even as revenues grew by 8%. This reflected savings and efficiencies identified across each area of the business, including a reduction in staff and contract costs of £2.2 million (staff costs £1.1 million and contract costs £1.1 million) and a reduction in technology systems costs of £1.8 million.

Tungsten Network can now operate in a more effective and efficient manner. We can process more transactions for our customers quicker and cheaper, and our sales teams can use more functionality of Salesforce to help identify, manage and close sales opportunities.

To achieve our new cost base, we had to spend in two areas. Firstly, we made increased investments in our internally generated software in FY18, growing expenditure in this area from £3.5 million in FY17 to £7.2 million in FY18, primarily on the improvements to our core transaction network, further rollout of Salesforce and enhancement in customer interfaces. Now that we have largely completed the transition away from legacy infrastructure we are able to significantly reduce capital expenditure in the FY19.

The second area of additional spend was in exceptional items amounting to £2.4 million. This was necessary expenditure in order to change from the Company's legacy technology, decrease our physical footprint and make people changes. We do not plan to incur significant exceptional items from our operations in FY19.

Our aim had been to maintain our annual adjusted operating expenses at approximately £40.0 million. Achieving our current run rate of £36.0 million in accordance to adjusted operating expenses, it is a significant improvement on this and while we have further opportunities to rationalise our cost base, our priority for FY19 is revenue growth. As we demonstrate that we can achieve consistently positive EBITDA we may choose to make incremental increases to our sales and marketing costs in order to achieve accelerated revenue growth.

Adjusted operating expenses £m

**£36.0m**

2018	36.0
2017	40.8
2016	40.1

## 03 Distinctive invoice financing

Since relaunching our Tungsten Network Finance business in January 2017, Tungsten Network has funded over £300 million of invoices to help companies across the United Kingdom and the United States manage their working capital. Over that time, on a daily average basis, monthly invoice outstandings grew from £11.4 million in December 2016 to £43.4 million in April 2018, with a peak of £64.0 million in June 2018.

To achieve this, we have rebuilt our technology infrastructure and repositioned the operational model and as a result we have grown its user base, funding partnerships and range of products. Tungsten Network now benefits from funding partnerships with Insight Investments, BNP, Orbian, Funding Circle, Lending Club and BlueVine in order to offer a range of trade finance solutions that have enabled us to grow our suite of products to meet the diverse financing needs of more of the customers of Tungsten Network. Tungsten Network Finance now offers four distinct trade finance solutions that meet different market needs: invoice discounting through the Tungsten Network Early Payment facility in its portal; flexible lines of credit; receivables financing and supply chain finance. Leveraging the connectivity that comes from joining Tungsten Network, both SME and large customers are matching working capital needs with a flexible user experience, removing the friction that impacts cash flow.

Since the relaunch, 129 Tungsten Network customers have taken early payment. On average, Tungsten Network Early Payment users currently finance over half of the e-invoices that they issue digitally via the Tungsten Network portal. Tungsten Network Finance has recently expanded its geographical reach beyond the United Kingdom and the United States, to include Canada, Ireland and the Netherlands, with finance available in GBP, USD and EUR. This geographical expansion will continue over the course of 2018, with work already underway to make the product available in more countries in Europe and the Americas.

# CHIEF EXECUTIVE'S REVIEW CONT.

## 04 Expand adjacent services

Tungsten Network has transitioned from a pure play e-invoicing company to offering a diversified range of products that automate accounts payable and accounts receivable processes.

For accounts payable teams we can deliver purchase orders to their supplier chain and send an acknowledgment back. Their suppliers can send invoices over Tungsten Network, which we validate against local compliance requirements and match to purchase orders, and we can digitise invoices received in paper or PDF. In addition, our workflow software allows for the automation of approval.

For accounts receivable teams our new e-billing product delivers all invoices to their customers, regardless of whether they are sent over Tungsten Network, including by paper and PDF. Our invoice status service allows visibility over the receipt, approval and payment status of invoices. Our suite of products for both accounts payable and accounts receivable teams is complemented by analytics functionality and digital archiving.

We will continue to add greater functionality to Tungsten Network, including the digital automation of more documents. Of focus in the coming years are the opportunities in Italy arising from a legal requirement effective January 2019 for all invoices to be digitally stamped. Tungsten Network intends to become an approved intermediary, allowing us to do more for our over 5,000 current Italian customers and to take advantage of opportunities to grow this number.

We will pursue further opportunities to expand our services, through product development, partnerships and, at a future date, corporate activity, while maintaining our focus on cost discipline and profitable growth.

Over the first three years of my tenure we have grown revenue by 50%, at a CAGR of 14.5%. Though FY18 was a record revenue year for Tungsten Network, growth was behind the Company's previous guidance at 9% on a constant currency basis, due primarily to longer sales cycles than expected in H2-FY18. In part, these were a function of a delay to significant new customer contracts and the later than expected availability of a new product. Resolution of these factors is expected to improve sales performance in FY19 and the order book and sales pipeline remain strong.

### FY19 Priorities

Our focus in FY19 is to take advantage of the opportunities that we have created to accelerate revenue growth and generate sustainable profits. We will give these initiatives the same execution attention that allowed us to successfully remediate the internal operations of this business and decouple its cost base from revenue growth.

We will do this by retaining a focus on understanding what our customers want and delivering it to them. This will lead to an acceleration of new business sales and an increase in customer retention. We will work with our customers to connect them to more of their trading partners and help automate more of their processes with our wider range of products, with a particular focus on e-billing and the emerging opportunity in Italy.

To support the effective management of our working capital we have secured a £4.0 million revolving credit facility with HSBC.

### Outlook

With the operational transformation largely complete and a distinct set of growth initiatives in place, the Board is optimistic about the prospects for Tungsten Network. The disciplined delivery of the strategic plan the executive team is implementing provides for greater certainty of business outcome, building confidence among stakeholders and keeping Tungsten Network on a sustainable path toward increasing returns for shareholders.

- Revenue of at least £37.5 million on a constant currency basis, weighted to the second half of the year. The Board believes that this accelerated growth can be achieved through Tungsten Network's core e-invoicing products, new products and continued expansion of Tungsten Network Finance
- Stable gross margin and adjusted operating expenses resulting in EBITDA profit for the full year, with phasing reflecting the evolution of revenue growth



**Richard Hurwitz**  
Chief Executive Officer

23 July 2018