Optiva Inc.

Corporate Update Call

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Length: 15 minutes

CORPORATE PARTICIPANTS

Danielle Royston
Optiva Inc. — Chief Executive Officer

CONFERENCE CALL PARTICIPANTS

Robert Young
Canaccord Genuity — Analyst

PRESENTATION

Operator

Good morning, everyone. Welcome to this corporate update call for Redknee Solutions Inc., which is now doing business as Optiva Inc. At this time, all participants are in a listen-only mode.

Following the presentation, we will conduct a brief Q&A session. Instructions will be provided at this time for you to queue up for a question.

Before beginning its formal remarks, Optiva would like to remind listeners that today's discussion may contain forward-looking statements that may reflect current views with respect to future events. Any such statements are subject to risks and uncertainties that could cause actual results to differ materially from those presented in these forward-looking statements. Optiva does not undertake to update any forward-looking statement, except as required.

I'd like to remind everyone that this call is being recorded today, Wednesday, March 28, 2018.

I will now go ahead and turn the call over to Danielle Royston, Chief Executive Officer for Optiva. Please go ahead, Miss Royston.

Danielle Royston — Chief Executive Officer, Optiva Inc.

Thank you, and good morning. And welcome to this Optiva update call. I'm Danielle Royston, CEO of Optiva.

At this year's Annual General Meeting, I plan to give the shareholders an update on two topics: How we are doing on customer success and a short commentary on our related party partner.

If you recall, last year we had this call, and it was your first introduction to me. One of my key messages last year that I stressed was the concept of customer success and how important that was going to be for our turnaround. Long term, I believe our revenue will converge towards our customer success result.

Given that our success last year was only 20 percent of our revenue, that is obviously not good. Since that first call, we have moved up our index from our initial starting point of 20 percent to a first official readout of 27 percent, an improvement of 7 points.

Recall that this is calculated by creating a revenue-weighted index by customer and having an executive-level conversation with me about their success with our company. Do we help or hinder them in their own quest to hit their goals? Do they see us a partner, an advisor in their business? Or merely just another vendor? Do we have world-class people? Or are our people indistinguishable from every other vendor's employee?

And the goal here is obviously to get our customers to say enthusiastically, yes, you help us hit our goals; you act as an extension of our company to drive our business forward.

Given the nature of this business, telco enterprise software, I knew from the get-go that fixing customer success was going to be a long, hard road. We were going to have to fix each customer

one by one to get them to success: Create a plan, execute on the plan, and ask the customer how we've done.

So the first seven points were the easy wins. In some cases, this is the first time a senior executive at the customer had ever talked to someone from Redknee, an executive from Redknee. Once we know what their goals are, though, they're easy to fix.

So for example, they have some simple tickets to fix, or there's an easy customization that we can make sure is prioritized for them.

Some goals are a little harder, but still on the easy side. We had a few customers who had a team that was not capable, was unprofessional, or did not care about delivering for the customer. So we just replaced those people on teams using contractors from Crossover. Those are the easy fixes, and we are cranking through those as fast as we can.

Let's talk about some deals that we haven't been able to turn around, some customer losses. Our revenue has been shrinking, so we obviously are losing some customers. For you shareholders who have invested in Optiva, it is important that you understand not just the good, but the problems too.

We recently lost two customers, both contracts signed before I took over. There is a fine line between aggressive deployment schedules and impossible. I assume because of the financial straits Redknee was in, the commitments were well past impossible. In fact, at one of the customers they

sold them one product and tried to implement a different one without telling the customer that they had done so.

After I took over and started the restructuring for the new Optiva, it became obvious that we couldn't hit the deployment dates, and the rushed quality of the code was poor. We came clean to the customers and explained everything, including the bait-and-switch on the product and the delivery dates.

After so many missteps and mistakes and letdowns, they just want out and they just want to be done, and so they cancel. While those customers were justifiably very upset at the past Redknee behaviour, they would and will say good things about the new Optiva.

They love the Customer Success program, they loved our transparency, and they are excited about our product roadmap. While both of them cancelled their existing projects, they are willing to take sales calls when our new cloud version is complete.

For these kinds of customers and situations and others like them, we have to try our hardest and invest above and beyond to fix the project or the product. All the while, we are meeting with the management team of our customers as we try to get back on course and the product deployed.

And we are really testing their patience. It is a race for us to try to rebuild all of this, fix these super-hard-to-turn-around projects all before the customer's infinite patience wears out and we have a big penalty cheque to write.

So if you're ever wondering what's going on at Optiva, this is what we are doing all day: Trying to get all the easy wins we can and scrambling like mad to fix the hard ones as quickly as possible. This has first priority.

Our second priority, if we have achieved success at the account, our customers want to know if we are going to stick around and what's going on with the roadmap. One area where we have made some noticeable progress is on the financial side of the house. Our successful Rights Offering this past summer and the communication of our restructuring plan has alleviated some of the concerns our customers have with our longevity, which is nice because now we can focus on our products and our services.

We announced our $100 million product revitalization plan, which includes the new innovative work we've done with the Google Cloud Platform and Google Cloud Spanner database, demonstrating to the world at Mobile World Congress in Barcelona last month that we can scale the performance of our charging engine by 10X. We had a great event and a tremendous response to our vision and roadmap for the future.

The Spanner message and the lowest total cost of ownership message is really resonating with our customer base, and is attracting new customers to see what's going on at Optiva.

But the question you have as shareholders is, how long does this turnaround take? And my answer to you is, we are going to be aggressively working to improve customer success for another

12-plus months. So that's what we are doing. That's what my job is: Go to customers, figure out how to fix them, restaff the team, and rebuild the products.

Now to talk about the related party partnerships. 2018, we are going to be significantly increasing our spend on our related party contracts. DevFactory and Crossover are both two important ingredients that are critical to our turnaround.

I get a lot of questions about these two relationships, so I thought I'd spend a little time discussing them. I think it's super important as a shareholder that you understand what they do for us and why they are so valuable to us.

First, I would not have accepted the role of CEO unless I could use these two valuable organizations. As you know from the circular that we distributed in advance of today's meeting, I put most of my compensation on the success of Optiva and the improvement of the stock price, and I'm confident it's a great deal. But I want you guys to feel as good about Optiva as I do, so let me give you a couple of examples.

Let's start with Crossover. As you know, software is a people business, and having the best people is key to creating a great software company. One of the biggest changes our customers talked about after our Customer Success program is how great our new teams are. For that, we have Crossover to thank.

Crossover is a staffing firm. Their brand is finding the best software people in the world, and in our case, they are delivering. For example, at one of our largest customers, we were in a joint

presentation with Google, and a customer was wondering if the Optiva team could deliver a hard technical piece. One of the Google engineers said, the Optiva team that I've worked with is as good as a Google team. And that Optiva team had been sourced 100 percent from Crossover.

They supply us with great talent on par with the best people in the world, and their fee is a 10 percent markup. If you compare Crossover to any other staffing firm, recruiters, headhunters, staff augmentation, we would be paying roughly 25 to 100 percent markup. At 10 percent markup it's a great deal, hands down, and the talent is first-rate.

Now moving on to DevFactory. DevFactory offers services to us, not people. We pay by the service, and behind the scenes DevFactory manages the staffing.

Some examples of services we have purchased. Test writing services, where the deliverable is a set of test cases which help us improve the quality of code. Developers are notoriously loathsome about writing test cases, and so this is a great way for us to improve the quality of our code without fighting our developers about slogging through the work.

Another great example is bug fix. We can put in an order for a number bug fixes to be done, and a deliverable is not only that the bug gets fixed, but if there wasn't a test case for it, DevFactory adds a test case and we again improve the quality of the code.

Obviously, there are other vendors out there in the market that we could use to help us with this work. Certainly an outsourced dev partner, for example, would be happy to take on our bug fix work.

So we have adopted an easy framework so everyone feels confident we are making the right decision every time we select DevFactory to provide the service. And here's the framework. DevFactory needs to be 50 percent cheaper than either our internal cost or an external competitive bid, or we will not use DevFactory at all. It is that simple and that clear.

And here's another example. As you know, last year we decided we wanted to wind down our expensive Germany operation. We went to DevFactory and asked them, we want to order the same amount of throughput our German work force completed in 2017, but for half the cost. We believe that the team in Germany was inefficient, and we wanted to cut that cost in half. For 2017, DevFactory offered it to me for half price, which was great.

So then I went back to them and said, okay, for 2018 I want a 75 percent discount over Germany costs. And so they cut it in half again.

As we look forward to 2019, I will continue to apply pressure on them to have them continually lower their cost, measuring them against other providers, and checking prices to make sure we are consistently receiving services that are 50 percent cheaper than anyone else out there, including when we make the decision to do it ourself.

I am not too familiar with other service providers that act this way with their pricing, and I am psyched that DevFactory works with us this way and gives us these great deals.

Originally, DevFactory was just focused on providing engineering services, but they have expanding into other offerings, for example, like product management, as well as technical support.

And one area of good news that has come out of Optiva more recently, the work DevFactory did for us around the Google Spanner work was instrumental in our new product strategy. And without that success, we could not have had as good of a Mobile World Congress event in early March, which then helped us leverage ourselves into a great new partnership with Google around Google Cloud platform.

I could not have done it without them, and like I mentioned earlier, our ability to execute this turnaround is absolutely predicated on our ability to leverage these relationships with these two firms.

So with that, I'd like to open up the discussion for Q&A.

Operator?

Q&A

Operator

Certainly. At this time, I would like to inform everyone in order to ask a question, please press *, then the number 1 on your telephone keypad. We'll pause for a moment to compile the Q&A roster. Again, that's *, then the number 1 on your telephone keypad to ask a question.

Our first question comes from Robert Young from Canaccord Genuity. Please go ahead. Your line is open.

Robert Young — Canaccord Genuity

Hi. Good morning. I'll just ask about the two customers. I'm just a bit confused about the timing. Are these two customers that you had previously announced had given notice that they're going to go off the program—or off of the platform? Or are these two new customers who have recently given a new notification?

Danielle Royston

So these are existing customers that gave notice in the last quarter. And we, if you recall in Q1, we had taken a provision because we obviously working as hard as we can to fix them and not making as much progress and as I talked to them over the course of last year, watching their patience run thinner and thinner. In Q1 we said, okay, it's time to take a provision. And then what we suspected was going to happen then happened in Q2.

Robert Young

Okay. Great. And is there a way to quantify the revenue impact?

Danielle Royston

It's relatively low because both of these customers were not … do not have a deployment in production. So they were not paying SLA yet, revenue. They were still more in services deployment mode.

And the way that the contracts were structured, the revenue was back-end loaded. So the product had to be deployed before we received the majority of the revenue. So the revenue impact

is in the future. Obviously, never want that to happen; never want to lose a customer. But it wasn't

a long-standing customer that had a deployment with a significant SLA that is dropping out.

This was … these are new customers that don't have anything in production. So hopefully

that answers your question, Robert.

Robert Young

Yup. No, that's great. I'll pass the line. Thanks.

Danielle Royston

Thanks.

Operator

Again, if you would like to ask a question, please press *, 1 on your telephone keypad.

And there are no further questions at this time. Thank you for joining.

This concludes today's conference call. You may now disconnect.

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