Notes from Synety Sharesoc presentation on 8th May 2014.

These notes are my personal interpretation of the Synety presentation by Executive Chairman Simon Cleaver. They are rough notes and as such may be subject to error. This is all in my own opinion. Please do your own research.

What Synety does

- Integrates Customer Relationship Management (CRM) software with the telephone.

- This is nothing new it can be done using something called CTI (Computer Telephony integration) this is a hardware based solution which marries 4 disparate systems, phone switchboard, telco e.g. BT, recording platform and CRM.

- However this is fragile, hard to do, fiddly, expensive and only large companies can afford to do it. For many smaller CRM systems no CTI connector exists.

- Synety's approach is completely different – it's a software solution built from the ground up.

- They are a telco, i.e. can do number ranges, number porting, telecoms billing etc.

- They have UK, Dutch, German and US telecoms licenses, French currently being applied for.

- They are the switchboard – based in the cloud. Pure cloud play – no onsite installation – costs therefore relatively fixed regardless of number of users – bar the need for a few extra people in customer services.

- Also a call recording platform, and the API link into the CRM platform – i.e. they are the complete solution. Customer can simply download the plug in and it works in 5 minutes.

- No need to change CRM system, no need to change phone system – it just works with whatever you have – VOIP, mobile, old style desk phone, no capex, no big spend.

- Any CRM can integrate – built to integrate with any software. They have had customers integrate within a day – but a couple of weeks at most.

Simple product, simple pricing

Software as a service (SaaS) charged per user per month £10, £20 or £30 depending on package.

Basic product is Click to call within CRM – makes a call to your phone – then makes a call to the person you are calling and then marries the two together. Whilst on call box pops up allowing categorisation and notes can be made against the call. At the same time the call is being recorded.

Notes and recording are saved under that contact on your CRM – so all calls are listed next to a contact in the same way as all emails for that contact. The calls can be replayed at anytime by clicking on the call recording.

Enterprise product does all the things a fancy switchboard would do – e.g. hunt groups, follow me numbers, rings in multiple places. Wherever the phone is answered the call is recorded and saved in the CRM.

Does IVR's press 1 for this etc.

Call centre features – wall boards, power dialer (request call back) etc.

Powerful reporting – can see who in the call center is on the phone now, how many calls they have made/received, etc. See missed calls, see most/least active staff – this works out of the box for £10 per month. Another example is where call centre promises to call you back but doesn't – Synety software can track this kind of behaviour and report this to management.

In Financial Services need to keep records for 7 years – platform does this regardless of which device you receive the call on.

2 highly visible income streams

SaaS income £10/20/£30 pcm per user

Telecoms income (around – 30% of revenues)

Synety charge very low telco rates e.g. 2p per minute to mobiles (most people would be paying 8 to 10p per minute with other providers). So if 40mins per day spent on mobile calls they will actually save £50 per month with Synety so this covers the cost of the fee to Synety and also offsets some of the cost of the CRM platform.

For the client this is a no brainer – potential to save money.

Synety still make money on calls – margin is around 60%.

Synety is a software company that happens to have telco as well. Existing telcos might buy minutes at 1p and sell at 5p for example. Because Synety make money from software they do not need to compete in this space, they can buy at 1p and sell at 2p and still make good profits but undercut the telcos significantly.

Sales Process

How we sell – not much cold calling direct – instead CRM companies do the selling.

Easy sales job 'pushing at an open door' 18 CRMs integrated so far – doing about 1 a month.

Easy because the CRM companies know the problem – they get asked for phone integration by their customers all the time.

It's an obvious problem – CRM systems are designed to capture all interactions with a customer however phone calls are currently excluded from this.

Also CRM companies get 15 or 20% of the monthly service fee by way of commission (but don't get a cut of telco revenue).

Recurring income is normally expensive to acquire the difference here is CRMs do the selling.

Synety persuade the CRM to integrate then the CRM company sell to their customers.

Synety offer 14 day free trial – easy sell as they get used to the functionality – when they switch it off after 14 days it's like switching off your address book/contacts on your mobile phone and going back to dialing everyone manually – no one wants to go back.

Last month (April) they had 96% conversion rate from free trials. This is unusual but typically there is a 70% conversion rate.

Growth Potential

18 CRMs so far but the CRM market is huge and growing heavily (at circa 15% pa.) with more going into the cloud so less on premise. Conversations currently ongoing with a lot more CRMs.

There are lots of big CRMs e.g. Bullhorn, Salesforce, Microsoft, ACT that Synety already integrates with. Conversations are ongoing with Oracle – they haven't spoken to SAP yet.

However over 55% of the CRM market is made is up of 1000s of smaller CRM companies that do not have a solution – Synety is the first to approach them. Lots of niche CRMs e.g.

Over 40 HR CRM companies alone
2 CRMs that just do Mortgage re-finance.
15 Car dealership CRMs
6 Ship broking CRMs

Every niche has it's own CRM system(s) and needs the functionality Synety offers.

Because the Synety platform has been built from the ground up it has been designed to clip into any CRM.

The addressable market (i.e. total number of CRM customers that Synety can sell to) is huge – it grew last year from 200k at beginning of year to 2m at end of year.

Synety is small and a new company but growth KPIs show sales take off. KPIs will be published quarterly next ones due 7th July.

Average new users per month growing, licenses growing, average user per customer, average revenue per customer all growing.

Annualised recurring revenue is most important figure up nearly 50% in first quarter of this year.

Average revenue per user circa £25pcm. Growth is coming from more CRMs, more leads, more free trials and more sign ups. Also more people now taking Contact centre.

Product improvements – whole new range of products that will be added going forward.

Growth in addressable market expected to continue as more CRMs integrate.

Maturing go to market strategy – confidence from CRMs increasing e,g, Bullhorn (recruitment CRM) have been selling for a year now – average end users increasing per month not just number of users but the size of the customers Bullhorn are referring. They are seeing this across all CRM partners as confidence in the product grows.

Seeing acceleration in lead flow, very confident about the company – small company but growing quickly.

Recent £5m fund raise

£0.5m to spend on platform to extend reach

Some money for expanding sales operation in UK dramatically as they don't think they have touched the sides of this yet.

£1m for US expansion just opened office in Boston. Expect to start selling in US late June /early July.

Rationale for US move

If company is expanding so fast and hasn't 'touched the sides' of what it can achieve in UK – why is it going to US so early?

Answer: being pulled there. Main CRM partners are American – Bullhorn, Salesforce, Act, Netsuite. US customer bases much bigger.

e.g. Bullhorn -currently they sign up around 1% of Bullhorn's customers per month. Bulhorn has around 6,000 UK customers, and 60,000 US customers. Synety's US offices are going to be right next to Bullhorn's.

Bullhorn are going to mail their base in July and October (*presume this refers to emailing their customers to offer them Synety's products?*)

US CRMs are drawing them out there and they already have the relationship established with these companies.

Addressable market as mentioned went from 200k to 2m last year – with US it goes to 20m.

They are not suggesting they will experience a ten fold increase in sales but if they get anywhere near that…

Lots of partners are global e.g. SSP – the CRM most people have never heard of however they are huge – they are in the insurance broking space – they have 42% of the UK Insurance market.

They have 2000 insurance brokers circa 50,000 seats. The top ones the SSP MD is going to take them in personally to meet. The issue they have is they are global, they have operations in US and Australia and they want to be able to offer the product globally.

Same with Swiftpage/Act (4m users) /Saleslogix – they love the product, they want to white label it so when you buy the product you get Cloudcall built into it – the issue is they are global – if Synety are only doing UK they are not interested as they are a US company.

Question and Answer Session

Do you have US telco license?

Yes took 6 months to get.

Are you selling too cheap? Product costly to install? / Costs in serving client?/ Loss making - when profitable?

Platform – costs fixed, installation under 10mins so costs very low nothing onsite- they do onboard customers thoroughly as they have found this saves money later.

Losses – burnt £2.2m last year i.e. circa £200k pcm. Burn will be higher this year because of US expansion. They believe this is the right thing to do to grow sales. They could make the business profitable tomorrow but they wouldn't be selling.

Competitors?

Not many if any in their space.

Competitors in call centre market e.g. New Voice Media, Interactive Intelligence, Five Nines, offer very sophisticated call centre solutions. e.g. New Voice Media - £1000 set up then £70 per seat per month – aimed at the likes of British Gas – big companies who need the sophisticated workflow management features. Synety do not operate in that space.

They are a level below that – non heavy call centre businesses – no one really in that space except perhaps Twilio in US (just raised $70m) they have API layer and you could build what Synety has on the back of it but they don't have the sophisticated functionality – they are nearest competitor but they are not going after CRM companies.

Taking payments? PCI compliance

Problem of call recording passwords and card numbers – they can switch off recording of card numbers within the API.

Do you pay referral fees to CRM companies?

Yes, referral fees of 15% to 20% on the SaaS income.

Are your prices too low?

No - trying to achieve scale - because platform is all their own ie. they are not reselling Microsoft stuff, they have built this from the ground up so the margins are huge, it's all in house the only thing they buy in (for an annual fee) is the telco billing platform. Own tech - own engineers.

They could charge more but they are out for scale and customers are already very profitable for them.

Cost of maintaining a customer is low, typically they see lot of activity when they are new but once bedded in they hardly hear from them. They are running about 5,000 seats at the moment and have 4 people in customer services and they are actually quite quiet.

The busy area is currently provisioning because they are signing up so many and that is where they are putting in more money.

Cloud computing has low cost of entry – software is easily replicable – couldn't New Voice Media (a near competitor) simply replicate what Synety have done?

NVM not API driven they have integrated solely into Salesforce and provide a Call centre solution.

However it is correct that there is nothing Synety do that is 100% unique but they have a beautifully put together package – it is the relationship with the CRM companies which is where the real value lies. Providing Synety do not mess up then customers are unlikely to go elsewhere.

Cloud based who owns it how much do you pay?

Owned in house - 2 datacenters in London and one in Boston. Not using Amazon EC2 or similar.

Is pricing prohibitive for example ACT is only £15 pcm would people pay extra £20 for extra functionality?

ACT unusual Salesforce is £60-to £100pcm so extra £20 not that bad plus potential to save call costs.

Is the recent fund raise enough to see you into profit?

All forecasts indicate last fund raise is enough to see them through to profitability with a reasonable margin - but not saying never to more fund raise for example if US went 'gangbusters'.

You raised £2.7m so surely need to raise more cash as this will be burnt in a year?

No we raised 5m 2months ago, company has just under £7m in the coffers.

What is customer retention rate?

Retention rate about 94-95% lost 23 licenses last month (one went bust which was 9 licenses) – they analyse all lost customers. However on a net basis they actually have negative churn as a lot of customers are increasing the number of licenses they take up.

Do you have IP protection – e.g. to stop someone they are selling to like Microsoft from copying you?

No – involved in company previously where they spent 800k pa in IP and IP protection – someone set up and copied them and it was too difficult to pursue. e.g. if Apple copied it they would be too big to take on anyway.

Their strength is in the CRM relationships and spread of customer base rather than patents.

Currently I have 20x lines £2per month why pay £8more per month for Synety?

Does it integrate with CRM? No...
Does it store all call records under customer within the CRM? No...

Do you have exclusivity agreements with CRMs?

Some yes, some no.
Yes someone could replicate what they do but they are the first to do it.