17 September 2018

ASX Announcement
Market Update

In July this year, Cirralto Limited (the Company) signalled changes to its business model to adapt to shifting market conditions, particularly the Telstra restructure which required a transformation in both pricing and contract strategy. Whilst this process continues, the board has ratified changes to the company's structure to address overheads and to streamline the roll out of its modernisation solution.

As part of these significant changes, both management and board unanimously agreed that the management team of Cirralto be reduced and located close to the development base in Perth. As a result, the management team based in Sydney will be consolidated to Perth. The board can now announce that Mr Mike Mulvey will therefore depart the business and Mr Adrian Floate will be appointed as the Managing Director. The Board wishes to thank Mr Mulvey for his contribution to the business during his appointment as Managing Director.

The Board believes that Adrian Floate is the right person to take over the role of Managing Director and lead the Company's turnaround strategy to rebuild shareholder value. Adrian Floate has been in the position of Executive Director, Sales since 2017 and has been previously operating as Non-Executive Director of the Company since 2014.

The Telstra restructure led to the company redefining its business strategy. This restructure included changes to the market implementation strategy which significantly delayed the Company's ability to deploy its Poolbox solution. As such, the Company's expected customer acquisition rate was adversely impacted which had a knock-on effect in missing stated revenue targets. As a result, the Company has revised its customer acquisition strategy to focus on a direct channel engagement model by forming relationships with key market participants and franchise groups to market and sell the Company's vertical market solutions direct to their customers.

The Company will focus on building its implementation and training resource base to enable channel partners to sell the Company's technology solutions to their direct customers. This is expected to have a positive impact to customer acquisition rates in 2019.

Following these changes and the recently announced partnership with WestPay, the Board and Management are genuinely excited about the future of the company and will shortly be providing a detailed presentation on the suite of technology solutions currently in market.

The Company will reduce annual overheads by approximately $900,000 via a range of cost cutting measures. These include:

1) The removal of dual leaderships roles.
2) executive director Adrian Floate stepping into the role of Managing Director to more closely align customer and sales interaction with product development.
3) The Managing Director and Non-Executive Directors will defer receiving payment for salaries and director's fees until the company has moved into a cash flow positive position.
4) Other measures to reduce non-essential Company overheads are also being implemented; e.g. reduction in Sydney rent costs, capping of travel costs, reduction in non-sales and product development head count, and lower legal, accounting and financial administrative fees.

In addition to cost saving measures, the Company would also like to advise the market of a significant participation of Directors in both the recent placement and current rights issue given their confidence in the future of the Company under its optimised business model. This includes participation from both Chairman Peter Richards and Managing Director Adrian Floate. Adrian as the largest shareholder in Cirralto, has committed to the full extent of their entitlement under the right issue.

Adrian Floate has provided the following letter to shareholders upon his appointment as Managing Director:

Dear fellow shareholders,

It is no secret that the events of the past few months dealt us a difficult card when we were advised of changes to Telstra's operating structure. Whilst this change served to delay our acquisition of customers, it also required us to completely rethink our customer acquisition and pricing strategy.

Since the unwinding of the relationship, we have been forced to restructure our contracting process and move to a more traditional implementation fee + software subscription model, in order to align revenue and expenditure. This resulted in a total redesign of the sales process and restarting sales engagement with customers we had previously invested a lot of time and energy in.

As you can probably imagine the process of recontracting has not been easy without the partnership with Telstra and some customers did have reservations about entrusting us with the future of their business systems, although once we explained the nature of the changes they were extremely supportive.

So, in order for us to get to where we need to go, my immediate focus is to prune in order to grow. I have implemented changes to the Company's operating structure that will reduce operating costs by ~$70,000 per month and have reallocated resources to ensure we are building a beach head of loyal customers. With this beach head in place, we will turn our focus to early 2019 and reset our growth goals by both extending our direct engagement with existing customers and offering an improved feature set that can be delivered more effectively than before.

We have invested significant time, energy and effort in the creation of an exceptional team of people who are focused on serving our customers. Happy customers equal growth, sustainability and profitability. This team is growing stronger every day and enjoying the success they create by forever positively changing the operational business systems of our customers.

The recently announced partnership with WestPay will bring further innovation to the payment space in H2 2019 and provide us with a complete and comprehensive technology stack to service all aspects of an operational business.

As the Company's largest shareholder and a believer in the future prospects of the Company, I will be subscribing for the full value of my rights in addition to my subscription for new shares in the recent placement. Further, I intend to cease receiving a salary until such time as the company demonstrates sustained customer acquisition growth rates. I believe that one should not ask of others what they would not do themselves. I would not ask you, our shareholders, to support the Company if I am not willing to do everything in my power to help ourselves. To that end, I have asked the Board (and have received their endorsement) that all Directors' suspend fees on the same basis as myself.

In the future, our announcements will be centred on new products and innovations, strategic partnerships and reporting on results. Over the next few weeks I intend to publish a comprehensive presentation to the market that clearly outlines the Company, its technology services, and business strategy that I intend to implement during 2019 – our roadmap to success.

Success is the state of mind. My state of mind is one of confidence and belief in the team who I have the pleasure to work with. I am thankful to the Board for their support and look forward to the opportunity to meet the challenges we have been faced with bravely and decisively.

I am confident in taking over the role of Managing Director in these difficult times and am positive that together we will be able to make the Company a success.

Thank for your support.
Adrian Floate

The Board is united behind Adrian and the business model that he and the operations team are delivering. The demand for the company's modernisation service is strong and the board realises the importance of getting the right corporate structure around a robust, scalable solution to best capitalise on this market demand for the benefit of all shareholders. We look forward to updating the market as further key milestones are achieved.

For Shareholder contact:
Please email: shareholders@cirralto.com.au

About Cirralto:
Cirralto Limited (ASX: CRO) listed company that owns and operates technology assets and services that enable modernisation of business IT systems via the conversion, migration and management of server based legacy data and systems to the Cloud.