aconex
Connecting teams project-wide.

25 October 2016

Aconex 2016 AGM Address and Outlook

Dear Sir / Madam,

Re: 2016 Annual General Meeting Address and Outlook

Please find attached a copy of the address to shareholders by Chairman Adam Lewis and Managing Director Leigh Jasper at the Annual General Meeting to be held today at 2:00pm in Melbourne.

Anna Gorton
Company Secretary

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ASX Market Disclosure

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Chairman's Address

On behalf of my fellow Directors, I am delighted to welcome you all here today, those of you who are long-term shareholders and those who have joined us more recently.

A lot has happened since our last AGM.

Financial year 2016 was one of significant milestones for Aconex. We recorded strong organic growth in revenue and earnings, and saw substantial improvement in both trading volume and liquidity. We continued to drive increasing value to shareholders and just 18 months from our initial public offering, we were added to the S&P / ASX 200 Index.

Throughout the year, we have continued to focus on increasing value to our customers through our leadership of digital innovation in construction. The delivery of new products, the deeper penetration of our core platform, and the leverage of data and insights on our platform have driven competitive advantage for our customers. This will generate further benefits for Aconex and our shareholders into the future.

The acquisition of Conject Holding GmbH consolidated our global market leadership position. We expanded our technology and product capabilities through the acquisition of Worksite and our strategic partnership with the CIMIC Group.

We made measurable progress on our core strategic objectives:

- Leveraging the industry and collaboration network effects to drive new business from both new and existing customers
- Expanding the breadth of the Aconex platform to drive increasing value for customers and users as well as competitive advantage
- Investing in new and existing markets to drive penetration, balancing revenue growth and profitability

We continuously seek opportunities to strengthen the quality and effectiveness of our board of directors to achieve the right mix of industry, international business and governance experience.

One of the key activities for the board is to work closely with the executive team to balance near-term performance and investment in long-term growth opportunities. Given the large opportunity in front of the business, reinvesting a percentage of revenue and profit to drive penetration and geographic growth is key to our strategy. Realising a return on these investments may take months or years, resulting in a trade-off of profit today for revenue growth tomorrow.

The board and executive team spend considerable time formulating and monitoring the execution of these plans to optimise shareholder outcomes. We also ensure that we remain flexible to take advantage of opportunities that may arise from time-to-time. These may be acquisitions, such as Conject, or market penetration opportunities where we feel it is appropriate to increase or decrease investment in certain geographies or products.

Our FY16 results show that as the business scales globally, revenue growth drives earnings growth, which in turn enhances shareholder value. We are committed to delivering profitable growth over the long term.

As a Board we are constantly seeking to improve shareholder communications and we hope that you will take the opportunity today to engage with us and ask any questions that you may have.

On behalf of the board, I want to thank you for your support and ongoing confidence in our company.

I would also like to acknowledge the achievements of the Aconex staff and, together with the Board, thank them for their contributions to the ongoing success of the business and in particular their efforts in financial year 16.

I will now hand over to Leigh who will provide you with a deeper insight in to the performance of the business during the 2016 year, and the company's future outlook.

Managing Director's address

Thanks, Adam, and welcome to all Aconex shareholders here today.

Firstly, I will review our strong FY16 results and then provide an overview of our financial model and cash flow before presenting our outlook for the Aconex Group.

FY16 was another exceptional year of strong performance for Aconex. The rapid digitization of construction and infrastructure globally is driving increased demand for Aconex, and we have executed well on our strategic objectives over the last 12 months. This has delivered strong financial results.

Revenue, including Conject, was up 50% for the financial year to $123.4 million. EBITDA was up significantly, 350% to $13.6 million, and we also saw a strong lift in our operating contributions.

Across our regions, ANZ continues to perform well, growing at 35% to $48.8 million, and our international business grew rapidly with total revenues up 61% to $74.6 million.

On a constant currency basis, and excluding Conject, year-over-year growth was 31% for the company.

Revenue growth in FY16 accelerated to 50% year-over-year, continuing the strong growth trends of recent years and a compound annual growth rate of 29% per annum. Importantly, Aconex has grown revenue every year since its founding, through multiple economic cycles and the global financial crisis.

While growing revenue rapidly, Aconex has balanced this with increasing profitability. EBITDA has stepped up significantly over the last few years to $13.6 million at an EBITDA margin of 11%.

Last year Aconex delivered large increases in operating contributions across all of our regions. Our international performance is tracking the trajectory of the ANZ business.

The ANZ region delivered a contribution of $34.5 million, at just over 70% margin.

The Americas had an outstanding year, growing revenue to $21.3 million, at a 45% growth rate. As we continue to invest in the region, and given the large opportunity for top line growth, we do not expect contribution margins to lift significantly in the short term.

Revenue in the EMEA region grew rapidly, through the acquisition of the Conject business, to $40 million. The contribution was $17.4 million at 44% margin. Over time and as the region matures, we expect the EMEA contribution margin to approach that of the Australian business.

The Asia region didn't have quite as strong a year as some of our other markets. It still remains a large longer term opportunity and is under penetrated when compared to other regions. Recently, we have seen increasing momentum in new business generation.

Overall international revenue was up 61% for the financial year – a tremendous growth rate - demonstrating the long term potential we have in this very large, unpenetrated market. International revenue is now more than 60% of total revenue and will step up further next year to around 70% of total revenue.

Our strong results have been driven by the consistent execution of our three-part growth strategy. The first part is to grow the network, the second is to increase customer value and the third is to drive performance.

Our strong network growth was driven by key influential customer wins such as CIMIC; Burns & McDonnell, Bechtel and Fluor in the US; and ExxonMobil in the oil and gas sector. These recognised leaders help us drive significant uptake of Aconex around the world.

Investment in product is critical to the long term success of Aconex. This year we significantly increased our investment in R&D on products such as BIM Collaboration, Field Inspections, Cost Management and Insights and Analytics.

In addition, we continue to invest in our customer service resources, to ensure we provide strong support to our customers.

Lastly, we remain focused on driving performance as the company continues to scale. On the back of strong revenue growth, we have delivered a large increase in profitability. We continue to invest in creating one global operating platform for all of our business units, and through the integration of Conject, we are looking to bring the entire company onto one set of operating systems and standards.

I am now going to walk through some of our operating and sales highlights. Firstly, we are continuing to expand our global network around the world and currently have 47 offices, serving 4.5 million project users, on projects in approximately 70 different countries.

This global office infrastructure provides unparalleled capability to our customers and projects, wherever they are, and it is a significant differentiator from other providers in the market.

We have pre-invested in global scale – sales, service and support - people, resources and infrastructure – across our office network, to serve an expanding customer base.

In ANZ, we continue to win new customers and transition accounts across to enterprise agreements, which now make up almost two-thirds of our revenue.

The other key strategic driver for us in the ANZ market is the growing adoption of new products, with Aconex Field in particular being widely used.

We have had an incredible year in the Americas and secured significant relationships with influential customers. We continue to drive adoption with global market leaders. Customers we have won include Fluor, Burns & McDonnell, ExxonMobil (as I mentioned before), Caltrain (for large rail projects), and Tesla who we are particularly excited to serve on their Gigafactory development in Nevada.

Overall in the Americas, we had an outstanding year and have great momentum. Aconex is well positioned to take advantage of macro-economic trends including the rebound of the construction sector and investment in infrastructure programmes. We will continue to invest in the North American market to build on our momentum.

Asia is a massive long term opportunity for Aconex. We are executing a targeted set of sales initiatives and building relationships with key influencers. Big infrastructure opportunities such as the multi-hundred billion 'One Belt, One Road' program are being driven by China. As with the US, we also feel very well positioned in Asia, having invested early to establish strong relationships to capitalise on the expected long term growth in construction and infrastructure programmes.

Significant wins in the region include projects with China State Construction, with Nippon Koi, with Sinopec in the oil and gas space, and also with IKEA for retail projects across China.

In Europe, the Middle East and Africa, we are consolidating our market leadership position. We are well down the track of integrating the Conject business, which is going very well at an operational, people and customer level.

We have a strong customer base in Europe, including market leaders such as Mace, Vinci and ArcelorMittal. However, growth has been a little slower than we expected as we make the transition from selling Conject to selling Aconex product, and the uncertainty caused by "Brexit".

It was a challenging year in the Middle East, given the reduction in infrastructure projects due to the oil price decline. However, the region still performed well, and current indicators are that new business will improve this year on the back of a stabilising oil price and renewed project starts.

Although revenue from enterprise agreements will increase over time, we did see a small reduction of approximately $2 million between 1H16 and 2H16. The difference is attributable to adjustments made in the first-half from changing customer contracts. In one case, a transition period of projects treated separately and another due to the merger of two existing customers.

All in all, FY16 was a great year across our regions with significant growth in both new customers and also existing accounts. A strength of Aconex is its diversified revenue across regions and industry sectors. This has enabled the business to grow through challenging conditions and economic cycles over the last 15 years.

The breadth and quality of the Aconex product suite is a key competitive differentiator, and we continue to invest in new and deeper product functionality to extend that advantage. This investment in product also helps drive higher yield as our customers take up additional modules to increase the value to their projects.

There are four primary areas that we have been investing in over the last 12 months.

1) Extending Field processes with PDF forms
2) BIM Mobile – enhancing functionality around building information modelling, particularly for use out on site
3) Cost and schedule management, initially through the Worksite acquisition and then extending that product. We have a number of customers using the Connected Cost product, including a

couple of new customers in the last month. We are excited to be launching to general availability before the end of the calendar year

4) Insights and Reporting product, which draws from the rich data set on Aconex. This will enable our customer to extract substantially more value from Aconex and contribute to major improvements in their project outcomes

We now have more than 200 staff in our product and engineering teams in development centres around the world. Aconex has the largest R&D effort in our space and can therefore provide the broadest and deepest cloud collaboration platform in the industry. This competitive advantage continues to increase as we add further scale in R&D.

Over the last 12 months, Aconex has completed three significant acquisitions.

The largest of these is the Conject acquisition, which consolidates our global leadership position and adds significant revenue scale. We have the number one position in Europe and have brought additional capability into our product, sales and customer service teams.

The integration has been progressing very well at a customer and people level. We have retained all customers and key staff and have very good cultural alignment between the two businesses. We are also making solid progress on operational integration, moving toward one single operating platform and set of standards for the company globally.

As part of the integration process we are conducting a review of the European operations, including Conject's facilities management business, which provides on premise software rather than software-as-a-service model.

Growth in the short term has been lower than expected. We are working to complete the transition to selling Aconex, particularly in the UK, to reset the upward growth trend.

As previously noted, the impact of Brexit and currency fluctuations have been a factor.

The CIMIC / Keystone acquisition is going very well and we have added a significant volume of projects from CIMIC last year.

Lastly, the Worksite acquisition has also been a success for Aconex. We have integrated the product and built out our Connected Cost functionality and we have a number of customers already using the platform. We go to a general availability launch before the end of the year. We also opened a new San Francisco office and, similar to the INCITE Keystone integration, have consolidated our teams together in this new location.

While we still have work to do, we believe these acquisitions will create significant long term value for Aconex customers and for the Company.

In the broader construction technology market, there is wider recognition of the benefit of digital construction solutions and we believe that this will continue to increase demand for Aconex.

Research by consulting firms McKinsey & Company and the Boston Consulting Group highlights that construction is inefficient, productivity is poor, and the industry is among the least digitised.

These issues are driving the industry to look for ways to improve the performance of their projects, and digital construction technology is gaining momentum. There are six key areas that industry experts see as opportunities for digital construction, and Aconex is working in all of these. The first is digital collaboration and mobility, something Aconex has done since its inception. Next generation BIM, data driven design and construction, the Internet of Things, the Digital Twin and virtual handover, and advanced analytics are all areas in which Aconex supports the industry to drive significant performance improvements. Aconex is investing in the platform to increase the value we can bring to our customers across these areas.

The impact of digital construction technology is massive and it has been estimated at between $0.7 and $1.2 trillion in value during the engineering and construction phases, and a further $0.3 to $0.5 trillion in the operating phase. Clearly, this digital disruption of construction is a huge opportunity for Aconex – and reinforces our ambition to build a leading, global business.

I would now like to recap our financial model and provide all investors with a clear understanding of how the financials work and cash flow is derived from our contracts.

The Aconex financial model is underpinned by subscription revenue from enterprise or project customers, generally on an unlimited user and usage basis. Under this unlimited model, customers can have as many users and as much usage of the Aconex platform as they need to deliver their projects. We contract this way to ensure maximum network take-up.

Aconex has a conservative revenue recognition policy, where revenue is recognized evenly over the length of the contract. Currently, our average contract length is around 42 months, or 14 quarters. That has increased slightly over the last couple of years as our projects have become larger.

The majority of our contracts are invoiced quarterly or annually in advance, with a smaller percentage invoiced upfront.

This financial model with a high visibility subscription-based model provides a high degree of predictability for forward revenues.

There are then several factors that impact cash / revenue generation including:

Changes to the company's invoicing profile, including the impact of a reduction in upfront invoicing and associated discounting post-IPO; month-to-month variations in payment terms; one-off payments for acquisition and integration costs; and investment in new product.

We have evolved our upfront invoicing profile choosing to decrease the proportion of upfront invoicing over the last few years.

The context for this is that pre-IPO we used upfront invoicing to fund growth, encouraging our customers to pay upfront through discounting. Since listing, and with a much stronger balance sheet, we decided to shift our focus to optimizing contract value, which has contributed to an increase in yield across our customer base. So we've reduced discounting and upfront invoicing.

This transition to a lower level of up front invoicing has decreased cash collection as a percentage of revenue in the short term, as invoicing is running a little behind revenue. To be clear, this is because we continue to recognise revenue from contracts that we have been paid for upfront while we continue to deliver on the contract. When this proportion of upfront invoicing stabilises we expect that this cash collection will realign and track ahead of revenue due to annual and quarterly contracts being invoiced in advance and some ongoing upfront invoicing.

To reiterate our revenue and invoicing model, you can see the three standard forms of contracts on the left, with up front invoicing, annually in advance or quarterly in advance. On all these contracts, revenue is recognized evenly over the length of the contract.

Invoicing in advance of revenue is held as deferred revenue on the balance sheet. The chart on the right shows the deferred revenue balance over time. For upfront invoicing 100% of the contract is recognized as deferred upfront and then winds down as revenue as recognized. For annually in advance contracts there is a step up and wind down on each annual invoice issued.

As we have made the choice to reduce upfront discounting, the effect is that with a reduced up front invoicing profile, our deferred balance will reduce as a percentage of revenue and has been doing so over the last couple of years. This is particularly noticeable in the reduction of the non-current deferred balance for invoicing that is over 12 months in advance of revenue. We expect this unwind of upfront invoicing to continue for another couple of years. Of course, in reality, the total picture is more complicated than this as our underlying growth is also overlaid on top of this unwind of upfront invoicing.

It is also worth noting that we always expect to have some upfront invoicing as there are certain jurisdictions, where for commercial reasons, it is prudent to invoice upfront. For example, there are some regions where collections are more difficult so invoicing upfront ensure we are paid more of the contract, more promptly.

One important point to note is that irrespective of the profile of invoicing, and even at lower rates of upfront invoicing, ultimately, once the proportions have stabilised, invoicing always runs ahead of revenue. Two profiles are shown here; a 30% up front invoicing profile, which is what we were running at a couple of years ago and a ten percent invoicing profile.

In both cases, invoicing runs ahead of recognised revenue. On a steady state basis and a constant invoicing profile, we will always see positive working capital for the company.

The graph shows upfront invoicing as a percentage of bookings which is new sales, over the past five years. We were running at more than 30% in FY12 and near to 30% in FY13 and FY14. More recently this number has reduced to 23% in FY15 and 17% in FY16.

This is due to the decision post-IPO to focus on optimising contract value rather than discounting for early payment. There have been other factors, aside from discounting, that have led to reduced upfront invoicing. There has also been an increase in enterprise agreements, which tend to be either invoiced annually or quarterly in advance, as well as the removal of sales incentives for our team.

Also Conject has a predominately quarterly invoicing profile. So we have seen a transition to lower up front invoicing over the last few years, which has meant that cash collection has lagged revenue over the last 12 months.

We expect cash collection will realign and track back ahead of revenue with positive working capital for the Company within the next couple of years.

I would now like to take the opportunity to clarify our FY17 outlook for revenue and EBITDA and provide some insight in to the progress of the company, taking in to account first-quarter performance.

In FY17, revenue is expected in the range of $172 to $180 million and EBITDA in the range of $22 to $25 million, excluding acquisition costs. This outlook reflects the strong underlying growth of the business, ongoing sales momentum and solid performance of the ANZ, Americas and Asia regions.

As highlighted earlier, first quarter growth in EMEA was slower than expected, due to uncertainty caused by “Brexit”, leading to delayed project starts and the short term impact of an accelerated shift from selling Conject to selling Aconex.

Unfavourable currency movements of the Euro and particularly the pound, have impacted revenue, but as a result of our natural hedge do not affect EBITDA.

Additionally, oil price uncertainty has caused some delays in decision making on projects in the Middle East.

Current indicators are that new business will improve in the Middle East and based on the positive response to the Aconex platform in Europe, we expect performance in the region to improve throughout the year.

We re-affirm our revenue growth and EBITDA percentage ranges for the medium term.

The market opportunity is large for Aconex and we are well positioned for the long term with the broadest product and widest geographic coverage in our industry. Over the last five or so years we have grown at a compounding annual growth rate of nearly 30% and we are confident that we can maintain high growth rates above 20% for the medium term, while increasing our profitability.

In closing, Aconex has enormous potential and is executing well as we continue to invest and grow the company to take advantage of this significant global market opportunity.

Highlights for the year have included:

- Strong sales momentum in the Americas
- Acceleration of user growth on key US accounts
- Conject integration, with highly engaged customers and staff
- New enterprise customers, particularly in the ANZ region
- Multiple mega infrastructure projects wins around the world
- Positive feedback on the Connected Cost product from preview customers and the imminent global launch of the product
- Continued strong growth balanced with increasing profitability

Our purpose for the company remains the same as when we started – to connect people and data to build the world's infrastructure, transforming how project teams work together, to make it fairer, easier and more efficient for everyone involved. This purpose remains as we grow into an increasingly large global market for the Aconex platform.

Thank you again for attending today.

About Aconex

Aconex Limited provides a leading cloud and mobile collaboration platform for the global construction industry. The platform connects owners, contractors and their project teams in the construction, infrastructure, and energy and resources sectors, providing project-wide visibility and control between the many different organisations collaborating across their projects. With more than 70,000 user organisations and over $1 trillion of project value delivered in more than 70 countries, Aconex is the industry's most widely adopted and trusted platform. Founded in 2000, Aconex has 47 offices in 23 countries around the world, including headquarters in Melbourne, Australia. The company's ordinary shares are traded on the Australian Securities Exchange (ASX) under the ticker code ACX and are included in the S&P / ASX 200 Index.

Supporting Resources

For more information on Aconex, please visit:
Investor Centre: http://investor.aconex.com
Website: http://www.aconex.com

Forward-Looking Statements

This announcement includes certain forward-looking statements that are based on information and assumptions known to date and are subject to various risks and uncertainties. Actual results, performance or achievements could be significantly different from those expressed in, or implied by, these forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Aconex. These factors may cause actual results to differ materially from those expressed in the statements contained in this announcement.

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