

## Silver Spring Networks Inc. (NYSE:SSNI)

Technology – Computer Based Systems

### A Turn to Services amid Uncertainty

#### Company Profile

Silver Spring Networks (SSNI) is an “Internet of Things” (IoT) enabler that provides utilities with advanced metering infrastructure solutions to achieve more efficient, two-way information flow between consumers and utilities. The Company also offers a diverse portfolio of ancillary applications that promote energy efficiencies and cost savings. The Company has over 25 million endpoints delivered to date.

#### Volatile and Uncertain U.S. Smart Grid Market

We see strong potential headwinds in the U.S. smart grid market, in which Silver Springs derives a significant portion of their revenue. We believe the Company’s international growth prospects outside of Australia and North America are limited. Furthermore, the Company’s reliance on one-time contracts as the primary form of revenue generation implies inherent risk.

#### Growing Recurring Revenue Base

An effort to grow recurring revenue through the Company’s Managed Services and Software-as-a-Service business segment is in effect. We expect steady growth through in this segment, with Recurring Revenue per Endpoint reaching \$3.50 in FY2016 and \$3.57 in FY2017. However, this segment is still an insignificant portion of the Company’s overall revenue. Therefore, we believe the Company still has ways to go to increase their presence in smart grid software-as-a-service.

#### Valuation & Recommendation

With an implied share price of \$14.13 representing a 7.7% upside on the current share price of \$13.12, we rate Silver Spring Networks as a Hold.

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**Analyst:** James Sun, BCom 18

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#### Equity Research US

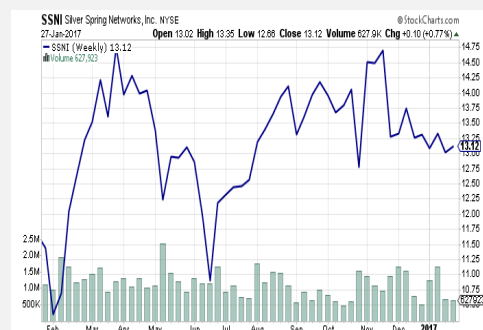
<b>Price Target</b>	<b>USD\$ 14.13</b>
<b>Rating</b>	<b>Hold</b>
<b>Current Share Price, close</b>	USD\$ 13.12
<b>Total Return</b>	7.7%

#### Key Statistics

<b>52 week H/L</b>	\$15.40/\$9.55
<b>Market Capitalization</b>	\$668M
<b>Net Debt</b>	-\$48.0M
<b>Enterprise Value</b>	\$571M
<b>Net Debt/Enterprise Value</b>	-8.4%
<b>Diluted Shares Outstanding</b>	\$57.1M
<b>Free Float %</b>	89%
<b>Dividend Yield</b>	0%
<b>LTM P/E</b>	11.9x
<b>LTM EV/EBITDA</b>	5.9x

#### WestPeak’s Forecast

	<u>2016E</u>	<u>2017E</u>	<u>2018E</u>
<b>Revenue</b>	\$347M	\$342M	\$359M
<b>EBITDA</b>	\$51M	\$33M	\$36M
<b>EBIT</b>	\$12M	\$1M	\$2M
<b>Net Income</b>	\$4M	\$0M	\$1M



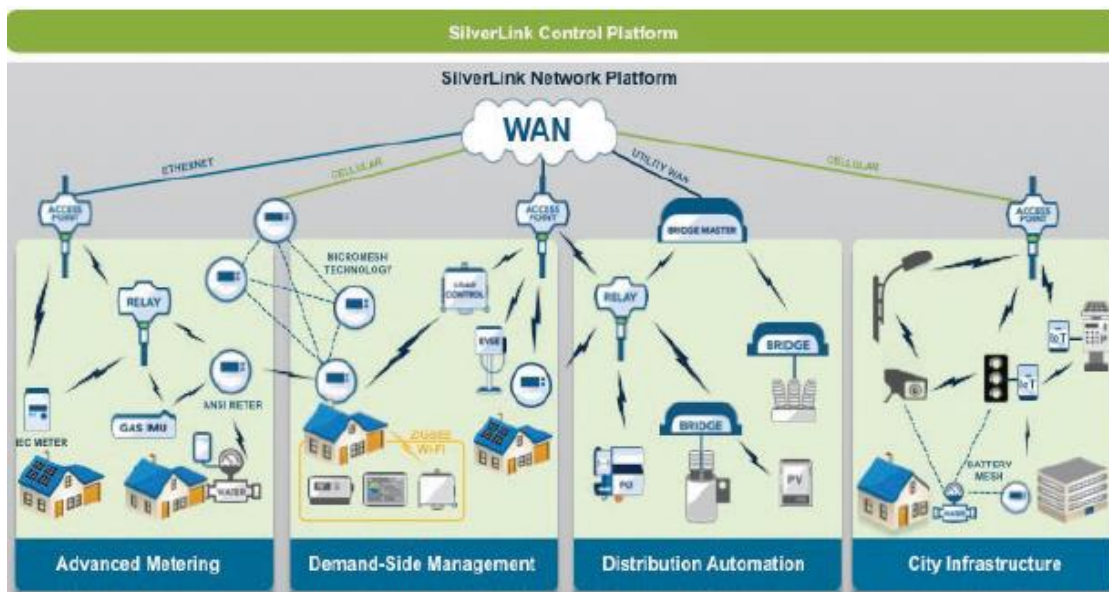
Source: Stockcharts.com

## Business Overview/Fundamentals

Silver Spring creates and deploys networks that connect endpoints to the Internet, allowing for more efficient communication of information. The Company's primary focus has been on developing the communication layer of the smart grid, allowing it to be integrated into the existing energy infrastructure. This sets the foundation for effective two-way information flow between utilities and customers, and opens the door to the whole suite of benefits provided by the smart grid. With main operations in the United States, Australia and Canada, the Company has over 25 million endpoints connected as of FY2016.

### SilverLink Networking Platform (SLNP):

The architecture of Silver Springs' endpoint networks, the SilverLink Networking Platform represents the operating system and hardware that connects the millions of endpoints. Recently, the Company improved its existing network capabilities through the launch of their Gen5 Network, which aims to achieve higher speeds (2.4 Mbps), lower latency (10 milliseconds) and connectivity for other devices beyond electricity meters.

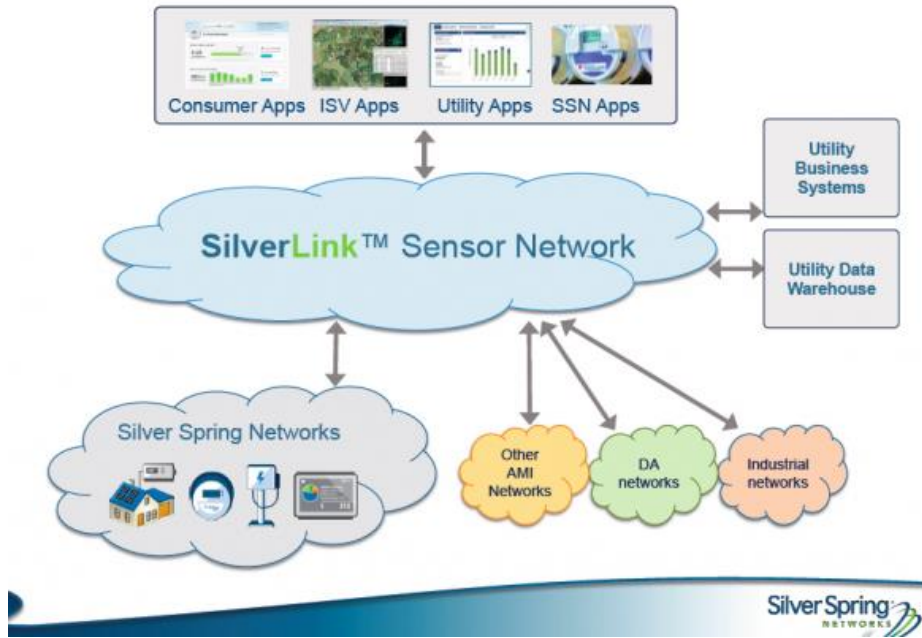


Source: Silver Spring Networks – Silver Spring Gen5 Network brochure

The system uses a wireless radio-frequency mesh (RF mesh) architecture to cater to the wide area network and the neighborhood area network with IPv6. With approximately 96% of smart grid networks in North America being built with RF mesh, this architecture is considered an industry standard for connecting millions of nodes due to its flexibility in design and lower capital costs.

### SilverLink Data Platform (SDP) (Formerly the SilverLink Sensor Network):

The SilverLink Data Platform is the cloud application that analyzes the “big data” of all the activity in the electricity grid via endpoint sensors, and is a primary platform for the ancillary extensions developed by the Company. The SDP offers real-time data analytics at a reduced cost.



Source: Silver Spring Networks Presentation

The SDP allows for multiple services to be rendered, such as real-time voltage assessments, temperature monitoring, theft detections, and itemized energy bills.

### Solutions and Services

Derived from the SilverLink Data and Networking Platform as described above, Silver Spring’s solutions include offerings focused on advanced metering, demand-side management, and distribution automation. An example of one of the Company’s applications is CustomerIQ, which keeps customers engaged by informing them of key insights such as new rate plans, energy efficiency tips and usage trends.

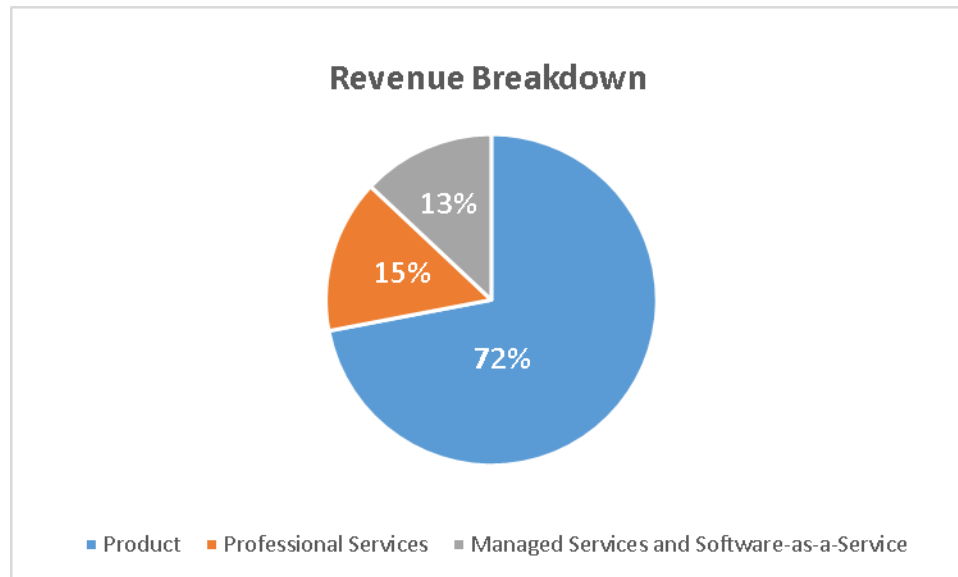


Source: Silver Spring Networks CustomerIQ brochure

It's important to note that Silver Springs does not manufacture any hardware. Instead, a project involving hardware and such installations are usually outsourced to a third-party. As such, the Company is solely focused on the products and services relevant to the communications network and data analytics.

## Business Segmentation

Silver Springs segments its revenue in two primary ways. Firstly, the Company segments revenue into Product and Service as shown below, with figures being expressed in terms of FY2015:



**Product** revenue refers to the sale of hardware, such as communication modules and network bridges, as well as software.

**Professional Services** revenue refers to services which may be needed once a utility has chosen the Company as the provider of their smart grid network. These services include installation support and training.

**Managed Services and Software-as-a-Service (SaaS)** revenue refers to services such as monitoring, tracking and emergency response. This segment also accounts for revenue from utilities who choose to employ a SaaS model, in which Silver Springs owns and runs the software and servers, and then charges the utility with a monthly fee.

**Services** revenue represents the sum of Professional Services revenue and Managed Services and SaaS revenue.

The Company provides an alternative segmentation, as shown below:

**Advanced Metering Infrastructure (AMI):** For the nine months ended on September 30, 2016, this accounted for **87% of the Company's revenue**. AMI refers to any product sales or services related to the deployment of the network.

**New Solutions:** For the nine months ended on September 30, 2016, this accounted for **13% of the Company's revenue**. New Solutions refers to revenue earned from demand-side management, distribution automation and other ancillary services.

In FY2015, the geographic breakdown for the Company's revenue is **87% from the U.S., 9% from Australia, and 4% from all other countries**. This is relatively in-line with their historic figures.

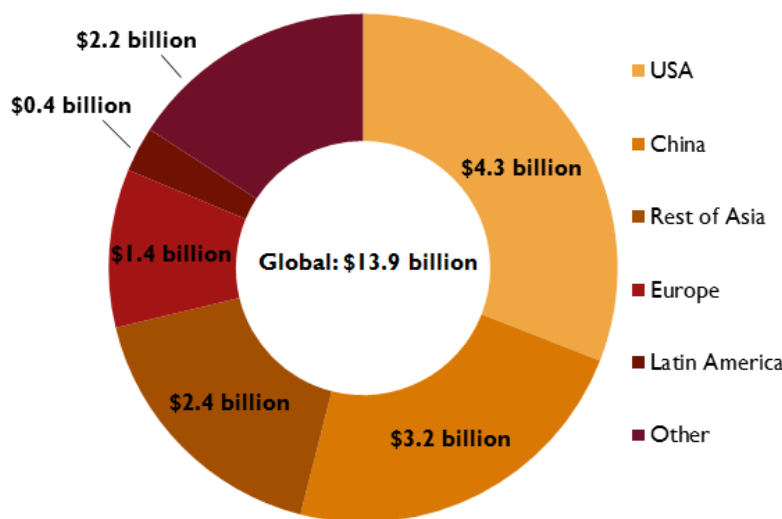
### Low Financial Risk

Prior to its IPO, Silver Springs underwent several rounds of venture capital funding worth over \$100 million, which is common for a young smart grid company. Unlike its peers, the Company holds no debt, granting it an attractive capital structure for a company with volatile cash flows.

## Industry Analysis

### The Smart Grid is a Fast Growing, Global Market

Smart grids represent the IoT application on utilities. In essence, smart grids are electrical networks that are connected with communications technology in order to efficiently and effectively react to changes and to manage electricity flow. According to Zion Research, the global smart grid market, valued at \$40 billion USD in 2014, is expected to grow at a CAGR of 18% to reach \$120 billion USD by 2020. As renewable energy forms become more prevalent and utilities and customers both begin recognizing the benefits of having improved two-way communication flow and analytics on energy usage, there becomes greater demand for smart grid infrastructure. Below is a breakdown by country of the world market for the smart grid in 2012:



Source: Bloomberg

However, recently there have been a few changes to the smart grid investment landscape worth mentioning. As the U.S. market has become increasingly saturated and the funds from a \$4.5 billion federal government

stimulus package as a result of the American Recovery and Reinvestment Act have been used up, China has overtaken the U.S. to become the world’s largest investor in smart grid technology. The Chinese government has recently taken ambitious steps to increase smart grid investment to counter unnecessary energy revenue loss and to become a world leader in renewables. However, the hefty smart grid investment flows into domestic, state-owned companies, effectively shutting out international firms, such as Silver Spring Networks. In emerging markets such as Mexico, there exists high growth potential as energy consumption is rapidly increasing and renewables are growing in popularity.

Although concepts of the smart grid are applicable to other utilities such as water and gas, the primary focus has been on investment in electric utilities. Residential consumers have been the focus for smart meters, as commercial smart meters are not a novel concept. In the U.S. alone, there over 65 million smart meter installations.

## Smart Grid Benefits

The smart grid offers attractive benefits to utility stakeholders as shown below:

Stakeholder	Benefits
<b>Utility Customers</b>	<ul style="list-style-type: none"> <li>• Better access and data to manage energy use</li> <li>• More accurate and timely billing</li> <li>• Improved and increased rate options</li> <li>• Improved outage restoration</li> <li>• Power quality data</li> </ul>
<b>Customer Service &amp; Field Operations</b>	<ul style="list-style-type: none"> <li>• Reduced cost of Metering reading</li> <li>• Reduced trips for off-cycle reads</li> <li>• Eliminates handheld meter reading equipment</li> <li>• Reduced call center transactions</li> <li>• Reduced collections and connects/disconnects</li> </ul>
<b>Revenue Cycle Services - Billing, Accounting, Revenue Protection</b>	<ul style="list-style-type: none"> <li>• Reduced back office rebilling</li> <li>• Early detection of meter tampering and theft</li> <li>• Reduced estimated billing and billing errors</li> </ul>
<b>Transmission and Distribution</b>	<ul style="list-style-type: none"> <li>• Improved transformer load management</li> <li>• Improved capacitor bank switching</li> <li>• Data for improved efficiency, reliability of service, losses, and loading</li> <li>• Improved data for efficient grid system design</li> <li>• Power quality data for the service areas</li> </ul>
<b>Marketing &amp; Load Forecasting</b>	<ul style="list-style-type: none"> <li>• Reduced costs for collecting load research data</li> </ul>

*Source: Edison Electric Institute*

In summary, the main benefits for having a smart grid are more accurate and reliable meter readings, faster responses to outages, and having access to more data for analytics.

## Wireless Mesh is the Preferred Network in U.S.

A key component to the smart grid is the communications layer of the infrastructure, i.e. how the endpoints are connected and what platform are they connected on. The same communications architecture produced by Silver Springs, wireless mesh, is the industry standard in the U.S, over alternative structures such as cellular, WiMAX, and broadband over powerlines. The core benefits of wireless mesh are its scalability, compatibility with other networks, and controlled costs.

## Market Segmentation

The market can be segmented into three main categories: advanced metering infrastructure (AMI), demand-side management (DSM) and distribution automation (DA). Although the smart grid is an exciting and fast-growing industry, different firms in this space operate in different sub-segments, and often work together in delivering solutions to utilities. Silver Springs is a leader in the AMI space. The approximate breakdown and description for each segment is shown below:

**Advanced Metering Infrastructure:** Represents all the activity relevant to the deployment of smart meters, and is the primary focus of all smart grid activity in the US. This market can be divided into the subsectors of smart meter hardware, communications system and software that compiles relevant data for analytics. As of 2010, hardware consisted of 60% of the spending in this market, 32% from communications network and 18% on meter management and other. The market is relatively concentrated with only a few big players, and Silver Springs being one of them. There were over 65 million smart meter units in the U.S. alone at the end of 2015.

**Distribution Automation:** Represents the improvements in the electrical distribution system, such as substation upgrades through increased monitoring. This market, unlike DSM below, has very few start-ups. Instead, it's filled with large, mature companies that were involved in legacy grid equipment. Silver Springs does not have meaningful penetration in this sub-market; however, it offers communications units to be installed into the intelligent devices that are deployed along distribution and feeder lines, as well as a suite of apps to help utilities better manage their grid operations.

**Demand-Side Management:** Represents the market of energy consumers entering into contracts with utilities to shave off usage during peak periods in an attempt to reduce the burden of aggregate peak demand for utilities and to allow consumers to enjoy cost savings. Controlling demand as opposed to increasing supply through more infrastructure spending is an attractive proposition for many utilities. Although the market here is not nearly as big as for AMI, it is very dynamic and filled with several tech start-ups. Silver Springs' SilverLink Data Platform provides many apps that encourage consumers to be engaged with their energy usage and spending.

## Headwinds in Smart Grid Market

According to Accenture's Digitally Enabled Grid program in 2013, the main barriers for smart grid solutions include lack of return on investment, regulatory support and mature technology solutions. ROI can be

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substantial and can be measured through savings in energy efficiency, consumer benefits and society and environmental externalities. However, it can be difficult for utilities to recognize a return on investment immediately because of benefits are spread across a long time horizon and several benefits can hard to quantify. Furthermore, consumer demand may be softened if energy prices are low; U.S. electricity costs are relatively cheap due to abundance of shale oil. Furthermore, government spending is a large part of investment in smart grids; therefore, policy can dictate the future of this industry.

## Concerns Regarding Security, Privacy and Radiation Exposure

Some residential energy consumers fear that exposure to radio frequency signals used by the communications architecture can pose adverse risk to their health. However, it has been thoroughly tested and proven that the level of emissions is well below FCC limits. Another concern is the issue of privacy and tied to that, the issue of information security. Consumers are wary of potential hackers accessing detailed information on their usage of energy throughout the day. Therefore, security has been an ongoing concern for smart grid communication systems. We believe Silver Springs has made substantial investment in the security of their systems and has further partnered with third-parties to create apps that can assist with theft detection.

## Industry Summary

The main points worth mentioning in the smart grid industry are buyer power, competitive rivalry and threat of substitutes. Buyer power is relatively high, as many smart grid companies derive their revenue from a small number of customers; however, the cost of switching for buyers can be high, as the installed technology may be firm-specific. The industry is quite competitive, with more concentrated competition in the data analytics segments. The threat of substitutes is low; governments and utilities are recognizing that the alternative to an IoT-enabled system for their power grids is the current infrastructure, which is inefficient and inadequate to adapt to new energy forms and the increased demand for energy.

## Uncertainty and Volatility with U.S. Smart Grid Market

We recognize that in the U.S., Silver Springs is in a strong position as a leader in the AMI communications space. Furthermore, their outsourcing of hardware components allows them to focus on their core competencies of developing superior networks. However, we believe the industry is still very much affected by government regulations and energy prices. A slow-down in renewable investments can harm growth in this space, as can changes in allocation of funds to utilities. High energy costs would incentivize more smart grid initiatives. However, since U.S. energy costs are still relatively low, we believe there isn't enough consumer demand for metering solutions, and therefore the onus is on utilities to implement them. Therefore, the driving forces for demand in the large-scaled communication networks provided by Silver Springs is by government initiatives and cost saving attempts by utilities.

As the utilities space becomes increasingly saturated with smart grid deployments, Silver Springs may shift their focus to other areas of the IoT. However, the markets with the IoT are competitive and dynamic, and Silver Springs would have to invest in further R&D to have a presence. Therefore, their success in other IoT spaces is not guaranteed.



As discussed above, SilverLink is the primary platform that allows the smart grid infrastructure to communicate and is generally a necessity for clients. It is built with, what is widely concerned to be, the ideal industry standards in the U.S. However, as for international expansion opportunities, different regions prefer different communications technology. For example, Europe prefers broadband over powerlines, as opposed to wireless mesh, because of differences in wiring topologies and infrastructure. Therefore, we believe the Silver Springs is limited to growth in North America and Australia, which are not set to be the fastest growing markets for smart grids.

## Growing Recurring Revenue Base

Silver Springs' revenue trends have been similar to a roller-coaster ride to say the least. Wide fluctuations in revenue are due to the nature of business in the smart grid industry; governments and utilities select the suppliers for large smart grid projects, which typically involve large-scale deployments. This means Silver Spring's revenue is highly dependent on their ability to win government contracts, a difficult event to forecast. Along with the long and uncertain nature of sales cycles in this industry, it's understandable that the Company has volatile revenue figures, making it hard to confidently predict future revenues.

However, management has made a conscious effort to stabilize their revenues by focusing more on the services segment, particularly the Managed Services and SaaS segment. The shift towards this business segment is evident, as Managed Services and SaaS billings grew 17% YoY from FY2015 to FY2014 and 20% YoY from FY2014 to FY2013.

As the Company pushes more into their data analytics offerings and as their number of cumulative endpoints delivered continues to grow, we expect to see growth in recurring billings per endpoint. Over time, we expect Managed Services and SaaS to be a larger part of their revenue. This may give investors some comfort later on; however as of now, we believe the market is reacting rationally to the uncertainty of Silver Spring's ability to sustain revenue in a competitive and highly regulated industry.

## Catalysts

### Acquisition Announcement

The smart grid industry is ripe with acquisitions. Several recent acquisitions, such as Oracle's acquisition of Opower, have involved large and mature tech companies acquiring smaller smart grid companies as a quick way to enter the market. Since, Silver Springs is a well-respected leader in the AMI communications space, we believe the Company may be an attractive acquisition target.

On the flip-side, Silver Spring's 2015 acquisition of Detectant for \$12 million, a theft protection start-up, illustrates a trend of acquisitions of innovative start-ups that can bring value to some aspect of the smart grid industry. Therefore, future announcements of acquisitions by the Company may impact the share price.

### Winning Government Contracts

As stated above, Silver Spring's current revenue is dependent on the number of contracts that they can win. Announcements of unexpected, large contracts may cause a materially increase in the stock price. Many external factors may influence this, such as availability of government funding and changes in technology.

## Management Team

### Michael Bell, CEO

Michael Bell has been President and CEO of Silver Springs since September 2015. Prior to this role, he has held numerous corporate and product development positions in technology companies, namely Intel, Apple and Palm. He holds a B.S. in Mechanical Engineering from the University of Pennsylvania. In 2015,

### Scott A. Lang, Chairman

Scott Lang has served as the Company's Executive Chairman since September 2015, after his resignation as the Company's CEO. Prior to joining the Company, he worked at Perot Systems for numerous years. He holds a B.S. in Business Administration from the University of Mississippi and is a graduate of the Advanced Executive Program from Northwestern University's Kellogg School of Management.

## Risks

### Top Customers Accounted for over 30% of Revenues in FY2015

Silver Springs typically derives a large portion of their revenue from a few clients. In FY2015, 31% of their revenue came from ComEd, an Illinois-based utility company, and 27% of their revenue came from Pepco Holdings, a power supplier for the Mid-Atlantic States.

### Liquidity Issues

As of Q3 FY2016, Silver Springs had only \$48 million cash. The volatility from their cash from operations may make it hard for them to manage their cash and sustain investments in R&D and Capex. Therefore, they may have to enter into a credit facility or issue more shares. Alternatively, they may scale back investments.

## Competitor Overview

**Landis+Gyr (subsidiary of Toshiba Corporation):** A multinational corporation with over \$1.5 billion in annual revenues and has operations in 30 countries. They offer network products in the AMI space. Their networking platform, Gridstream is more flexible than Silver Spring's SilverLink platform, because it is able to integrate with a variety of communications channels including WiMAX, powerline and RF mesh. This means they have a wider choice of clients to work with than Silver Springs does and they have the advantage of tackling other markets.

**EnerNOC:** A provider of energy intelligence software for the demand-side management aspect of the smart grid industry. Their solutions are marketed towards businesses and utilities.

**Itron:** A leading provider of AMI solutions, including RF mesh and powerline, to gas, water and electric utilities. Their OpenWay Riva communications technology has enabled them to leverage the IoT for their communications modules. Approximately half of their annual revenue is derived from areas outside of North America. We believe that Itron is a serious competitor to Silver Springs, particularly right now as the Company attempts to branch out of electricity and into neighbouring utilities.

**Trilliant (private):** A provider of AMI solutions, with their Trilliant Smart Grid Platform as the forefront of their offerings. Their business model appears to be quite similar to that of Silver Springs, producing open-standard communications platforms and offering ancillary applications for data analytics.

**Opower (to be acquired by Oracle):** A software-as-a-service company that provides cloud-based software to utility companies. Oracle, which offers a diverse range of metering solutions, can now reach out to the adjacent markets thanks to Opower. This allows Oracle to offer complete an integrated enterprise solution, all the way from the meter to additional services.

## Valuation

### Discounted Cash Flow Analysis

We forecasted Silver Spring's billings and cost of billings, a non-GAAP measures that represents the contract value (or addition to backlog) of revenue or expenses. We then forecasted their change in deferred revenue and change in cost of deferred revenue, which, when added to the billings metrics, give the Company's reported revenue figures. For the Managed Services and SaaS segment, we forecasted their billings and revenue off of their number of endpoints and revenue per endpoint. A detailed analysis can be seen in Appendix 4.

We believe the Company would see modest growth of around 5% growth in product billings in the future, with stronger tailwinds in the Managed Services and SaaS segment as management tries to stabilize revenue with recurring services. We assume costs would stay relatively in line with current conditions.

The discount rate was calculated to be **8.05%**. We assumed a 1.5% risk-free rate, 5% market risk premium and an equity beta of 1.31, which was calculated through a regression with the Company's share price and that of a market-indexed ETF. We assigned a 3% perpetuity growth rate. We believe current optimistic growth figures for the entire industry do not apply to the Company, which is a niche player in a sub-segment. We arrived at an implied share price of **\$12.90**. The DCF was given an **80%** weighting to our valuation. Appendix 5 shows our DCF analysis.

## Comparable Companies Analysis

We had difficulty finding a good number of suitable companies with the same business fundamentals to Silver Springs. Being a leader in the communications sub-space in the AMI market of smart grids is quite a niche position. Furthermore, the volatility of earnings and operating metrics makes it rather difficult to implement certain ratios. However, we chose a set of utility-servicing smart grid companies that share a similar business model with Silver Springs. We chose to use the implied share price of **\$19.03** calculated from the average **TTM EV/EBITDA** multiple. Our comparable company analysis, as shown in Appendix 6, is given a **20%** weighting in our final valuation.

## Recommendation

Based on our analysis, we believe the market has correctly priced in the uncertainties in the Company's future growth potential in a disruptive space. While a shift towards Managed Services and SaaS may give investors some comfort with sustainable revenues, this is a far cry into the future and the current situation Silver Springs faces is strong uncertainty with their ability to win contracts and stay profitable. Therefore, with an implied share price of **\$14.13**, we rate Silver Springs Networks as a **Hold**.

# Appendix 1: Income Statement

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	<b>196.7</b>	<b>326.9</b>	<b>191.3</b>	<b>489.6</b>	<b>48.6</b>	<b>122.0</b>	<b>74.2</b>	<b>102.3</b>	<b>347.0</b>	<b>341.8</b>	<b>358.8</b>	<b>376.8</b>	<b>395.8</b>	<b>415.9</b>
Product cost of revenue	115.3	150.3	77.2	202.4	16.0	41.4	29.2	30.0	116.7	96.6	101.5	106.5	111.9	117.5
Service cost of revenue	49.7	61.2	57.8	61.4	15.6	16.0	16.7	16.9	65.2	68.6	70.7	73.0	75.3	77.8
Cost of Goods Sold	157.8	204.9	128.5	256.0	29.5	55.3	43.8	30.7	159.3	165.2	172.2	179.5	187.2	195.3
<b>Gross Profit</b>	<b>39.0</b>	<b>122.0</b>	<b>62.8</b>	<b>233.6</b>	<b>19.1</b>	<b>66.6</b>	<b>30.3</b>	<b>71.6</b>	<b>187.7</b>	<b>176.6</b>	<b>186.6</b>	<b>197.2</b>	<b>208.6</b>	<b>220.7</b>
R&D	62.0	77.0	64.8	61.3	15.5	17.9	18.2	24.5	76.1	78.6	82.5	86.7	91.0	95.7
SG&A	43.3	27.6	43.8	53.3	13.5	12.8	14.2	20.5	61.0	64.9	68.2	71.6	75.2	79.0
<b>EBITDA</b>	<b>(66.3)</b>	<b>17.4</b>	<b>(45.8)</b>	<b>118.9</b>	<b>(9.9)</b>	<b>35.9</b>	<b>(2.0)</b>	<b>26.6</b>	<b>50.6</b>	<b>33.0</b>	<b>35.9</b>	<b>39.0</b>	<b>42.4</b>	<b>46.0</b>
D&A	7.3	6.6	6.5	7.8	2.1	2.1	2.1	2.3	8.6	2.5	3.8	5.1	6.2	7.3
SBC	15.1	52.5	33.9	26.5	6.9	7.0	7.9	8.0	29.8	30.0	30.0	30.0	30.0	30.0
<b>EBIT</b>	<b>(88.6)</b>	<b>(41.8)</b>	<b>(86.1)</b>	<b>84.6</b>	<b>(18.9)</b>	<b>26.7</b>	<b>(12.0)</b>	<b>16.3</b>	<b>12.1</b>	<b>0.5</b>	<b>2.0</b>	<b>3.9</b>	<b>6.1</b>	<b>8.7</b>
Interest expense	(4.3)	(1.2)	(0.1)	(0.1)	-	-	-	-	-	-	-	-	-	-
Interest income	0.0	0.1	0.3	0.5	-	-	-	-	-	-	-	-	-	-
Other income (loss), net	(0.3)	(0.0)	(0.1)	(0.3)	0.4	0.3	0.1	-	-	-	-	-	-	-
Restructuring	-	-	(1.8)	(1.7)	(0.0)	-	-	-	-	-	-	-	-	-
Impairment of intangibles	-	-	-	-	-	-	(2.2)	-	-	-	-	-	-	-
Conversion of promissory notes and r	3.9	(23.7)	-	-	-	-	-	-	-	-	-	-	-	-
Other items	3.6	(23.6)	(1.5)	(1.5)	0.4	0.3	(2.1)	-	(1.4)	-	-	-	-	-
<b>Income Before Income Tax</b>	<b>(89.3)</b>	<b>(66.6)</b>	<b>(87.7)</b>	<b>83.1</b>	<b>(18.5)</b>	<b>27.1</b>	<b>(14.1)</b>	<b>16.3</b>	<b>10.8</b>	<b>0.5</b>	<b>2.0</b>	<b>3.9</b>	<b>6.1</b>	<b>8.7</b>
Income Tax	0.4	0.2	1.4	3.1	0.0	1.0	1.1	4.9	7.0	0.2	0.6	1.2	1.8	2.6
<b>Net Income</b>	<b>(89.7)</b>	<b>(66.8)</b>	<b>(89.2)</b>	<b>80.0</b>	<b>(18.5)</b>	<b>26.1</b>	<b>(15.2)</b>	<b>11.4</b>	<b>3.8</b>	<b>0.4</b>	<b>1.4</b>	<b>2.7</b>	<b>4.3</b>	<b>6.1</b>
Deemed Dividend to Convertible Prefe	-	(105.0)	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income Attributable to Common Sto</b>	<b>(89.7)</b>	<b>(171.8)</b>	<b>(89.2)</b>	<b>80.0</b>	<b>(18.5)</b>	<b>26.1</b>	<b>(15.2)</b>	<b>11.4</b>	<b>3.8</b>	<b>0.4</b>	<b>1.4</b>	<b>2.7</b>	<b>4.3</b>	<b>6.1</b>
Shares Outstanding, Basic	3.7	37.9	48.4	50.0	50.8	51.2	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7
Shares Outstanding, Diluted	3.7	37.9	48.4	51.5	50.8	52.8	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7
Earnings Per Share, Basic	-\$ 24.45	-\$ 4.54	-\$ 1.84	\$ 1.60	-\$ 0.36	\$ 0.51	-\$ 0.29	\$ 0.22	\$ 0.07	\$ 0.01	\$ 0.03	\$ 0.05	\$ 0.08	\$ 0.12
Earnings Per Share, Diluted	-\$ 24.45	-\$ 4.54	-\$ 1.84	\$ 1.55	-\$ 0.36	\$ 0.50	-\$ 0.29	\$ 0.22	\$ 0.07	\$ 0.01	\$ 0.03	\$ 0.05	\$ 0.08	\$ 0.12

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## Appendix 2: Balance Sheet

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
<b>ASSETS</b>														
Cash and Cash Equivalents	72.6	82.6	60.5	65.3	68.4	68.0	48.0	31.7	31.7	31.4	28.7	25.0	15.2	3.9
Short term investments	-	63.3	60.3	59.2	57.0	45.1	65.3	60.3	60.3	50.3	45.3	40.3	40.3	40.3
Accounts receivable	56.5	69.7	54.7	47.8	43.8	47.0	45.0	56.2	56.2	56.2	59.0	61.9	65.1	68.4
Inventory	7.7	4.4	6.7	4.5	4.1	2.5	5.3	3.4	3.4	4.5	4.7	4.9	5.1	5.4
Deferred cost of revenue	45.3	37.5	29.6	196.9	219.2	201.7	196.3	191.9	191.9	106.6	42.6	32.0	32.0	32.0
Prepaid expenses and other current assets	3.5	4.4	5.1	10.8	11.3	14.2	11.6	20.5	20.5	2.1	2.2	2.4	2.5	2.6
Deferred tax assets	-	0.4	5.3	-	-	-	-	-	-	-	-	-	-	-
<b>Total Current Assets</b>	<b>185.7</b>	<b>262.1</b>	<b>222.3</b>	<b>384.5</b>	<b>403.7</b>	<b>378.4</b>	<b>371.5</b>	<b>363.9</b>	<b>363.9</b>	<b>251.1</b>	<b>182.6</b>	<b>166.5</b>	<b>160.1</b>	<b>152.5</b>
Property and equipment	12.7	12.4	12.9	14.1	19.5	28.1	29.8	32.5	32.5	50.0	66.2	81.1	94.8	107.5
Intangible assets	-	0.7	8.2	14.4	14.0	13.6	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2
Deferred cost of revenue, non-current	199.9	238.7	303.4	38.9	25.3	25.9	21.9	21.3	21.3	106.6	170.6	181.2	181.2	181.2
Long term deferred tax assets	8.3	1.6	0.4	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other assets	11.3	0.9	1.0	4.8	2.1	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<b>Total Non-Current Assets</b>	<b>232.1</b>	<b>254.2</b>	<b>325.9</b>	<b>73.2</b>	<b>61.9</b>	<b>71.0</b>	<b>65.9</b>	<b>68.0</b>	<b>68.0</b>	<b>170.8</b>	<b>250.9</b>	<b>276.5</b>	<b>290.3</b>	<b>303.0</b>
<b>Total Assets</b>	<b>417.7</b>	<b>516.4</b>	<b>548.2</b>	<b>457.7</b>	<b>465.6</b>	<b>449.4</b>	<b>437.4</b>	<b>432.0</b>	<b>432.0</b>	<b>421.9</b>	<b>433.5</b>	<b>443.0</b>	<b>450.4</b>	<b>455.5</b>
<b>LIABILITIES</b>														
Accounts payable	28.1	31.3	27.5	30.6	31.6	32.0	22.4	18.5	18.5	20.4	21.2	22.1	23.1	24.1
Deferred revenue	89.8	111.3	91.7	305.5	352.5	294.9	290.7	280.1	280.1	196.7	120.9	54.6	48.1	40.7
Accrued and other current liabilities	14.8	21.3	24.4	42.8	39.6	36.3	39.2	40.9	40.9	17.1	17.9	18.8	19.8	20.8
Deferred tax liabilities	7.9	1.2	0.2	-	-	-	-	-	-	-	-	-	-	-
Current portion of capital lease obligations	1.6	1.6	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>142.3</b>	<b>166.7</b>	<b>143.9</b>	<b>378.8</b>	<b>423.7</b>	<b>363.2</b>	<b>352.3</b>	<b>339.6</b>	<b>339.6</b>	<b>234.1</b>	<b>160.1</b>	<b>95.6</b>	<b>91.0</b>	<b>85.6</b>
Long term deferred revenue	418.2	413.4	517.9	96.3	69.5	77.1	83.2	70.0	70.0	131.1	181.3	218.6	192.3	162.7
Other non-current liabilities	18.4	14.2	15.1	16.4	18.3	21.4	23.2	23.2	23.2	23.2	23.2	23.2	23.2	23.2
Deferred tax liabilities, non-current	-	0.2	5.1	-	-	-	-	-	-	-	-	-	-	-
Preferred stock warrant liability	11.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Convertible promissory notes and embedded debt	56.3	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Non-Current Liabilities</b>	<b>504.2</b>	<b>427.8</b>	<b>538.1</b>	<b>112.7</b>	<b>87.8</b>	<b>98.5</b>	<b>106.4</b>	<b>93.2</b>	<b>93.2</b>	<b>154.3</b>	<b>204.6</b>	<b>241.8</b>	<b>215.5</b>	<b>185.9</b>
<b>Total Liabilities</b>	<b>646.5</b>	<b>594.5</b>	<b>682.0</b>	<b>491.6</b>	<b>511.5</b>	<b>461.7</b>	<b>458.7</b>	<b>432.8</b>	<b>432.8</b>	<b>388.5</b>	<b>364.6</b>	<b>337.4</b>	<b>306.5</b>	<b>271.5</b>
<b>SHAREHOLDER'S EQUITY</b>														
Common equity	0.0	0.0	0.0	0.1	600.7	608.3	614.7	623.7	623.7	657.7	691.7	725.7	759.7	793.7
Additional paid-in capital	51.1	539.0	573.3	594.3	-	-	-	-	-	-	-	-	-	-
Accumulated other comprehensive loss	(0.1)	0.1	(0.8)	(1.8)	(1.6)	(1.7)	(1.9)	(1.9)	(1.9)	(1.9)	(1.9)	(1.9)	(1.9)	(1.9)
Accumulated deficit	(550.5)	(617.3)	(706.4)	(626.4)	(645.0)	(618.8)	(634.1)	(622.7)	(622.7)	(622.3)	(620.9)	(618.2)	(613.9)	(607.8)
Convertible preferred stock	270.7	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Shareholder's Equity</b>	<b>(228.8)</b>	<b>(78.1)</b>	<b>(133.8)</b>	<b>(33.9)</b>	<b>(45.9)</b>	<b>(12.3)</b>	<b>(21.3)</b>	<b>(0.9)</b>	<b>(0.9)</b>	<b>33.5</b>	<b>68.9</b>	<b>105.6</b>	<b>143.9</b>	<b>184.0</b>

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## Appendix 3: Cash Flow Statement

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
<b>Net Income</b>	<b>(89.7)</b>	<b>(66.8)</b>	<b>(89.2)</b>	<b>80.0</b>	<b>(18.5)</b>	<b>26.1</b>	<b>(15.2)</b>	<b>11.4</b>	<b>3.8</b>	<b>0.4</b>	<b>1.4</b>	<b>2.7</b>	<b>4.3</b>	<b>6.1</b>
Deferred taxes	-	(0.2)	(0.2)	(1.5)	-	0.1	(0.0)	-	0.1	-	-	-	-	-
Impairment of intangible assets	-	-	-	-	-	-	2.2	-	2.2	-	-	-	-	-
Depreciation and Amortization	7.3	6.6	6.5	7.8	2.1	2.1	2.1	2.3	8.6	2.5	3.8	5.1	6.2	7.3
Stock based compensation	15.1	52.5	33.9	26.5	6.9	7.0	7.9	8.0	29.8	30.0	30.0	30.0	30.0	30.0
Conversion promissory notes and remeasurements	(3.9)	23.7	-	-	-	-	-	-	-	-	-	-	-	-
Non-cash interest expense on convertible debt	1.5	0.9	-	-	-	-	-	-	-	-	-	-	-	-
Provision for excess and obsolete inventory	1.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-cash adjustments	0.4	0.3	0.4	0.8	0.1	0.1	0.7	-	0.8	-	-	-	-	-
<b>Cash Flows before Working Capital</b>	<b>(68.2)</b>	<b>17.1</b>	<b>(48.6)</b>	<b>113.6</b>	<b>(9.4)</b>	<b>35.4</b>	<b>(2.4)</b>	<b>21.7</b>	<b>45.3</b>	<b>32.9</b>	<b>35.3</b>	<b>37.8</b>	<b>40.5</b>	<b>43.4</b>
Accounts receivable	(23.2)	(13.2)	15.6	7.4	4.0	(3.1)	2.0	(11.2)	(8.3)	0.0	(2.8)	(3.0)	(3.1)	(3.3)
Inventory	(6.4)	3.4	(2.3)	2.2	0.5	1.6	(2.8)	1.9	1.2	(1.2)	(0.2)	(0.2)	(0.2)	(0.2)
Prepaid expenses and other current assets	1.1	(1.2)	0.2	(5.1)	2.2	(0.3)	1.0	(8.9)	(5.9)	18.3	(0.1)	(0.1)	(0.1)	(0.1)
Landlord incentives related to lease	-	-	-	-	-	2.3	4.5	-	6.8	-	-	-	-	-
Contingent payments related to Detection	-	-	-	(4.0)	-	-	-	-	-	-	-	-	-	-
Deferred cost of revenue	(38.9)	(31.0)	(56.9)	97.3	(8.8)	17.0	9.4	5.0	22.6	-	-	-	-	-
Other long-term assets	(3.4)	4.5	-	-	-	-	-	-	-	-	-	-	-	-
Accounts payable	10.9	2.8	(4.1)	3.1	0.7	0.5	(10.1)	(3.9)	(12.8)	1.8	0.9	0.9	0.9	1.0
Accrued liabilities	(3.2)	4.8	-	-	-	-	-	1.7	1.7	(23.8)	0.8	0.9	1.0	1.0
Customer deposits	(7.0)	(0.1)	0.3	(0.4)	(0.0)	(0.0)	1.0	-	1.0	-	-	-	-	-
Deferred revenue	107.6	16.6	84.6	(208.3)	20.1	(50.0)	1.9	(23.7)	(51.8)	(22.4)	(25.6)	(29.0)	(32.8)	(37.0)
Other liabilities	6.5	(3.8)	2.5	14.0	(7.8)	2.7	0.6	-	(4.4)	-	-	-	-	-
<b>Cash Provided By Operating Activities</b>	<b>(24.3)</b>	<b>0.0</b>	<b>(8.8)</b>	<b>19.7</b>	<b>1.4</b>	<b>6.1</b>	<b>5.1</b>	<b>(17.3)</b>	<b>(4.7)</b>	<b>5.6</b>	<b>8.3</b>	<b>7.3</b>	<b>6.1</b>	<b>4.7</b>
Business acquisitions	-	-	(8.7)	(7.1)	-	-	-	-	-	-	-	-	-	-
Decrease in restricted cash	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from sales and maturities of securities	-	9.1	60.2	24.9	5.8	19.4	25.0	20.0	70.2	30.0	25.0	25.0	20.0	20.0
Purchases of short-term investments	-	(72.3)	(57.7)	(24.2)	(3.4)	(7.5)	(45.4)	(15.0)	(71.4)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)
Purchase of PP&E	(4.9)	(4.0)	(6.1)	(5.4)	(2.1)	(15.1)	(6.1)	(5.0)	(28.4)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)
<b>Cash Used in Investing Activities</b>	<b>(4.7)</b>	<b>(67.2)</b>	<b>(12.3)</b>	<b>(11.7)</b>	<b>0.2</b>	<b>(3.3)</b>	<b>(26.5)</b>	<b>-</b>	<b>(29.5)</b>	<b>(10.0)</b>	<b>(15.0)</b>	<b>(15.0)</b>	<b>(20.0)</b>	<b>(20.0)</b>
Payment upon termination of preferred stock	-	(12.0)	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from initial public offering, net of expenses	-	84.2	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from private placement of common stock	-	12.0	-	-	-	-	-	-	-	-	-	-	-	-
Payments on capital lease obligations	(1.3)	(2.0)	(1.6)	(1.2)	(0.1)	(0.1)	-	-	(0.3)	-	-	-	-	-
Proceeds from sale-leaseback of property	1.7	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from issuance of convertible preferred stock	29.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from issuance of common stock	0.6	2.9	7.0	3.8	1.9	0.3	2.0	1.0	5.2	4.0	4.0	4.0	4.0	4.0
Excess tax benefit from share-related payments	-	-	-	0.2	-	-	-	-	-	-	-	-	-	-
Tax paid related to net share settlement	-	(8.0)	(6.5)	(5.8)	(0.3)	(3.3)	(0.5)	-	(4.2)	-	-	-	-	-
<b>Cash Provided By (Used In) Financing Activities</b>	<b>30.0</b>	<b>77.1</b>	<b>(1.0)</b>	<b>(3.0)</b>	<b>1.4</b>	<b>(3.1)</b>	<b>1.5</b>	<b>1.0</b>	<b>0.8</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
<b>Foreign Exchange Impact</b>	<b>-</b>	<b>-</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>0.1</b>	<b>(0.2)</b>	<b>(0.0)</b>	<b>-</b>	<b>(0.1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Beginning Cash Balance	71.7	72.6	82.6	60.5	65.3	68.4	68.0	48.0	65.3	31.7	31.4	28.7	25.0	15.2
<b>Net Change in Cash</b>	<b>1.0</b>	<b>9.9</b>	<b>(22.1)</b>	<b>4.8</b>	<b>3.1</b>	<b>(0.4)</b>	<b>(19.9)</b>	<b>(16.3)</b>	<b>(33.6)</b>	<b>(0.4)</b>	<b>(2.7)</b>	<b>(3.7)</b>	<b>(9.9)</b>	<b>(11.3)</b>
Ending Cash Balance	72.6	82.6	60.5	65.3	68.4	68.0	48.0	31.7	31.7	31.4	28.7	25.0	15.2	3.9

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## Appendix 4: Revenue Analysis

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
<b>Revenue Growth Analysis</b>														
Product Revenue Growth			-42.3%	173.0%					-42.4%	-0.9%	5.0%	5.0%	5.0%	5.0%
Managed Services and SaaS Revenue Growth				104.3%					26.5%	7.1%	7.1%	7.1%	7.1%	7.1%
Professional Services Revenue Growth				141.5%					-18.2%	-18.6%	0.0%	0.0%	0.0%	0.0%
Services Revenue Growth			-39.6%	120.4%					5.3%	-2.3%	4.9%	5.0%	5.1%	5.2%
<b>Revenue Growth, YoY</b>		<b>66.1%</b>	<b>-41.5%</b>	<b>155.9%</b>					<b>-29.1%</b>	<b>-1.5%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.1%</b>	<b>5.1%</b>
<b>Segmented Revenue and Billings</b>														
Product Revenue		224.3	129.3	353.0	32.9	69.9	50.5	50.0	203.2	201.3	211.4	222.0	233.1	244.7
Managed Services and SaaS Revenue		60.1	35.2	71.9	11.1	24.6	14.1	41.3	91.0	97.5	104.4	111.8	119.7	128.2
Professional Services Revenue		42.5	26.7	64.6	4.7	27.5	9.6	11.0	52.8	43.0	43.0	43.0	43.0	43.0
Services Revenue		102.5	62.0	136.5	15.8	52.0	23.7	52.3	143.8	140.5	147.4	154.8	162.7	171.2
<b>Total Revenue</b>		<b>326.9</b>	<b>191.3</b>	<b>489.6</b>	<b>48.6</b>	<b>122.0</b>	<b>74.2</b>	<b>102.3</b>	<b>347.0</b>	<b>341.8</b>	<b>358.8</b>	<b>376.8</b>	<b>395.8</b>	<b>415.9</b>
Product Billings		265.9	194.0	185.6	45.7	46.1	49.9	50.0	191.7	201.3	211.4	222.0	233.1	244.7
Managed Services and SaaS Billings		36.7	44.5	52.4	12.9	14.9	15.7	17.6	61.1	75.1	78.8	82.8	86.9	91.3
Professional Services Billings		41.5	38.2	43.9	10.3	10.8	10.5	11.0	42.6	43.0	43.0	43.0	43.0	43.0
Services Billings		78.2	82.7	96.3	23.2	25.7	26.2	28.6	103.7	118.1	121.8	125.8	129.9	134.3
<b>Total Billings</b>		<b>344.1</b>	<b>276.7</b>	<b>281.9</b>	<b>68.9</b>	<b>71.8</b>	<b>76.1</b>	<b>78.6</b>	<b>295.5</b>	<b>319.4</b>	<b>333.2</b>	<b>347.7</b>	<b>363.0</b>	<b>379.0</b>
Change in Deferred Product Revenue		(41.6)	(64.7)	167.5	(12.9)	23.8	0.6	-	11.5	-	-	-	-	-
Change in Deferred Managed Services and SaaS Revenue		23.4	(9.3)	19.5	(1.8)	9.7	(1.6)	23.7	29.9	22.4	25.6	29.0	32.8	37.0
Change in Deferred Professional Services Revenue		0.9	(11.4)	20.6	(5.6)	16.7	(0.9)	-	10.2	-	-	-	-	-
Change in Deferred Services Revenue		24.3	(20.7)	40.2	(7.4)	26.3	(2.5)	23.7	40.1	22.4	25.6	29.0	32.8	37.0
<b>Total Change in Deferred Revenue</b>		<b>(17.2)</b>	<b>(85.4)</b>	<b>207.6</b>	<b>(20.3)</b>	<b>50.1</b>	<b>(2.0)</b>	<b>23.7</b>	<b>51.6</b>	<b>22.4</b>	<b>25.6</b>	<b>29.0</b>	<b>32.8</b>	<b>37.0</b>

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## Appendix 4: Revenue Analysis (cont.)

<b>Segmented COGS and Billings</b>														
Product COGS			77.2	202.4	16.0	41.4	29.2	30.0	116.7	96.6	101.5	106.5	111.9	117.5
Managed Services and SaaS COGS			25.8	31.7	8.6	8.9	9.5	10.2	37.2	42.8	44.9	47.2	49.5	52.0
Professional Services COGS			32.0	29.7	7.0	7.1	7.2	6.7	28.0	25.8	25.8	25.8	25.8	25.8
Services COGS			57.8	61.4	15.6	16.0	16.7	16.9	65.2	68.6	70.7	73.0	75.3	77.8
<b>Total COGS</b>			<b>135.0</b>	<b>263.8</b>	<b>31.6</b>	<b>57.4</b>	<b>45.9</b>	<b>46.9</b>	<b>181.9</b>	<b>165.2</b>	<b>172.2</b>	<b>179.5</b>	<b>187.2</b>	<b>195.3</b>
Product COGS Billings			131.7	102.8	24.1	23.8	19.3	25.0	92.2	96.6	101.5	106.5	111.9	117.5
Managed Services and SaaS COGS Billings			24.9	29.6	8.2	8.3	8.7	10.2	35.5	42.8	44.9	47.2	49.5	52.0
Professional Services COGS Billings			27.1	26.8	6.4	6.7	6.4	6.7	26.2	25.8	25.8	25.8	25.8	25.8
Services COGS Billings			52.0	56.4	14.7	15.0	15.1	16.9	61.6	68.6	70.7	73.0	75.3	77.8
<b>Total COGS Billings</b>			<b>183.7</b>	<b>159.3</b>	<b>38.8</b>	<b>38.8</b>	<b>34.4</b>	<b>41.9</b>	<b>153.9</b>	<b>165.2</b>	<b>172.2</b>	<b>179.5</b>	<b>187.2</b>	<b>195.3</b>
Change in Deferred Cost of Product Revenue			56.8	97.3	(8.7)	(17.0)	(9.4)	(5.0)	(40.1)	-	-	-	-	-
Change in Deferred Cost of Managed Services and SaaS Revenue			-	-	-	-	-	-	-	-	-	-	-	-
Change in Deferred Cost of Professional Services Revenue			-	-	-	-	-	-	-	-	-	-	-	-
Change in Deferred Cost of Services Revenue			-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Change in Deferred Cost of Revenue</b>			<b>56.8</b>	<b>97.3</b>	<b>(8.7)</b>	<b>(17.0)</b>	<b>(9.4)</b>	<b>(5.0)</b>	<b>(40.1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Managed Services and SaaS Revenue - Operating Statistics</b>														
Recurring Revenue, TTM	16.4	60.1	35.2	71.9	70.0	84.0	86.9	91.0	91.0	97.5	104.4	111.8	119.7	128.2
Changes in Deferred Revenue, Net of F	17.5	(23.4)	9.3	(19.5)	(17.3)	(29.3)	(29.1)	(29.9)	(29.9)	(22.4)	(25.6)	(29.0)	(32.8)	(37.0)
<b>Recurring Billings, TTM</b>	<b>33.9</b>	<b>36.7</b>	<b>44.5</b>	<b>52.4</b>	<b>52.7</b>	<b>54.7</b>	<b>57.8</b>	<b>61.1</b>	<b>61.1</b>	<b>75.1</b>	<b>78.8</b>	<b>82.8</b>	<b>86.9</b>	<b>91.3</b>
Cumulative Network Endpoints Delivered	15,781	18,184	20,266	22,954	23,652	24,399	24,968	26,000	26,000	27,300	28,665	30,098	31,603	33,183
Recurring Revenue per Endpoint	\$ 1.04	\$ 3.30	\$ 1.74	\$ 3.13	\$ 2.96	\$ 3.44	\$ 3.48	\$ 3.50	\$ 3.50	\$ 3.57	\$ 3.64	\$ 3.71	\$ 3.79	\$ 3.86
Recurring Billings per Endpoint	\$ 2.15	\$ 2.02	\$ 2.20	\$ 2.28	\$ 2.23	\$ 2.24	\$ 2.31	\$ 2.35	\$ 2.35	\$ 2.75	\$ 2.75	\$ 2.75	\$ 2.75	\$ 2.75

## Appendix 5: Discounted Cash Flow Analysis

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
<b>WACC Calculation</b>														
Book Value of Debt	<b>0</b>													
Market Value of Equity	<b>683.68</b>													
Total Capitalization	683.68													
<b>Debt</b>														
Pre-Tax Cost of Debt	<b>0%</b>													
Effective Tax Rate	30.0%													
<b>After-Tax Cost of Debt</b>	<b>0.0%</b>													
<b>Capital Asset Pricing Model</b>														
Risk-Free Rate	<b>1.5%</b>													
Equity Market Risk Premium	<b>5%</b>													
Beta	<b>1.31</b>													
<b>Cost of Equity</b>	<b>8.1%</b>													
Debt Weight	0.0%													
Equity Weight	100.0%													
<b>WACC</b>	<b>8.05%</b>													
<b>Growth Rate</b>	<b>3.0%</b>													
<b>Free Cash Flow Analysis</b>														
EBIT	-88.6	-41.8	-86.1	84.6	-18.9	26.7	-12.0	16.3	12.1	0.5	2.0	3.9	6.1	8.7
Tax Rate	-0.4%	-0.3%	-1.6%	3.7%	-0.2%	3.5%	-8.1%	30.0%	65.1%	30.0%	30.0%	30.0%	30.0%	30.0%
D&A	7.3	6.6	6.5	7.8	2.1	2.1	2.1	2.3	8.6	2.5	3.8	5.1	6.2	7.3
Change in NWC	43.9	-17.1	39.9	-93.9	10.8	-29.3	7.6	-39.0	-50.0	-27.2	-26.9	-30.5	-34.4	-38.6
Capital Expenditures	-4.9	-4.0	-6.1	-5.4	-2.1	-15.1	-6.1	-5.0	-28.4	-20.0	-20.0	-20.0	-20.0	-20.0
<b>Free Cash Flow</b>	<b>-130.6</b>	<b>-22.1</b>	<b>-127.0</b>	<b>177.8</b>	<b>-29.7</b>	<b>42.1</b>	<b>-24.6</b>	<b>47.7</b>	<b>34.5</b>	<b>10.1</b>	<b>12.2</b>	<b>18.3</b>	<b>24.9</b>	<b>32.0</b>
<i>Discount Period</i>								0.25		1.25	2.25	3.25	4.25	5.25
<b>Discounted Free Cash Flow</b>								<b>46.8</b>		<b>9.1</b>	<b>10.3</b>	<b>14.2</b>	<b>17.9</b>	<b>21.3</b>

<b>Share Price Calculation</b>	
Free Cash Flow Sum	119.7
Terminal Value	434.7
<b>Enterprise Value</b>	<b>554.4</b>
Less: Debt	0.0
Add: Cash	113.4
<b>Equity</b>	<b>667.7</b>
Shares Outstanding	51.7
<b>Implied Share Value</b>	<b>\$ 12.90</b>

		<b>WACC</b>				
		7.0%	7.5%	8.0%	8.5%	9.0%
<b>GROWTH</b>	<b>0.0%</b>	\$ 10.75	\$ 10.17	\$ 9.67	\$ 9.22	\$ 8.83
	<b>1.0%</b>	\$ 11.86	\$ 11.11	\$ 10.46	\$ 9.91	\$ 9.42
	<b>2.0%</b>	\$ 13.40	\$ 12.38	\$ 11.53	\$ 10.81	\$ 10.19
	<b>3.0%</b>	\$ 15.72	\$ 14.22	\$ 13.01	\$ 12.03	\$ 11.21
	<b>4.0%</b>	\$ 19.59	\$ 17.10	\$ 15.24	\$ 13.80	\$ 12.64

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## Appendix 6: Comparable Companies Analysis

	Cash	Debt	Market Capitalization	EV	TTM EBITDA	Share Price	TTM EPS		EV/EBITDA	P/E
Badger Meter	10.7	49.7	1080.0	1119.1	74.7	\$37.65	\$1.29		15.0 x	29.2 x
EnerNOC	82.2	114.2	164.0	196.0	-9.3	\$5.40	-\$5.19		n/a	n/a
Echelon Corporation	23.7	0.0	19.7	-4.0	-1.9	\$4.40	-\$1.91		2.1 x	n/a
Itron	151.4	342.7	2350.0	2541.3	256.3	\$61.15	\$1.09		9.9 x	56.1 x
Silver Spring Networks	113.1	0.0	683.7	570.6	96.7	\$12.80	\$1.08		5.9 x	11.9 x

	HIGH	AVERAGE	LOW	IMPLIED TARGET EV	IMPLIED TARGET SHARE PRICE
EV/EBITDA	15.0 x	9.0 x	n/a	871.48	\$ 19.03
				1,448.36	HIGH \$ 30.18
				- 2,028.92	LOW -\$ 37.03
	HIGH	AVERAGE	LOW	IMPLIED P/E	IMPLIED TARGET SHARE PRICE
P/E	56.1 x	42.6 x	n/a	42.6 x	\$ 46.05
				56.1 x	HIGH \$ 60.59
				n/a	LOW -\$ 2.49

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