



CEO Letter to Shareholders

August 10, 2023

Dear fellow shareholder,

Just over a year into my role as CEO, I continue to believe that CMG has mission critical software deeply rooted in complex science, and a well-earned reputation for technically skilled, outstanding customer support. From the outset, I saw a strong moat around areas of expertise, and a significant opportunity to introduce best practices and processes that could kick start organic growth for the company. Today, the same rings true.

CMG 4.0 – A MARKET-LED ORGANIZATION

As we become a market-led organization, we are being intentional about customer segmentation and value-based pricing to deliver tailored solutions to our clients. And we are evolving our sales strategies to increase our competitiveness in conventional energy assets and allow us to advocate our value across multiple levels of our customers organizations. This is not limited to reservoir engineers but also includes asset managers, executive leaders, and more.

We have also analyzed our competitiveness and offerings across subsurface operations and applications. We are well known around the world for providing solutions which accurately account for the most complex problems, such as those related to Enhanced Oil Recovery and energy transition. While these solutions often command a premium in the market, conventional oil and gas simulation is much more competitive. Our analysis resulted in the creation of a new, competitively priced, bundled product offering for conventional assets, providing a path to compete in a greater range of proposals and bids globally.

Our approach was to isolate core functionality of several existing products which, when bundled together, deliver a simple, cohesive solution of fit-for-purpose simulation technology and tools. This strategy proved successful in a highly competitive contract bid. We delivered what the customer needed; at the price they needed it. The solution captures the physics and quantifies the risks of operations across a wide array of assets at a competitive cost and leaves room to expand functionality in the future. This type of responsiveness is an example of how we are enabling our sales team to access additional markets and revenue opportunities. We are listening to the market and delivering for our customers.

Q1 RESULTS

Revenue grew materially this quarter, compared to the first quarter of the previous fiscal year, as we returned to levels not seen since fiscal 2019 which drove strong profitability. Revenue growth came from both energy transition and our core business, evidencing strong market dynamics in both areas. Energy transition represented approximately 22% of total software revenue in the first quarter.

Growing our Annuity/maintenance (A/M) revenue is our primary focus and the 15% increase this quarter came from a combination of price increases, increased licensing from various existing customers and the addition of new customers. It is encouraging that growth was widespread and

not attributable to any single client and while the US and eastern hemisphere underpinned our performance, we demonstrated growth in every region this quarter. While perpetual revenue increased \$1.5 million from the same period last year, we know that our perpetual license stream is difficult to forecast and can fluctuate considerably from quarter to quarter.

Last fall we announced that we were doubling down on our consulting practice. This was strategically the right decision as we grew professional services revenue by \$1.1 million in the first quarter of this year. Our customers are seeing a [significant talent crunch](#) which is driving consulting growth. Demand for talent is aggressive and high-quality candidates are scarce. While we will be adding to our team in the coming months to allow us to build on this momentum, we remain disciplined in prioritizing consulting opportunities that promote the growth of our software sales.

LOOKING FORWARD

This past quarter, I had the privilege of delivering a [keynote address](#) at the Reuters Energy Transition conference in New York. I joined executive leaders and decision makers in the energy space to discuss the power of technology in energy transition. It reinforced my belief in the critical role of our technology and expertise, and it strengthened my conviction in the strategic importance of our recently announced partnerships to bring holistic solutions to the market.

Whether in energy transition or traditional oil and gas, I see the enthusiasm and focused effort driving the industry towards digitization. Technology will add scale, intelligence, and efficiency to the current operating model, and it can break down silos promoting optimization across the entire value chain. As the industry moves more rapidly towards digitization, we are delivering science-based, expert, fit-for-purpose workflows, and solutions to an increasingly receptive end user.

As technology enables greater and greater amounts of data to be collected and analyzed in more powerful ways, we are using our M&A strategy to evaluate opportunities to deploy capital in innovative new technologies that are changing the way things are done, have strong fundamentals, scope for scalability and create further moat and product stickiness. I strongly believe that acquisitions create long term shareholder value and that the ultimate responsibility to ensure our capital is invested profitably and prudently rests with me. We have evaluated many opportunities but remain patient and diligent to ensure we are acquiring the right assets at the right price which will help us achieve our long-term goal of building a sustainable, durable growth business with high shareholder returns.

I look forward to continuing to share our progress in the coming quarters and remain grateful for your continued support.

Sincerely,



Pramod Jain
Chief Executive Officer