CEO Letter to Shareholders

November 13, 2023

Dear fellow shareholders,

CMG finished the second quarter with strong momentum. We completed our first sizeable acquisition, posted solid financial performance, and recently announced a partnership with global technology leader, ABB.

The energy industry has also seen some remarkable events recently, with the announcement of two high profile consolidations. Industry consolidation has had an adverse effect on our business in the past, with acquirors reducing software licenses to streamline costs or achieve synergies. As we approach year-end, we acknowledge this challenge given the high volume of contract renewals we experience early in the new year (our fiscal Q4). Our customer teams are even more focused on building relationships, understanding market needs and collaborating closely with our clients to tailor solutions to address the specific challenges and objectives of these new, larger organizations.

On a positive note, acquirors are demonstrating that by leveraging technology, they can make accretive acquisitions based on increasing the value and productivity of existing assets. This ability to materially increase recovery rates, minimize cost and risk, and reduce environmental impacts using technology has been the driving value behind CMG for decades and our position as a trusted technology partner is now more important than ever. As the industry consolidates and needs more advanced technology solutions, we will continue to align both our simulation offerings and our newly acquired technologies with the evolving needs of our clients.

Integrated Production System Modelling (IPSM – CoFlow)

In honor of our 30-year partnership with ONGC, in September we proudly hosted the Chairman and the senior team of ONGC in our Calgary offices and used the opportunity to explore the topic of IPSM. At the same time, we connected with senior leaders at the World Petroleum Congress which was held in Calgary.

More recently, at SPE's ATCE event in San Antonio, CMG hosted a Tech Talk where I spoke, alongside our long-standing partner Shell, about the benefits of IPSM. This new strategy of growing our thought leadership in collaboration with Shell aims to build market understanding of IPSM and advance our commercialization efforts for CoFlow. While there are encouraging signs of progress, I acknowledge that we have yet to have a strong commercial win.

My conviction remains strong that CoFlow represents a significant opportunity for CMG by expanding our addressable market, growing our product offering across the upstream energy workflow, and moving CoFlow towards the same financial performance as the core business. I also strongly believe in the value it can deliver to large energy operators globally. But hope is not a strategy, and we continue to explore new ways to educate the market, including how we can support adoption and use through our consulting team. We will be critically evaluating the technology versus commercialization, particularly the return on investment, to gauge our progress with the new strategy over the coming quarters.

Bluware Acquisition

A major accomplishment this quarter was the meaningful start of our acquisition strategy (webcast link) and in early October, we showcased our expanding portfolio of technologies at ADIPEC, with Bluware attending as a CMG portfolio company.

Bluware brings CMG expertise in cloud delivery, data management and advanced technologies leveraging artificial intelligence (AI). AI has always been perceived with some skepticism as a “black box”, but with the explosion of ChatGPT, and other similar tools, it is becoming core for the digital transformation. As a society, we are becoming more comfortable interacting with AI technology, understanding how it is used and leveraging it as a decision support tool. This acceptance means its influence will continue to grow. I am a believer in the power of AI especially when you can remove the “black box” approach which drives user confidence and faster adoption. This transparency, with interactive training by the expert user, is what Bluware has done so well with its InteractivAI solution and why it was such a compelling investment for CMG.

The team spent several months on the due diligence process to ensure this complex transaction was done well and with the right level of scrutiny, something that sets up our processes for future acquisitions. Our focus on opportunities within the upstream energy workflow is not only core to driving inorganic growth but is also critical to sustained and durable organic growth. We are evolving as an organization to compete on a platform led strategy built on a portfolio of leading edge, differentiated technologies that enhance the workflow of our customers.

Strong Financial Performance

Second quarter revenue was strong, with annuity/maintenance revenue up 19% and total revenue up 25% from the same period last year. As a result, adjusted EBITDA was also exceptionally strong.

Growth is being fueled by a combination of underlying strength of the industry and the changes we have made to our business over the past year. We experienced growth in our annuity/maintenance revenue as well as perpetual licenses and consulting. A combination of new customers, increased licensing by existing customers, and price increases all contributed to our financial outperformance in the first half of the year.

Carbon capture and storage (CCS) interest is proving persistently strong, with 22% of Q2 software revenue attributed to energy transition. We are seeing a continuation of supportive government policies and incentives for energy transition initiatives in many jurisdictions around the world, many of which are tied to a requirement to invest capital immediately. This is leading to perpetual license sales in some geographies which, while not recurring in nature, do typically come with a maintenance revenue stream which is recurring.

We are pleased with our financial performance year-to-date and remain confident in our strategy to continue to deliver solid financial performance. We also recognize the challenge of sustaining year-over-year growth at a similar level. Our goal is to establish organic growth that is durable over the long-term and believe we are executing to that plan. Through the second half of the year, we will continue to invest to support our growth, anticipating that we will make some strategic hiring decisions in critical functional areas, including consulting and R&D. We also expect that, based on our performance year to date, our new sales compensation plan, which is structured with variable compensation tied to growth, will marginally increase costs as we approach the end of our fiscal year.

In Closing

I hope that these quarterly letters provide you with insight and transparency into my thinking about the business, what is important, what values drive our decisions and the goals we are working towards. In closing, I want to specifically reiterate an idea from our recent webcast. When pursuing acquisitions, it is easy to get caught up in the process. Everyone is excited; advisors and employees all want a deal to get done. The biggest risk, and a mistake that I believe many make, is relying on “synergies”. It’s a great buzz word in M&A. We suggest that 1+1 can equal 3 but how often does it happen? For me, every decision is about creating value. In acquisitions, this means looking at a business on a stand-alone basis, identifying where we can apply our “playbook”, or operating strategy, to grow the business, expand the margins and create value without relying on synergies that may or may not exist.

I specifically want to thank our team that was involved in the Bluware acquisition over the past several months. It was a monumental effort, and I am grateful to those who dedicated countless hours to ensure our success. Their efforts built our collective M&A “muscle” and lay a strong foundation for our future success.

I look forward to our next quarterly update.

Sincerely,

Pramod Jain

Chief Executive Officer