

24 February 2017

2016/17 Half Year Results and Outlook

- **Significantly improved cost base delivers positive earnings trend**
 - EBITDA improved \$0.54m to (\$0.31m) / NPAT improved \$0.61m to (\$0.54m)
 - the group is well placed to translate revenue growth into earnings
 - **Strong volume growth in auto markets - lower pricing, but gross profit margins maintained**
 - **Authentication revenue up 20%**
 - **Further improvements to our authentication technology, strengthening the authentication business**
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Earnings for first half of 2016/17 have improved significantly against the prior comparable period (pcp).

EBITDA improved by \$0.54m to a \$0.31m loss (1H2016, \$0.85m loss) and NPAT improved by \$0.61m to a \$0.54m loss (1H2016 \$1.15m loss).

These improvements were driven by a restructuring of the cost base, which yielded savings of \$0.88m against pcp. This has increased the operating models' sustainability and efficiency.

With a lower cost base in place, the group is well placed to translate revenue growth into positive earnings results. We have achieved a number of months of positive EBITDA for the business since the beginning of the financial year, and anticipate that trend being maintained and improved.

Whilst group revenue has fallen against pcp from \$3.48m to \$2.81m:

- authentication revenue grew by 20% against pcp, and
- our microdot business continues to have a high proportion of recurrent revenue – with the falls against pcp being caused largely by lower pricing negotiated when some of our larger supply contracts were renewed (overall gross profit margin has improved slightly against pcp).

The volume of auto kit supplied to Subaru in Australia and Fiat in Italy are at record levels. In the 12 months to 31 January 2017:

- Subaru volumes are up by 13%, and
- Fiat volumes are up by 33%. With the potential for further growth from the expansion of the program into 13 other countries in Europe – noting that FiatChrysler have not yet decided a timeframe to initiate this expansion.

Volume and revenue from the US auto market has grown 10% against pcp.

To further our authentication business we have entered into partnership agreements with providers that broaden our solution capabilities. These now include:

- high security tamper evident labels, and
- digital app based authentication software.



These capabilities enable us to offer consumer facing authentication solutions to brand owners and strengthen our value proposition. We have seen this demonstrated in lead generation and pipeline growth, including opportunities with several global brands.

In addition to these partner technologies, we have added Bluetooth and Wifi connectivity to our proprietary DataTrace P1 reader and have commenced work on iPhone and Android apps to leverage that capability.

These technology developments, the growth in authentication revenue of 20% against pcg together with existing pipeline and the underlying strength of our patented DataTrace authentication system, confirm the strong prospects for our authentication business' future and the role it can play in delivering material upside to our results going forward.

As at 23 February 2017 cash at bank was \$1.9m.

The outlook for the Company is positive with:

- a significantly improved cost base meaning the group is well placed to translate revenue growth into positive earnings results
- strong volume growth trends in all key areas of the auto market
- a number of improvements in our authentication value proposition implemented and to come, with resultant lead generation and pipeline growth
- increasing confidence in the prospects for our authentication business' future and the role it can play in delivering material upside to our results
- Strong pipeline of business to be monetised
- New management team focussed on new strategies for delivery of growth and efficiencies.

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