

2019 Results Announcement

Review of 2019

At an operational level, for almost eleven months of the 2019 financial year DataDot Technology Ltd. (DDT) followed the same steady decline in performance as the past several years. However, the end of the year was marked by a significant change in strategic direction aimed at reversing this trend. The sale of the foundation Dots business proposed in Q3 was abandoned in Q4 following an EGM and change of board and executive team. The vision and plan of the new leadership team had been laid out in the "DataDot Rescue Plan" and documentation for the EGM and was supported by the majority of shareholders. Key elements of this plan included retaining and growing the Dots business and establishing a partnership with PropertyVAULT International Pty Ltd to provide new revenue streams from Q1 FY2020.

Revenue for FY2019 was \$3,279,579, down \$1,587,588 (33%) against FY2018. This was due to lower DataDot and DataTraceID sales from existing customers and lack of any offsetting new customer sales.

Expenses for FY2019 decreased marginally by \$354,235 (9%) to \$3,441,235. The decrease in recurring expenses due to lower activity and savings achieved was offset by costs of preparation of the unsuccessful sale of the Dots business, the May 2019 EGM, and subsequent change of the executive management and staff redundancies.

EBITDA for FY2019 was a loss of \$1,757,295 (pcp: \$422,339 loss), down \$1,334,956.

NPAT for FY2019 was \$2,301,317 loss (pcp: \$3,119,909 loss); an improvement of \$818,593 due largely to the previous years' large impairment of intangibles (pcp: \$2,194,411 compared to this years' \$284,249).

DataDotDNA - Microdot business performance review

The microdot (DataDotDNA) business saw a reduction in kits sales (-40.8%) due to lower orders from key clients in the 2019 financial year. Sales of Dots totalled \$2,742,988 for FY2019.

- 1) Revenue from a key client, Subaru Australia, declined by 16.1% due to a production halt in Jan 2019 in Japan that resulted in lower order quantities from Jan 2019 – April 2019. Subaru are foreseeing a strong H1 in FY2020 and is expected to provide growth over FY19 kit orders.
- 2) Fiat Italy placed only one order in the first quarter of FY19, compared to consistent orders in the preceding 12 months due to an internal matter. At this point it is unclear if orders will be renewing.
- 3) DataDot Dealer Services (DDDS), a key distributor in the US, reduced kit orders resulting in a revenue reduction of 28.2%. Subsequently, board members met with DDDS and with operational matters resolved, it is believed that this partnership will be reinvigorated and is expected that FY20 kit orders will exceed those of FY19.

DataTraceID - Authentication business performance review

Although DataTraceID authentication business revenue was 12.5% up on FY18, it failed to deliver upon projections and represents only 16.3% of the company's revenue and a disproportionate share of expenses. There is, however, a reasonable pipeline of opportunities suggesting that revenue growth will continue and possibly accelerate.

FY2020 and Beyond

The new leadership team has drawn a line under the disappointing recent history of DataDot. The team has moved quickly and decisively to staunch mounting losses through attacking and tightening overheads; shoring up existing relationships to realise more revenue; and introducing new distributor relationships, customers and product lines to boost revenue. The leadership team also issued Convertible Notes which closed in July 2019 raising \$1.15m to ensure sufficient working capital to execute on its plans.

Immediate overhead reductions included significantly lower board and management expenses, discontinuation of non-value adding activities and a line by line review of all expenses. The total reduction in recurring expenses identified by mid-August 2019 is approximately \$700,000 with more to follow.



In the final weeks of FY19 the board met with DataDot South Africa, a licensed manufacturer and by mid-August renegotiated a new agreement that will see an OEM distribution supply of DataDots to a global car manufacturer in FY20. This agreement will see Dots supplied to a major OEM in Europe and in the Russian Federation, with further opportunities to grow the relationship globally. In addition, the new agreement provides a significant benefit to DataDot Technology Ltd. by way of a shared profit arrangement of 50%.

Board members also visited distributors in the USA and UK whose sales had been declining, in part due to uncertainty about the future of DDT, to demonstrate commitment to the business and giving assurance that distributor agreements have longevity and that incentives are being implemented to reward innovation and investment in DataDot product and service offerings. The response was immediate with sales again growing.

Following stabilisation of the business, the leadership team's focus over the next 12 months is revenue growth, building on strengthened relationships with distributors and new products and services secured through the partnership with PropertyVAULT. The importance of the PropertyVAULT relationship to the future of DataDot cannot be underestimated. While the Dots themselves remain the leading technology for asset identification, their effectiveness in reducing theft and recovering stolen goods is limited without ease of use in recording and accessing asset details by stakeholders including retailers, product owners, police, insurers, traders/resellers and future owners. Moreover, there are powerful network effects when more people use the asset identification system and when it can leverage social media. PropertyVAULT brings the missing parts of the ecosystem within which Dots sales increases, and more importantly it brings the business models to monetise the benefits of asset identification as assets move through all points of the ownership chain. Most immediately though, the partnership with PropertyVAULT will increase DataDot sales through bundling Dots with PropertyVAULT products, particularly for bicycles and all classes of vehicles, and expanding the range of services to include a digital security solution which is compelling to retailers and customers of any asset.

While the board is focussed on enhancing and resurrecting the Dots business which accounts for the vast majority of revenue, they are also optimistic of growing the DataTraceID business and have secured a further 3 year contract with a key international pharmaceutical client, with testing underway to expand the current application of Trace into other product lines. The leadership team has also moved to renew the relationship with a gambling chip manufacture with strong prospects of Trace applications into international casino markets. In partnership with our Malaysian distributor we are developing a Trace solution to address wire/cable theft, which is a global problem and has potential for significant volume of Trace sales. In Australia, advanced discussions are being held with a manufacturer of building cladding materials to supply a Trace solution as means to identify cladding that is compliant with current building standards, as opposed to non-compliant materials that have been identified as a potential fire risk, which is now attracting public scrutiny.

At 30 June 2019, the cash balance was \$194,551. The directors expect operating cash flow and profitability in FY20 to be significantly improved on the prior year. However, to provide a cushion against unexpected events, a Convertible Note was finalised in July 2019 raising \$1.15m. The directors do not foresee the need to raise additional capital in the year ahead to fund operations of the business.

Your directors have made significant progress in the first 3 months of appointment and are very clear on what is needed to deliver improved performance and build a sustainable business over the coming financial year. The commitment of the leadership team, and the continued dedication of our people to our purpose provides confidence that we can deliver an organisation of which all stakeholders are proud to be associated with.

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About DataDot: DataDot Technology Limited provides world leading asset identification, management, protection and authentication solutions that deliver great value to customers. For more information please visit www.datadotdna.com.