



December 2018 Quarterly Activities Update

Global cloud software provider **Dropsuite** Limited (ASX: DSE) (“Dropsuite” or the “Company”) is pleased to release its consolidated Quarterly Cash Flow for the period ended 31 December 2018.

- Annualised Recurring Revenue (ARR*) exceeded \$4.6m as at 31 December 2018 – up ~53%** YoY
- Q4 Cash Receipts of \$1.8m, up ~250% YoY, and 59% QoQ. Higher due to contribution from one partner
- Revenue from Email Back up and Archiving has grown 40x in 12 months
- Product and Partner diversification continuing – well placed for 2019

Q4 Financial Summary

Dropsuite is pleased to report a solid financial performance for the quarter. Cash receipts were abnormally higher, up 253% to \$1.8m on the previous corresponding period (PCP) (Q4 2017: \$0.51m) and 59% on the prior quarter (Q3 2018: \$1.13m), due primarily to the revenue contribution from the Company’s South American partner that added a large number of Paid Users prior to the reported deactivation.

OPEX was higher than PCP due to increased investment in people and product development, the benefits of which are being realised through increasing cash receipts.

Annualised Recurring Revenue (ARR*) exceeded \$4.6m as at 31 December 2018, up ~53% YoY, a pleasing reflection of the stable recurring monthly revenue base the Company is steadily building. Partner payments lag revenue by 30-60 days, which are industry standard payment terms.

	<u>Q4 2018</u>	<u>Q4 2017</u>	<u>%</u>
Revenue	\$1,381,693	\$754,358	83%
Cash Receipts	\$1,799,558	\$508,555	254%
Cash Payments	\$1,744,144	\$1,084,924	61%
Net cash used in operations	\$55,414	(\$576,369)	(110%)

Operations Update

Dropsuite reaffirms that December Paid User numbers have stabilised at approximately 350,000. The Company has witnessed approximately 40x growth in revenue from its Email Backup and Archiving solutions from December 2017 to December 2018. Revenue from this solution is >30% of total December 2018 revenue, compared to 1% in December 2017.

Dropsuite has also firmly established its products in new distribution channels, providing industry-leading support in Email Backup and Archiving, Discovery and Recovery solutions delivered at scale to power any organisation’s IT defences. Brand recognition in the distribution and managed service provider channels increased from <5% in late 2017 to ~30% by late 2018. This increase was achieved with minimal marketing expenditure and reflects Dropsuite’s growing appeal as a dependable and trusted SaaS business capable of developing leading IT security solutions.

As advised in our Operations Update on 11 January 2019, the Company’s largest Website Backup partner will be progressively migrating a portion of their users from Dropsuite’s website backup platform to an in-house platform over 12 months, or longer. Dropsuite has managed migrations from this partner previously and will closely monitor the situation. As new partners and users are added, Dropsuite expects to comfortably absorb this migration. Notwithstanding, the Company maintains an excellent relationship with the partner with continuing business and further joint development initiatives.

Such events provide further impetus for the Company to continue diversifying its partner and User base. In December 2017, revenue from Dropsuite's top 10 partners contributed 95% in total revenue. By December 2018, this contribution decreased to 89% with three new partners entering the top 10. This concentration of revenue is expected to reduce further, and more rapidly, based on new pending partnerships, and recently added partnerships ramping up Paid User numbers.

Dropsuite is witnessing pleasing growth in revenue-generating partners, up 97% year-on-year from 72 to 142. The success of a partnership is a function of a set of variables including: install-base size; sales & marketing capabilities and spend; end-client profile (vertical and geography) and their intent/prioritization to sell value-added services in general; and backup/archiving in particular. Some partners add new Paid Users relatively quickly, while others take time, and some will make negligible contributions.

Product Update

As evidenced from the hyper-growth of Dropsuite's Email and Backup and Archiving product in the last 12 months, the product and engineering team has successfully created a scalable and highly useable Email Backup solution. The software is compatible with any email platform and can process billions of files/objects, all done seamlessly in the Cloud.

The team has just completed a total user interface refresh to solidify a best-in-class user experience. Further, an enhanced product has been rolled out with updated security features for Microsoft Office 365, allowing partners and users to effortlessly safeguard 100% of Office 365 applications.

The Dropsuite solution for Office 365, the world's fastest growing business email platform, allows partners and their end clients to effortlessly backup, archive, discover and recover data within Exchange Online (email), SharePoint, OneDrive, Groups and Teams in a "single pane of glass" control panel.

Dropsuite recently received feedback from the Chief Commercial Officer of valued cloud-services distribution partner Pax8 (pax8.com), Ryan Welsh: *"Dropsuite shines because it's easy to use, intuitive, with great pricing. Also, there are no minimum purchases, no import fees, no ingestion fees or setup fees. That's unique."*

As previously advised, Email Backup and Archiving presents a large target market for the Company and Dropsuite is gaining solid traction in key geographies with top tier partners.

Outlook

- Q1 2019 cash receipts expected to be lower than Q4 2018 due to the abnormally higher revenue contribution from the South American partner in Q4 2018 but materially higher than Q1 2018.
- Q1 2019 will include some one-off annually budgeted payments that will not reoccur throughout 2019.
- Further monetisation of existing partners in the Americas, Europe and Australia.
- Ongoing product enhancements to bolster appeal in regulated industries such healthcare, finance, government, manufacturing and legal verticals - Includes compliance tools combined with organisation user insights and analytics.
- Q1 sales pipeline in great shape and we are in advanced negotiations with various new partners that will contribute strongly going forward
- Continued de-risking and diversification of the revenue base.
- Further focus on larger size end clients especially with the aforementioned product enhancements.
- Progressive migration by our largest website backup Partner to be counteracted by increasing Partner numbers and growing Paid Users of Email Backup and Archiving.
- Ongoing OPEX control.
- Well-funded with cash at bank of ~\$3.5 million.

Commentary

Dropsuite's Managing Director Charif Elansari said: *"Dropsuite is well-placed for further growth and diversification as we enter 2019. Our priority this quarter is to continue to ramp up recently added partners, and bring on new partners that will generate meaningful business. We look forward to reporting on progress in this regard shortly."*

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About Dropsuite

Dropsuite is a global cloud software platform enabling SMBs in over 100 countries to easily backup, recover and protect their important business information. Dropsuite's network of preferred reseller partners has a combined customer reach of millions of small and medium-sized businesses worldwide. Dropsuite partners with some of the biggest global names in the hosting and IT service provider market, including GoDaddy, the world's largest domain name registrar, and Ingram Micro, the world's largest distributor of computer and technology products. For more information please visit: www.dropsuite.com

*Annualised Recurring Revenue (ARR) is defined as the value of the contracted recurring revenue multiplied by 12 months. The revenue figures are unaudited.

** ASX announcement dated 11 January 2019 referred to 40% year on year growth, upon review the Company noted >50% growth.