

## ASX RELEASE

# Quarterly Update and Appendix 4C Quarterly Cash Flow – June 2019

### Key Developments

- HSBC Bank Australia signs Master Service Agreement and SoW following successful PoC
- New CEO, Olivier Cauderlier, appointed 11 July 2019
- R&D Tax Incentive and EMDG Grant amounting to \$1.196 million received during the quarter
- Gross Cash outflows for the September 2019 quarter estimated at \$1.300 million represents a 63% reduction from the corresponding September 2018 quarter

**SYDNEY, July 2019**, Flamingo Ai Limited (“Flamingo Ai” or “the Company”) (ASX: FGO), Artificial Intelligence company, provider of Virtual Employee Assistants, is pleased to provide the following Quarterly update and lodgement of its Appendix 4C.

### Business strategy update

During the quarter under new leadership the Company initiated a revised vision, mission and strategic planning process. The Company is repositioning and transforming the business, transitioning from selling a complex AI technology platform towards a more focused, customer-centric Software as a Service (SaaS) product and value proposition, powered by AI.

With the vision of being a key player in the Virtual Employee Assistant (VEA) market, Flamingo Ai’s SaaS product will be designed for large organisations and employees who want to maximise productivity and enable collaboration workflows. Gartner predicts that by 2021, 25% per cent of digital workers will use a Virtual Employee Assistant on a daily basis, an increase from less than 2% in 2019.

Capitalising on the Company’s own AI technology, the Virtual Employee Assistant product will first address significant content management and knowledge retrieval problems experienced by enterprises, allowing organisations to manage, share and mine compliant information at scale.

In the next 12 months, the Company will be transforming the technology platform. Aligning to problems experienced by enterprises, focus will be given to developing both content management and request tracking capabilities. When added to the existing knowledge search and retrieval capability and natural language processing user interface, this will provide an extensive feature set required to support the product positioning.

Market interest in the Virtual Employee Assistant has been demonstrated with the production rollout of Flamingo Ai’s Virtual Employee Assistant by HSBC Bank, Australia and by Fortune 100 US-based Nationwide trialling two Virtual Employee Assistants in its Life & Annuities business. Interest in this product is coming from both existing and prospective customers.

It is important to note that the business is purposefully not focusing on a high client acquisition strategy during this next phase, but instead is focusing on strong user engagement across a selected set of high-quality, referenceable clients while further developing and proving out its product vision.

The Flamingo Ai team is excited about and committed to its new vision.

## Client Engagement

The Company has five current engagements across the US and Australia where the product is at various stages of implementation. Table 1 summarises the current status.

**Table 1: FGO Customer Status**

STAGE	Q3FY19 Engagements	Movement	Q4FY19 Engagements	Progress on prior quarter
MRR	2	+1	3	<ul style="list-style-type: none"> <li>Nationwide continues in MRR.</li> <li>HSBC Australia moved to MRR.</li> <li>CUA continued in MRR until completion at 30 June 2019.</li> </ul>
Concluded trial/review (awaiting decision to proceed)	2	-2 +1	1	<ul style="list-style-type: none"> <li>HSBC moved to MRR.</li> <li>Domestic insurer moved to concluded trial and awaiting decision.</li> <li>One client, a domestic insurer/bank has not progressed further within three months of their trial completion and although discussions continue they have been removed from current client status.</li> </ul>
Paid discovery or trial	2	-2 +1	1	<ul style="list-style-type: none"> <li>New Australian based financial services company at paid discovery and trial.</li> <li>Domestic insurer moved to concluded trial and awaiting decision.</li> <li>Nationwide trial (LIBBY) completed and next steps included in current Nationwide MRR engagement.</li> </ul>
<b>Total</b>	<b>6</b>		<b>5</b>	

**Table 2: - Cash receipts and revenue**

STAGE	Q3FY19 Cash receipts \$A'000	Q4FY19 Cash receipts \$A'000	Q3FY19 Revenue \$A'000	Q4FY19 Revenue \$A'000
MRR	83	57	92	146
Concluded trial/review	1	-	-	-
Paid trial	125	25	30	43
Other	6	3	11	87
	<b>215</b>	<b>85</b>	<b>133</b>	<b>276</b>

**Notes:**

- Cash receipts includes GST / Revenue excludes GST
- Other Engagements receipted refers to recovery of agreed costs

**Table explanation:**

MRR:	Monthly Recurring Revenue. Product is live, in production and customer is paying monthly subscription fee.
Concluded trial/review:	Customer has concluded paid trial, is still under a current engagement, and is assessing next use case(s) within a 3 months review period.
Paid trial/discovery:	Customer has paid for a Proof of Concept or discovery of use case phase which is in progress.
Movement:	Movement in engagement status during the quarter.

Following a successful Pilot of its Virtual Employee Assistant product in Q2FY19, during Q4 FY19, the Company signed a Master Services Agreement (MSA) with HSBC Bank Australia Limited as well as the first Statement of Work (SOW) under the MSA to deploy the technology into a production environment. The contract includes a Monthly Subscription arrangement and has an initial term of 3 years and can be extended to up to 5 years.

The current engagement with Fortune 100, US-based Nationwide Insurance, operating under a Master Services Agreement (MSA) since May 2016, involves the deployment of two Virtual Employee Assistants in a trial, consistent with our new product strategy.

During the quarter, the initial Virtual Sales Assistant Pilot engagement with CUA Health Ltd has come to completion (30 June 2019). Consistent with its revised business and product strategy focus, Flamingo Ai is having ongoing discussions with CUA's banking business around potential use cases that align to their AI Roadmap. The relationship with CUA remains strong.

## Sales

This quarter saw the Company focusing its business development initiatives on growing existing client accounts and targeting a small number of new high potential customers in Australia and the US, consistent with its new product strategy. A number of these companies are now in advanced discussions toward potential new deployments of the Company's technology in both Australia and the US.

During the quarter the Company engaged with a new Australian-based Financial Services client, focusing on a paid Discovery Phase and Trial of the Virtual Employee Assistant.

## **Operations and People**

As announced on 11 July 2019, Mr Olivier Cauderlier was appointed as Chief Executive Officer for the Company, taking over from Dr Catriona Wallace who has taken up the role of Founder, Executive Director and Head of Business Development. Dr Wallace and Mr Cauderlier have been working closely over the last few months and have a highly complementary skill set and a very positive relationship.

The Company has reduced headcount considerably to the number of staff (21) required to deliver both a product focus and a high level of engagement with a select number of customers. The team now includes a new Product Manager, two UI UX designers, a Product Marketing Manager hired in Australia and a senior Implementation Specialist hired in the US.

During the quarter, consistent with the revised product strategy, the Chief Data Scientist role was made redundant. Dr Jack Elliott who had been in this role for three years left the Company. The relationship remains strong with Dr Elliott who may provide advisory services to the Company if required.

Additionally, the Finance function was outsourced providing a cost saving to the business but remains under the leadership of Geoff Nesbitt, CFO.

## **Financial Update**

As referenced in Table 3, over the past 12 months cash outflows have reduced by approximately \$2.2m since Q1FY19. This reflects the continued review by Management of the Company's cost base and personnel skill set to support the ongoing development and commercial deployment of its products.

To support the strategic plan, the Company restructured the business, resulting in a 63% gross burn reduction from the corresponding 2018 quarter, including adding new skillsets in product strategy, product management, user experience, engineering and customer engagement.

This allows for extending the Company's runway, maintaining strong operations capability and customer engagement as well as time to further prove out the product strategy.

An amount of \$1,128,032 was received from the Australian Government's Research and Development Tax Incentive program for eligible R&D activities conducted by the company during the calendar year ending 31 December 2018.

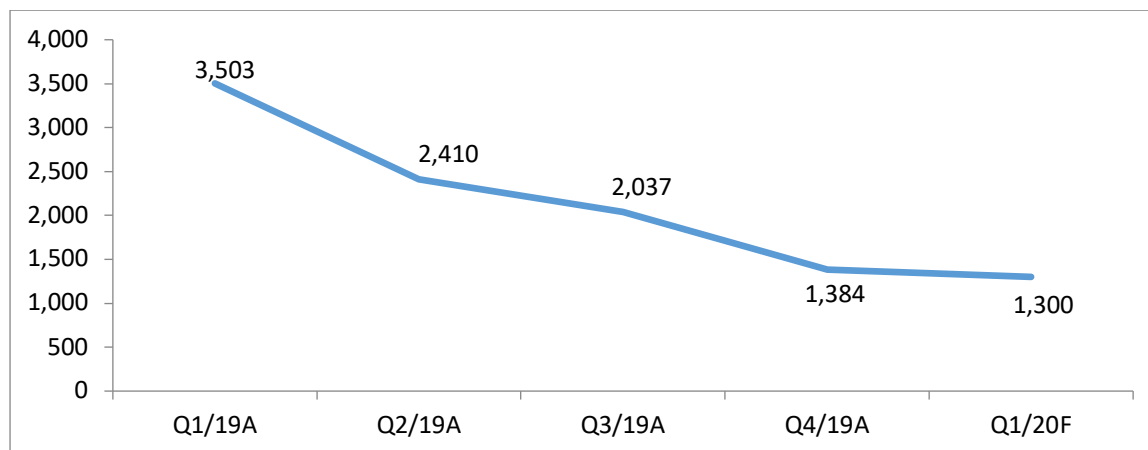
An amount of \$61,598 was received from the government's EDMG grant designed to provide financial support to current and aspiring Australian exporters.

The Company reported a cash balance of \$5.032 million as at 30 June 2019, compared to \$5.124 million for the preceding quarter.

Net operating cash outflow for the quarter was \$0.098 million. This includes the R&D Tax Incentive of \$1.128 million for the 2018 calendar year and an Export Market Development Grant of \$0.068 million received in the June quarter.

The Company has 'Estimated cash outflows for the September 2019 quarter' as referenced in Table 9 of Appendix 4C of \$1.300 million, compared to \$1.384 million in the preceding June 2019 quarter.

**Table 3: - Operating cash outflows from Q1FY19 to Q1FY20(F)**



## Outlook

The Company has undertaken significant efforts to reduce operational costs whilst maintaining strong client engagements. This is the result of a revised business strategy, evolving from building the core AI technology platform (the focus in CY2018) to developing the Virtual Employee Assistant product and focusing on engaging with a select number of significant global brands as beta customers. The Company looks forward to keeping the market updated as we demonstrate further success.

[ENDS]

**For further information, investor or media enquiries, please contact:**

Email: [investor@flamingo.ai](mailto:investor@flamingo.ai)

## ABOUT Flamingo Ai

Flamingo Ai (ASX: FGO) is an Australian listed company based in Sydney and the US. Flamingo Ai is an Enterprise SaaS company in the Artificial Intelligence (AI) field, providing a Machine Learning based Virtual Employee Assistants. Flamingo Ai is one of IT Analyst Gartner's 'Cool Vendors' and customers include large financial services firms. [www.flamingo.ai](http://www.flamingo.ai)

## Flamingo Ai - Social Media Policy

Flamingo Ai is committed to communicating with the investment community through all available channels. Whilst ASX remains the prime channel for all material announcements and news, investors and other interested parties are encouraged to follow Flamingo on Twitter - [@FlamingoAI](https://twitter.com/FlamingoAI)

## Company Investor Newsletter

The Company encourages investors to subscribe to the Flamingo Ai investor community newsletter at <https://flamingo.ai/investors/>

## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

Flamingo AI Limited

**ABN**

99 000 031 292

**Quarter ended ("current quarter")**

30 June 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	85	609
1.2 Payments for		
(a) research and development	(418)	(2,761)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(56)	(403)
(d) leased assets	-	-
(e) staff costs	(562)	(3,782)
(f) administration and corporate costs	(372)	(2,447)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	5	70
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives - <i>R&amp;D rebate received</i> <sup>1</sup>	1,196	2,309
1.8 Other (provide details if material)	24	60
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(98)</b>	<b>(6,247)</b>

<sup>1</sup> Proceeds received from R&D rebate.

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire:		
	(a) property, plant and equipment	-	(23)
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	3	12
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other – cash on reverse takeover acquisition	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>3</b>	<b>11</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issue of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>-</b>	<b>-</b>

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of quarter/year to date	5124	11,403
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(98)	(6,345)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	3	(11)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	-	(18)
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>5,032</b>	<b>5,032</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	5,032	5,124
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>5,032</b>	<b>5,124</b>

**6. Payments to directors of the entity and their associates**

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter  
\$A'000

(97)

-

The aggregate amount of payments to directors and their associates during the quarter ended 31 March 2019 is related to director fees and salary.

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		
None		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(400)
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing, net of grants	(50)
9.4 Leased assets	-
9.5 Staff costs	(550)
9.6 Administration and corporate costs	(300)
9.7 Other (provide details if material) <sup>2</sup>	-
<b>9.8 Total estimated cash outflows</b>	<b>(1,300)</b>

<sup>2</sup> Mainly related to legal fee for IP.

<b>10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	<b>Acquisitions</b>	<b>Disposals</b>
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

### Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: .....Zane Lewis.....  
(Company secretary)

Date: .....30/07/2019.....

Print name: .....Zane Lewis.....

### Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.