



Global cloud backup and archiving software provider Dropsuite Limited (ASX: DSE) (“Dropsuite” or the “Company”) presents its financial and operational update for the quarter ended 30 June 2019.

- Normalised Q2 cash receipts were \$1.18m - up 38% on Q2 2018 and up 6% on Q1 2019.
- Total revenue from Email Backup and Archiving up 19% year-on-year and now makes up 58% of total revenue – up from 37% last quarter.
- As forecast, Annualised Recurring Revenue (ARR*) declined 16% quarter-on-quarter to \$3.86M due solely to the final phase of a US partner’s website backup migration that has been taking place since Jan 2019.
- Partnerships launched in past three quarters delivered growth and further revenue diversity – concentration of the top 10 partners now makes up 76% of total revenue versus 89% in Dec 2018 quarter.

Q2 Financial Summary

Q2 2019 normalised cash receipts were \$1.18m increasing 38% year-on-year and 6% quarter-on-quarter. Annualised Recurring Revenue (ARR*) declined 16% to \$3.86m quarter-on-quarter given the previously announced final phase-out of a US partner’s website backup migration to their own platform that has been taking place since January 2019. The monthly revenue impact of the migration is now estimated at approximately \$150,000, which is up from the \$115,000 impact forecast in February 2019. The impact of the migration will be reflected in Q3 cash receipts given the lag between invoicing and payment.

The concentrated ARR loss in this one quarter has been partially offset by solid revenue now being booked from new partners for email backup and archiving that have been progressively on-boarded since Q4 2018, and revenue contributions from other existing partners which is also growing favourably. The impact on ARR quarter-on-quarter is reflected in the table below.

	Mar-19	Revenue Lost from Migration	Revenue Added - Existing Partners	Revenue Added - New Partners	Jun-19
ARR (\$)	\$4,780,244	(\$1,290,055)	\$250,792	\$124,532	\$3,865,513

Dropsuite confirms that this migration was largely finalised in the June quarter, and ARR will now start tracking back up in the current quarter and in subsequent quarters as our partners add more and more Paid Users.

It is also pleasing to note that revenue concentration continues to reduce, with the top 10 partners now accounting for 76% of total revenue versus 89% at the end of the December 2018 quarter, and the total number of partners is now 172 up from 152 in March 2019.

The negative impact on revenue in 2018/2019 can be quarantined to two partners – the previously mentioned migration from the large US website backup partner, and the de-activation of some customers from our Latin American partner’s marketing program. As a result, we have seen revenue decline of 29% year-on-year and 20% quarter-on-quarter.

When excluding the partners referenced above, Dropsuite has delivered very solid growth in revenue up +96% year-on-year and +18% quarter-on-quarter***. Most of this growth has come from our Email Backup and Archiving products which are recent additions to our product portfolio. Sales of these products to SMBs and mid-enterprise end users through distributors and Managed Service Providers has been most encouraging and are

growing rapidly. As a result, we are now doubling down on our sales, marketing and product development efforts to further accelerate these revenue streams. Dropsuite has achieved excellent brand recognition and a solid reputation for its Email Backup and Archiving products and we continue to see very high win-rates across a number of geographies and partners that we serve.

Outlook

- Further monetisation of existing partners in the Americas, Europe and Australia will materialise.
- Ongoing product features, security and scaling enhancements to further the Dropsuite appeal in the market and to improve gross margins.
- Q3 2019 sales pipeline is in great shape and we expect a major partnership to be announced and launched during the quarter.
- Cash at bank of \$2.2m at quarter end. Dropsuite remains vigilant with respect to cost management. Q3 Opex expected to be in line with the prior quarter.

Comment

Managing Director Charif Elansari said: *"As we forecast, ARR was lower in the quarter as the migration of our US partner's website backup business was largely finalised. We are rapidly replacing this revenue from a more diversified partner base that is having great success selling our market-leading Email and Archiving product to their much stickier mid-enterprise and SMB customers. The appeal of this technology is reflected in the growing monthly ARR materialising from new and existing partners. This will now accelerate in the coming quarters."*

"It is also pleasing to note that revenue continues to diversify across partners and geographies. Europe has been particularly strong and the US market is also performing very well. Our near-term focus is delivering on a major new partnership which makes an immediate contribution to revenue. Now that the large migration is completed, shareholders will quickly see the resulting positive impact on ARR as it starts to track up strongly from August onwards."

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About Dropsuite

Dropsuite is a global cloud software platform enabling businesses 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 businesses worldwide. Dropsuite partners with some of the biggest global names in the hosting and IT service provider market. 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.

**All financial numbers provided are unaudited

*** Excluding one one-off setup fee