



Global cloud backup and archiving software provider **Dropsuite Limited (ASX: DSE)** ("**Dropsuite**" or the "**Company**") is pleased to provide this financial and operational report for the Half Year ending 30 June 2019. Despite some isolated and one-off challenges which are now behind us, Dropsuite has delivered some notable achievements in the half and established a solid foundation from which to build improved operating and financial performance from this point onwards. Key highlights include:

- **Revenue up 23% year-on-year.**
- **Diversification of the revenue base through a 30% increase in new partner numbers to 183.**
- **Revenue sourced from the top 10 partners being further de-risked and reducing from 91% to 75%.**
- **Further improvement and enhancement of its market-leading Email Backup and Archiving platform.**
- **Annualised Recurring Revenue forecast to grow to between \$4.8M-\$5M by end of December 2019.**

ANNUALISED REVENUE RUN RATE (ARR)*

As anticipated and previously report, overall Annualised Run Rate (ARR) declined from \$4.8M in June 2018 to \$3.8M in June 2019.

The decline is attributed to:

1. Largest US-headquartered Website Backup partner who migrated the bulk of their users in the first half of the year away from Dropsuite's product to an in-house solution that partner acquired.
2. An Email Backup partner in Latin America who deactivated a significant portion of their users due to an overly aggressive marketing campaign by that partner.

It is important to note however that both of these partners remain valuable transacting partners for Dropsuite. Notwithstanding the impact of these two extraordinary events, the underlying growth of the business is most encouraging. Our risk profile is lowering with our dependence on two large customers being mitigated with revenue now more evenly spread amongst our top ten customers. When excluding the aforementioned partners from the ARR calculation, the year-on-year growth would have exceeded 100%. Furthermore, the revenue contribution from the top 10 partners has reduced from 91% to 75% as at the end of June 2019 which is further evidence of Dropsuite diversifying and de-risking its growing recurring revenue base.

Overall user numbers declined due to the aforementioned events, down 38% year-on-year to 261,000. However, the equally important monthly average revenue per user (ARPU) metric has increased by over 30% to AUD\$1.30 during the same period. This reflects the fact that Dropsuite and its partners have been successful in attracting a quality user base in the SME and Enterprise segments of the market.

Dropsuite is now experiencing consistent daily, weekly and monthly growth in ARR from quality users that are being sourced from a wider partner base. This was clearly evident in July and August 2019.

PARTNERS

The number of transacting partners, being those generating revenue and which are billed directly by the Company, has increased more than 30% from 140 in June 2018 to 183 in June 2019. This figure does not include the IT service providers who are transacting through the distributors that we have signed in the second half of 2018. Adding those providers to the number of transacting partners, the growth would far exceed 100% year-on-year. Revenue growth is expected both from existing partners and distributors as well as from new partners that the Company on-boards going forward.

PRODUCT

In the first half of 2019, the Company continued its focus on bolstering and expanding the Email Backup and Archiving platform. From boosting security, ensuring availability on a private cloud platform in Europe, and by adding several new features to strengthen the appeal of the company's products across geographies and customer segments, the product and engineering team has had a busy and productive first half. The email mix has grown significantly year-on-year to almost 60% in June 2019 vs. 35% in June 2018 and 1.4% in Dec 2017. This demonstrates Dropsuite's ability to bring new products to market which have near-instant appeal to partners and their end customers.

GROSS MARGIN

The gross margin percentage declined year-on-year to 68%. This decline is attributed to two main factors:

1. The shift to the higher ARPU yet lower gross margin percent Email Backup and Archiving sold through distributors and Managed Services (MSPs) sold to larger Small and Medium Businesses and Enterprises.

2. The proliferation of the backup data across nine data centres around the world (to date) to cater to the growing emphasis on data sovereignty by our partners and users.

As the Company grows its user base, the downward pressure on gross margin from data proliferation will abate. Furthermore, the engineering team will continue improving the product architecture for better scaling and cost (COGS) reduction.

Operating Expenditure (excluding Amortisation and COGS)

Operating expenditure (OPEX) increased 18% year-on-year. The increase is mostly attributed to growth in employee headcount and costs as the Company expands its product capabilities and support, and grows its global footprint with an emphasis on North America, Europe and Australia and Japan. Very selective increases to headcount are expected.

The other factor in OPEX growth has been the increase in withholding tax (categorised as "Other operating expenses") applied by the local tax authority to non-resident companies in Latin America. A material portion of this expense is expected to be recovered in the form of US income tax credits to be taken up in future periods for our US subsidiary.

CASH

Total cash and cash equivalents is at \$2.2M, down 45% year-on-year. The Company will continue to be vigilant with respect to operating expenditures and expects to see a reduction in costs in the second half of 2019.

OUTLOOK

- ARR by December 2019 is forecast to be in the range of \$4.8M-\$5M – a pleasing increase from the \$3.86m of ARR reported at the end of June 2019.
- The signing of new partners and the expansion of existing partnerships will continue for the remainder of the calendar year and into 2020.
- An ongoing focus on Email Backup and Archiving in terms of both feature-set and user experience enhancements as well as architecture and scaling improvements.
- Low customer churn from July onwards in single percentage digits.
- Cash burn and OPEX will be lower in the second half of 2019 with very selective hiring and targeted marketing.

Overall, Dropsuite is in an excellent position to capitalise on the growth initiatives put in place in the past 12 months. ARR is now steadily tracking up with the near term forecast favourable; the revenue base continues to be de-risked and diversify each month; the quality and base of partners is growing; product demand from end-users is increasing at a steady clip; the underlying technology continues to be enhanced, and entry into new first-world markets and building critical mass in existing markets is ongoing. The Board is very confident about the Company's prospects moving forward.

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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