



Dropsuite Q4 2019 Activities Summary

Global cloud backup and archiving software provider Dropsuite Limited (ASX:DSE) (“Dropsuite” or the “Company”) presents an operational update accompanying Appendix 4C for the quarter ended 31 December 2019.

- Annualised Recurring Revenue (ARR*) of \$5.2m surpasses \$4.8m-\$5m forecast – up 17% on prior quarter (\$4.46m) and 32% in six months
- Cash receipts increase to \$1.1m (prior quarter normalised \$1.05m) – continuing to track up with solid growth anticipated in Q1
- Partner numbers up 13% with four new partners added in Q4 as Top 10 revenue contributors
- Revenue from Email Backup and Archiving now makes up 70% of total revenue – up 7% on prior quarter
- Number of paid users up 9% quarter-on-quarter to 288,000 and ARPU now \$1.49 (prior quarter \$1.40)
- Very well-placed for 2020 with strong sales funnel, growth from existing partners and several new large partner launches

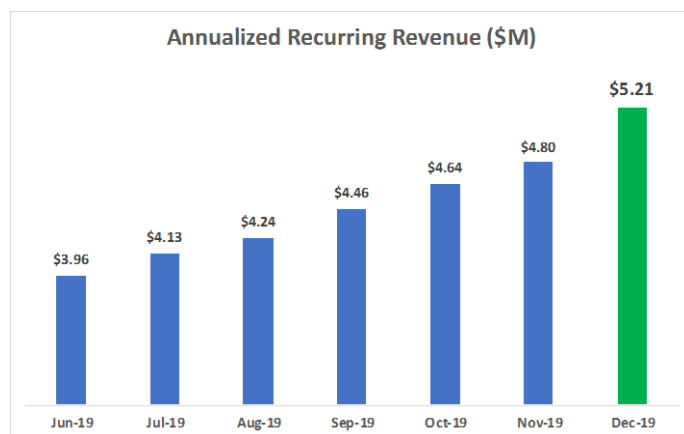
Cash receipts and Revenue Diversification

Q4 2019 normalised cash receipts were \$1.1m versus \$1.05m in the prior quarter with the final cash receipts impact of the phase-out of a US partner’s website backup migration** completed. Given Q4 2019 Revenue growth of 17%, the Q1 2020 cash receipts are expected to show a greater quarter-on-quarter increase.

Dropsuite continues to de-risk and diversify its revenue base, with the top 10 partners now accounting for 74% of total revenue. Four new entrants joined the ranks of the Top 10 revenue contributing partners in Q4. The number of transacting partners grew from 200 to 230, a 13% quarter-on-quarter increase. Dropsuite’s Backup and Archiving product is enjoying excellent take-up making up 70% of total revenue (up by 7% quarter-on-quarter).

Annualised Recurring Revenue (ARR)

Particularly encouraging has been ARR growth which continued its steady upward trajectory, increasing 17% quarter-on-quarter to \$5.21m and exceeding guidance of \$4.8m-\$5m. Over two quarters, ARR is up 32% as shown in the table below:



User Number Growth, ARPU and Gross Margin

The total number of paid users increased 8% quarter-on-quarter to 288,000 (prior quarter 266,000) and monthly Average Revenue Per User (ARPU) continued to increase, up 6% to \$1.49 (prior quarter: \$1.40) and reflecting the growing appeal among businesses for Dropsuite's SaaS-based email backup and archiving technology. Growth in ARPU is a worthy benchmark as it shows end-users value the quality and dependability of the Company's technology suite.

Gross Margin improved by 2% quarter-on-quarter to 62%. Over CY2019, gross margin declined due to rolling out the email backup platform in multiple geographies and a shift in the product mix to lower gross margin percentage but higher ARPU Email Backup and Archiving.

Churn

With the migration of US-headquartered Website Backup partner behind us, Dropsuite will start reporting on its annual partner revenue churn excluding this partner. The Company is pleased to report the partner revenue churn for 2019*** is 4.4% driven by two main factors: (1) the revenue shift from website to the stickier email backup products; (2) the revenue shift in end-user segment from micro businesses serviced by Hosting partners to the more stable Small, Medium & Enterprise businesses serviced by managed service provider – MSP- partners (and occasionally directly).

Management predicts that the aforementioned revenue churn metric will stay in single digits moving forward, reflecting the underlying stability and predictability of Dropsuite's steadily building ARR streams and the quality of its partnerships.

Outlook

Dropsuite is exceptionally well positioned for CY2020 and Q1 has commenced very well. ARR, customer receipts, partner numbers, ARPU and paid user numbers are all growing and gross margin stabilising. Cash at hand is at \$1.4 million (\$1.25m normalised) and Dropsuite continues to focus on maintaining a tight control on costs. The focus for the Company is to continue delivering stable and predictable growth for shareholders.

Comment

Managing Director Charif Elansari said: *"Q4 2019 was a critical quarter for Dropsuite and one of considerable progress. We are now free from the shackles of previously announced significant partner migration and this is best reflected in us exceeding ARR forecasts. Growth in cash receipts are anticipated to now follow accordingly."*

"We are now firmly focused on maximizing growth from existing partners and executing on our growing sales funnel which will drive growth in cash receipts and ARR. Investing in the technology suite is an ongoing focus to ensure we maintain a market-leading position in the ever-evolving cyber security landscape. We look forward to reporting on progress as the quarter unfolds."

*Annualised Recurring Revenue (ARR) is defined as the value of the month's recurring revenue multiplied by 12 months.

**This partner that was referenced in multiple previous announcements migrated the bulk of their users in the first half of 2019 away from Dropsuite's product to an in-house solution that partner acquired. Yet it is important to note that the migration is complete per this partner's confirmation, and they remain a valuable transacting partner.

*** 2019 Revenue Churn is defined as Lost Revenue in 2019 divided by Dec'18 Revenue

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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