



Quarterly activities report and Appendix 4C

Highlights of a solid June Quarter

- Annual recurring revenue (ARR*) continues to track up to \$6.74m at quarter end – a 13% increase on the prior quarter and 70% on previous corresponding period (PCP) on a *constant currency basis*¹
- Cash receipts up 17% to \$1.46m (Q1 2020: \$1.24m); normalized cash receipts up 28% on prior quarter to \$1.59m; DSE ended the quarter with \$3.02m cash and is well funded
- Excellent gross margin improvement to 69% in June (Mar'20: 63%)
- Total paid users up 9% quarter-on-quarter to 343,000 (Mar'20: 314,000)
- June Average Revenue Per User (ARPU) increases to \$1.64 – up 4% on prior quarter and 25% on PCP
- Well-placed for continued steady revenue growth for remainder of CY2020 with COVID-19 minimally impacting operations

21 July 2020: Global cloud backup and archiving software provider Dropsuite Limited (ASX: DSE) (“Dropsuite” or the “Company”) is pleased to provide this business activities and cash flow report (Appendix 4C) for the three-month period ending 30 June 2020.

By almost every measure, the Company performed exceptionally well during the period particularly given the challenging macro environment. This is testament to the dependability and stickiness of our market-leading SaaS products, the quality of our partners and the hard work and commitment from our team.

Appendix 4C Commentary

Financial overview

ARR continues to be a key measure of Dropsuite’s performance and this continued to track up favourably at the end of the quarter to \$6.74m, up from ~\$5.94m (13%) in the prior quarter and up 70% on the previous corresponding period on a constant currency basis (which will now be used as the basis for reporting on ARR trending). This is now the fifth consecutive quarter of ARR growth as partners continue to successfully market and sell our leading cloud backup platform to their end users.

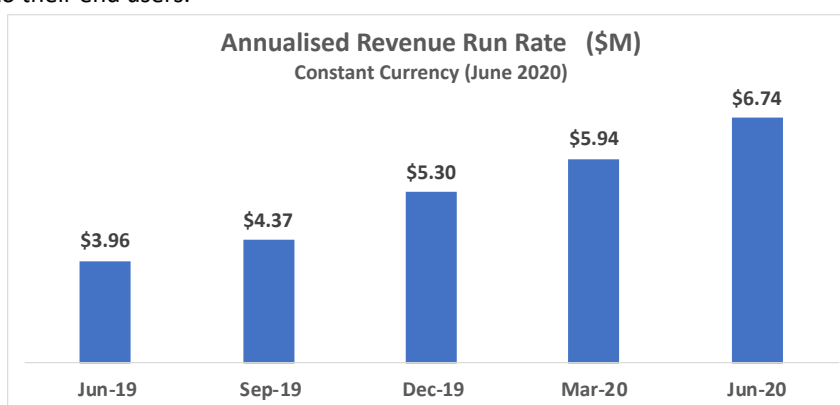


Table 1: ARR growth for the 12 months ending 30 June 2020

¹ DSE will report ARR trends on a **constant currency basis** given the vast majority of its revenue is earned overseas. Using a constant currency exchange rate eliminates the effect of currency fluctuations and enables DSE to demonstrate to investors how the Company performs independent of currency fluctuations.

Receipts from customers were up 17% on the prior quarter to \$1.46m (Q1 2020: \$1.24m). Normalized cash receipts were \$1.59m, a 28% increase on the prior quarter (normalized, as we have done historically, in order to capture slightly late customer payments that occurred just after quarter end).

Net cash used in operating activities was \$637,000 (Q1: \$632,000). Normalized net cash used in operating activities was \$500,000, which is a 21% decrease when compared against Q1.

Cash used in the current quarter included back pay of directors' salaries and fees (see table 3), which were voluntarily withheld at 25% of net pay from July 2019 until February 2020 to reduce burn prior to the capital raise in February 2020. In Q2, other larger non-recurring costs associated with the Share Purchase Plan, were offset slightly by minor stimulus funds received from the Inland Revenue Authority of Singapore (IRAS). Dropsuite ended the quarter with cash at bank of \$3.02m and no debt.

(\$Million)	Mar-20	Jun-20	QoQ
Cash Receipts	1.24	1.46	17%
Normalised Cash Receipts	1.24	1.59	28%
Net Cash from Operations	-0.63	-0.64	-1%
Normalised Net Cash from Operations	-0.63	-0.50	-21%
Cash at hand	3.68	3.02	-18%

Table 2: Cash summary

Key areas of activity during the second quarter of calendar year 2020 – LR 4.7C.1

We continued to invest in sales and business development initiatives and enhanced our technology suite to maintain our market-leading position.

Paid users increased 9% to 343,000 (Q1: 314,000) and average revenue per user (ARPU) continues to steadily grow to \$1.64, up 6% on the prior quarter and 25% on PCP on a constant currency basis. Annual partner revenue churn at a low and best-in-class 3.3% (Q1: 3.2%). The improved ARPU and stable low churn is the consequence of the deliberate shift in the Company's customer segment mix from micro businesses towards more stable, SMB and mid-market customers.

71% of total revenue now is derived from the top 10 partners, in line with the prior quarter, and down from 78% PCP, while transacting partner numbers are 272 versus 249 from the prior quarter.

The Company also saw strong improvement in gross margin from 63% in March to 69% in June, driven by paid user growth, hence better data center utilization, and better pricing terms secured from the Company's main cloud provider, Amazon Web Services (AWS).

During the quarter, the Company reported that SoftwareReviews, a division of IT research and consulting firm Info-Tech Research Group, rated Dropsuite's product highest among software users for backup restore, backup archiving, mailbox backup restore, business value created, ease of data integration, and ease of implementation. Dropsuite also ranked first in terms of 'intention to renew' and 'likelihood to recommend'. Dropsuite was benchmarked against other industry leaders such as Mimecast and Veritas, and this endorsement has already proven valuable in strengthening partner relationships and aiding in new business development initiatives.

The Company recently upgraded its Google G Suite offering to deliver an improved user experience and functionality. Further upgrades are expected to deliver increased revenues in the coming two quarters and beyond.

Finally, Dropsuite is in the final stages of receiving System and Organization Controls certification (SOC 2-1). This certification is a comprehensive and widely used reporting framework where an independent, third-party auditor (i.e., CPAs) use SOC 2 for assessment controls relevant to security, availability, processing integrity, confidentiality and privacy. Dropsuite will continue enhancing this certification (SOC 2-2), as we consider it beneficial in order to transact with larger clients through demonstrating our commitment to rigorous information security controls.

Approximately \$1.56M was spent on product, sales and marketing during the quarter, all within the normal scope of operations.

Payments to Related Parties - Listing Rule 4.7C.3

The Company has reported expenditure of \$220,000 for salaries and director fees to related parties including back pay as referenced previously (see table 3 below).

Q2 2020	Designation	Standard Fees/Salaries	Withheld (July'19-Feb'20)	Total
T. Hanarakis	Non-Executive Chairman	\$35,451	\$29,840	\$65,291
C. Elansari	Managing Director	\$73,088	\$50,774	\$123,862
B. Tonkin	Non-Executive Member	\$16,775	\$14,388	\$31,163
Total		\$125,314	\$95,002	\$220,316

Table 3: breakdown of quarterly salary and fees by director for the quarter

Outlook

Dropsuite is well-placed for the remainder of the calendar 2020 and beyond and expects paid user numbers and ARR to steadily build. Business development initiatives, ongoing investment in our technology suite and new sales opportunities in SMB and Enterprise sectors underpins our confidence.

Aided by an increase in customer receipts and an ongoing focus on managing costs, Dropsuite expects cash burn to decline meaningfully for the remainder of this year. The main uncertainty at this point are unforeseeable risks posed by the COVID-19 pandemic. That said, Dropsuite is a SaaS business and so benefits from increasing workplace mobility, more remote working and ever evolving cybersecurity challenges.

Comment:

Dropsuite's Managing Director Charif Elansari said: *"Second quarter performance has continued to be encouraging. It is pleasing to see the continued uptake of our SaaS-based technology into every major market in which we operate.*

"We have now delivered five consecutive quarters of ARR growth, which is undoubtedly the best performance measure for Dropsuite, and expect this trend to continue barring any unforeseen external factors. We are well funded with a strong cash balance, no debt and a declining quarterly cash burn. We look forward to reporting on progress and keeping shareholders informed. Dropsuite is in great shape and well-placed to continue delivering the most advance and up-to-date SaaS-based backup and archiving solutions to end users."

The announcement was approved by the Board of Directors.

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About Dropsuite

Dropsuite is a cloud software platform enabling businesses to easily backup, recover and protect their important business information. Dropsuite's commitment to advanced, secure and scalable cloud technologies keeps us in the forefront of the industry and makes us the choice of leading IT Service Providers globally. 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.

** June'20 Revenue Churn is defined as Lost Revenue in June'20 divided by July'19 Revenue.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity		
Dropsuite Limited		
ABN	Quarter ended ("current quarter")	
91 008 021 118	30 June 2020	
Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,456	2,700
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(658)	(1,269)
(c) advertising and marketing	(73)	(145)
(d) leased assets		
(e) staff costs	(1,083)	(2,010)
(f) administration and corporate costs	(285)	(556)
1.3 Dividends received (see note 3)		
1.4 Interest received	7	11
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(637)	(1,269)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(9)	(18)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
2.2 Proceeds from disposal of:		
(a) entities		
(b) businesses		
(c) property, plant and equipment		
(d) investments		
(e) intellectual property		
(f) other non-current assets		
2.3 Cash flows from loans to other entities		
2.4 Dividends received (see note 3)		
2.5 Other (provide details if material)		
2.6 Net cash from / (used in) investing activities	(9)	(18)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	0	3,075
3.2 Proceeds from issue of convertible debt securities		
3.3 Proceeds from exercise of options		
3.4 Transaction costs related to issues of equity securities or convertible debt securities	(17)	(190)
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)		
3.10 Net cash from / (used in) financing activities	(17)	2,885

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	3,685	1,424
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(637)	(1,269)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(9)	(18)

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(17)	2,885
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	3,022	3,022

5.	Reconciliation of cash and cash equivalents 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	1,422	1,282
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (Term Deposits)	1,600	2,403
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,022	3,685

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	220
6.2	Aggregate amount of payments to related parties and their associates included in item 2	
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

Quarterly cash flow report for entities subject to Listing Rule 4.7B

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities		
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 Total financing facilities	0	0
7.5 Unused financing facilities available at quarter end		0
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(637)
8.2 Cash and cash equivalents at quarter end (item 4.6)	3,022
8.3 Unused finance facilities available at quarter end (item 7.5)	0
8.4 Total available funding (item 8.2 + item 8.3)	3,022
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	4.74
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer:	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer:	
8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
Answer:	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

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.

Date: 21 July 2020

Authorised by: By the Board

(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg *Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.