OTHERLEVELS OPERATIONS UPDATE

25th October 2016: OtherLevels Holdings Limited (ASX: OLV) (OtherLevels) provides an update on operational progress.

- Slower growth than expected due to political and business uncertainty, including the impact of Brexit in both the North American and UK markets.
- Placement of $3.2m in June 2016 concluding the Entitlement Offer and Placement announced in February 2016.
- Increased tempo in sales, and sales activity, in the second half of Q1 FY17 after the UK summer, and continued evidence of stronger activity levels in Q2 FY17.
- Successfully expanded channel strategy focusing on referral partners during H2 FY16, and solution partners who embed the OtherLevels platform within their offering in H1 FY17
- Strong focus on optimising sales and go to market approach, with significant cost reductions of approximately 27%, announced in September 2016, so as to shorten the time to positive cash flow.
- Continued product releases, including the major platform refresh, OtherLevels 2 and expanded web capabilities via Web Push.

In summary, after a challenging last two quarters, the Company is seeing improved sales activity, and is firmly focused on reaching cash flow break even from a lower cost base, with the goal of creating shareholder value.

Sales and International Operations

After a slowdown leading into and during the UK and EMEA summer, there has been a marked increase in the past 2 months in levels of sales activity in the UK. The UK operation has a strong pipeline, an established team and recognised market leadership in sectors such as wagering. The focus continues on established sectors, as well as expanding into membership sectors such as publishing and travel and hospitality. The UK continues to add new customers as demonstrated by the recent signing of a major UK Listed global wagering software and services leader.

As previously announced to the market, the Company chose to invest in expanding the North American operation in the first half of 2016. As a result the Company incurred the costs associated with this expansion, but sales were lower than expected. Hence in September 2016, the Company restructured the North American operation and is going to market for new customers with a lower cost partner centric strategy.

The Company made good progress in expanding the partner channel during the second half of FY16 when new referral partners such as Tealium and Qubit were added. During H1 FY17 OtherLevels is focusing on solution partners who use the OtherLevels platform as part of their solution, and then deploy those solutions to multiple clients. These partnerships will deliver increased sales at lower cost.

The company's focus on partners and clearly defined sectors such as hospitality and travel, publishing, lotteries, on-line wagering, fantasy sports and social casinos will continue. OtherLevels has reviewed its sector focus and no longer sees major opportunities in the games sector, due to the cyclical 'hit based' nature of the games market. The Company's original thesis that the largest games studios would be less vulnerable to market cycles has been proven to be incorrect.

Path to Profitability and Strategy

The Company's Board and management remain absolutely focused upon successfully monetising OtherLevels valuable proprietary smart messaging platform in global markets. Whilst the opportunity remains significant, it is very much still an early stage market. The Board recognises the need for the business to take a 'capital light' approach so as to maximise the return on shareholders capital.

Both prior and subsequent to OtherLevels 2015 listing, the Company was strongly focused on growing and expanding its North American market operations and new customer acquisition. However as US venture capital has moved into the space, the Company has seen that venture backed competitors are significantly over capitalising new customer acquisition costs, and acquiring customers at unprofitable prices.

Whilst OtherLevels has a very competitive product offering, particularly with the recent release of OtherLevels 2, the Board recognises that managing new customer acquisition costs are critical to a successful go-to-market execution strategy. To this end the Board is committed to adopting go to market strategies that lower the cost of acquisition, and to compete in markets and sectors that offer sustained competitive advantage. By targeting specific sectors where OtherLevels has critical mass, and leveraging partners, OtherLevels will achieve revenue and sales growth, while shortening the runway to positive cash flow.

The goal of this strategy is to create shareholder value, by minimising dilution, and demonstrating that the Company can reach a positive cash flow position with minimal or no additional capital needs.

The Company has also strategically reduced it's dependence on the games sector for the reasons outlined above. Removing revenue attributable to the games sector, the year on year growth between FY 15 and FY 16 was 124% (as opposed to 31% on a total basis). This strongly validates the Company's ability to win and expand customers in target sectors.

The strong focus on operational cash flow is supported by:

- The recently announced cost restructure which saw OtherLevels reduce its headcount by 22% and cash cost base by approximately 27%;
- The remaining $1.6 million from the equity Placement;
- An expected FY17 R&D tax incentive rebate which is likely to be comparable to that of FY16 being approximately $750,000.
- A deepening UK sales funnel, with strong growth from existing clients, and with FY Q3 and FY Q4 being quarters with existing major customer renewals;
- Relentless focus on costs, for example a 35% reduction in the past 12 months in monthly US$ server costs.

Further to the focus on achieving positive cash flow, the Company recently announced that it was conducting a strategic review to consider the best way to complement or fast-track this objective and deliver sustainable and profitable revenue growth. The review is considering options to leverage the value of the OtherLevels platform through strategies that can grow distribution without commensurate costs. The scope ranges from strategic partnerships delivering accelerated customer acquisition in markets where the Company has chosen not to over capitalise sales capacity, through to industry participants seeking exposure to the early stage second generation messaging space, via either a strategic stake or acquisition. The Board is committed to reviewing all options in the best interests of shareholders.

OtherLevels 2 and Product Updates

OtherLevels has continued to deliver product enhancements during the period.

OtherLevels 2 was released, which is a completely refreshed UI/UX, making it easier for clients to choose additional message channels. The Company's goal of reaching 100% of the audience, was strengthened with the addition of Web Push, which brings notifications to desktop web and Google Android devices.

The Company also announced Action Engine. Action Engine is an optional module, and compliments other value added modules, including Intelligent Messaging. While intelligent messaging determines the best channel and time to maximise message delivery, Action Engine makes sure that the message content and audience are both being selected dynamically in real-time. Action Engine is able to select content programmatically, or via reaching out to ingest data from customer or 3rd party content providers.

These platform enhancements ensure that OtherLevels maintains a strong competitive position in the market, and can drive increased messaging and upsell opportunities from existing customers.

Financial Metrics

Cash receipts from customers in Q1 FY17 was $489k, reflecting the slowdown discussed earlier, in addition to $799k received from the R&D tax concession. The cash balance as at September 30, 2016 was $428k.

The company will shortly receive $1.6m in additional equity funding to be provided under the terms of a Subscription Agreement as announced on 22 June 2016. OtherLevels has entered into a subsequent Variation Deed, which stipulates the first tranche of the additional funding of $0.8m due to be finalised on or before October 31, 2016, with a second tranche of $0.8m by no later than November 18, 2016.

As a result of the restructure announced in September 2016, the average monthly cash costs from December 2016 through to the end of H2 FY17 are approximately $600,000 per month excluding commissions, which are linked to sales achievement. This compares to an average of approximately $850,000 per month (excluding commissions) for the preceding 12 month period.

The average annualised recurring revenue for customers in their second or more years with OtherLevels was US$152k per customer as at June 30, 2016.

For customers in their first 12 months with OtherLevels, average annualised revenue was US$20k per customer, influenced by the increasing competitive price pressure in the US.

The growth between the first and subsequent years, reflects the strength of the OtherLevels "land and expand" philosophy resulting in customers continuing to expand their use of the OtherLevels platform as well as OtherLevels packaging of additional features as separately chargeable modules.

Customer retention as at September 30, 2016 is 87.5%, as measured over the prior 12 months.

The company receives approximately 90% of revenue in USD or GBP, whilst international sales and support costs are incurred as a direct result of these overseas operations. These costs primarily comprise staff and server costs. As indicated above server costs in US$ have been reduced by 35% in the past 12 months to September 30, 2016.

The Board and management continues to closely monitor sales, operational costs and cash flow with the goal of achieving positive operational cash flow.

Summary

OtherLevels has reduced it's cost base, restructured the North American operations and re-aligned the go to market model, to a mix of direct and partner sales, based on market and location. The Company is seeing a strong rebound in UK sales activity with a deepening pipeline after a slow northern hemisphere summer, and FY Q3 and Q4 represent strong quarters for existing customer renewals.

The Company is very focused on the goal of positive operational cash flow, while also reviewing broader options to leverage the inherent value in the OtherLevels platform.

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About OtherLevels

OtherLevels is a leading second-generation digital marketing platform with offices in San Francisco, London, Brisbane and Melbourne. OtherLevels is at the forefront of the enterprise marketing transformation being driven by the massive shift to mobile.

The OtherLevels digital marketing platform enables marketers to engage and retain their audience across desktop, mobile web and apps. For more information, please visit http://otherlevels.com, OtherLevels Holdings Limited ACN 603 987 266.