



September 2018 Quarterly Activities Update

Global cloud software provider **Dropsuite** Limited (ASX: DSE) ("Dropsuite" or the "Company") provides this operations update and its consolidated Quarterly Cash Flow for the period ended 30 September 2018.

- **Paid Users declined by 420,000 in October**
 - One partner from Latin America deactivated the backup service for an estimated 420,000 paid users.
 - Partner deactivated those users who were deemed as not actively utilising their email service.
 - This follows an aggressive marketing campaign to add Dropsuite email backup to a large volume of this partner's email users.
 - Total paid users as at 30 November are estimated at 350,000, being 64% year-on-year growth but a 53% decline from the 750,000 paid users reported on 10 September.

Dropsuite is confident the purge of accounts has ceased, given they are confined to the partners' *inactive* email users, and user numbers have stabilised with this one partner. Following the addition of new accounts, we are confident a steady growth trajectory can be resumed from hereon.

- **Annualised Recurring Revenue (ARR) estimated to be \$4.6m at end November**
 - 49% year-on-year growth but down approximately 44% from the ARR reported 10 September.
- **Cash receipts from sales was \$1.13m**
 - Up 32% quarter-on-quarter (Q2 2018: \$857,000 normalised).
 - Up 56% year-on-year (Q3 2017: \$726,000).
 - Cash Flow Positive in September of +\$83,000 and modest positive EBITDA for Q3
- **Operations further de-risked and enhanced with new partnerships launched in Q3 and current quarter:**
 - **ALSO** – Europe's third largest B2B Information and Communication Technology (ICT) reseller.
 - **Home.pl** – Poland's largest hosting provider.
 - **Pax8** – the leader in cloud distribution, to offer Cloud Backup for Office 365 and G Suite Gmail to Managed Service Providers (MSPs) throughout North America.
 - **Interworks** – a European automation platform for Microsoft Cloud Solution Providers with 8,500 resellers globally.

Paid User Update

After reporting a rapid increase in paid users, Dropsuite expects users to decline by an estimated 420,000 given a Latin American partner deactivated the backup service of those users deemed as not actively utilising their email service. This follows an aggressive marketing campaign to add Dropsuite email backup to a large volume of this partners' email users. The bulk of this user deactivation took place only recently, and while Dropsuite has cautioned on the potential for a higher churn, the scale and scope of this churn was much higher than expected. The partner is still adding active paid users, albeit at a slower rate, and satisfaction with engaged users of the partner is favorable.

Dropsuite now expects the total paid user count to be an estimated 350,000 by the end of November, which is 53% down on the 750,000 paid users reported at 10 September 2018, but up 64% year-on-year. Dropsuite is geared to absorb such unexpected events due to its diversified partner base, new partnership launches, low and stable operating expenditures, the recurring revenue base and solid cash reserves.

As the Company expands and diversifies its commercial operations and pursues new deployment options, Annualised Recurring Revenue (ARR) rather than paid user numbers will be the key metric that we focus on to measure top-line traction.

Quarterly Financial and Operational Update

Dropsuite delivered positive cash flow of +\$83,000 for September. The paid user decline will of course impact this number in the current quarter, however:

- The development does not substantially impact growth prospects in the medium and long-term.
- Business is still being generated from the Latin American partner, and from signups from new partner agreements which are encouraging in the early stages.
- The quality and quantity of potential partners in the sales funnel is exceptionally strong.
- The quality of our products and team continues to be a winning combination across all our markets.
- Dropsuite's solid cash position of \$3.5m and low burn is sufficient to fund current organic growth prospects.

Locking in more partnerships to broaden the Company's paid user base is a key growth objective. As well as several partnerships announced in recent weeks, such as ALSO, Dropsuite announces the following product integrations developed in Q3 2018:

- **Open-Xchange (open-exchange.com)**, a fast-growing email platform serving large hosting providers and telcos.
- **Pax8 (pax8.com)**, one of the fastest growing distributors of cloud-based products in North America.
- **Interworks (interworks.cloud)**, a major European cloud platform for provisioning and billing of cloud services for IT Service providers, including Microsoft Cloud Solution Providers (CSP).
- A soft launch with **Home.pl**, Poland's largest hosting provider.

Outlook

Top-line growth is the primary focus as Dropsuite diversifies revenue sources from a broader base of partners, customer segments and products, while maintaining low operating costs and healthy gross margins.

The Board is encouraged about Dropsuite's growth prospects in the near term and the longer term. This confidence is underpinned by:

- The quality and dependability of Dropsuite's cloud technology that many partners and SMBs rely upon;
- The size of the addressable SMB market which is borderless and very large given hundreds of millions of email applications require the protection of our world class email backup solution;
- Favourable market dynamics and multi-billion-dollar markets especially when taking into account the necessity for email archiving from highly regulated industries such as healthcare, manufacturing and financial services, and increasing regulation governing the protection of customer data – such as Europe's General Data Protection Regulation (GDPR).

Despite this short term drop in paid users, Dropsuite's outlook is favourable and its business model continues to deliver growth. The Company will keep shareholders informed of any developments especially near-term sales and some partnership opportunities currently being pursued.

Comment

Dropsuite's Managing Director Charif Elansari said: "Dropsuite's performance in Q3 is encouraging year-on-year although the drop in paid users from one partner is definitely a short-term frustration and of course disappointing. That said, it is important to keep this in context. Our business is geared to absorb these developments as we scale up, with the impact being more profound in these early stages as Dropsuite builds a much larger and diversified partner and paid user base. We have experienced and managed these situations before. Our business model and growth strategy are unchanged, and our products have broad appeal to a large number of Small and Medium Sized Businesses (SMBs), globally.

"Dropsuite is well funded with a regular flow of monthly recurring customer receipts, stable OPEX and a solid cash balance. This gives us the financial flexibility to execute on current prospects."

Investor Call Today

Dropsuite will hold an investor call today, 31 October 2018 at 2.00pm AEDT. The call is to provide further background on this operations update and the quarterly report. Dial-in details are below.

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For further information, please contact:

Kobe Li

Company Secretary

kobe@dropsuite.com

secretary@dropsuite.com

Ben Jarvis

Six Degrees Investor Relations

+61 413 150 448

About Dropsuite

Dropsuite is a global cloud software platform enabling SMBs 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 small and medium-sized businesses worldwide. Dropsuite partners with some of the biggest global names in the hosting and IT service provider market, including GoDaddy, the world's largest domain name registrar, and Ingram Micro, the world's largest distributor of computer and technology products. For more information please visit: www.dropsuite.com

Conference call details:

Date: Wednesday, 31 October 2018

Time: 2.00 pm AEDT

Presenting: Managing Director Charif Elansari

Please register for the call ahead of commencement at:

<https://services.choruscall.com.au/diamondpass/dropsuite-552136-invite.html>

Investors are encouraged to send questions regarding the above to kobe@dropsuite.com and secretary@dropsuite.com ahead of the teleconference.

A Q&A will follow the presentation where shareholders have the opportunity to ask any questions they have.