

ASX Release

4 February 2019

MARKET UPDATE

- **Review of Operations and Strategy Update**
- **Updated Sydney and Melbourne Data Centre Capex and Delivery Timetable**
- **Opex Review**
- **Organisational Update - Resignation of CEO & Appointment of New Interim Co-CEOs**
- **Previous Capital Raising & SPP Update**

Review of Operations and Strategy Update

The Data Exchange Network Limited (**The Company**) (ASX: DXN) announces that it has completed a detailed review of operations and adjusted its 2019 strategy to cater for increased cash outflows because of delays in the completion of the data centres, additional investment in capital equipment and strategic investment in experienced personnel. The Company's long-term objectives have not changed however our short to medium term priorities have been realigned to accommodate the current cash position.

The Company will now focus its resources to complete the Sydney data centre and postpone delivery of the Melbourne data centre while we work through the delivery of the Sydney project.

Sydney and Melbourne Data Centre Capex and Delivery Timetable

The latest construction cost estimates for a 0.5MW Data centre have increased by approximately 12% to \$4.9 million, versus the original estimate of \$4.34 million. As previously advised to the market, the Company decided to increase the initial project to 1.0MW (core supporting infrastructure) at an additional capex of \$2.1 million per data centre. This upgrade is in-line with our Tier-Ready III & Tier-Ready IV Uptime Institute certification and offers the Company an optimal expansion model. The estimated construction cost to complete the data centre is \$7.5 million, including contingency provisions of over \$0.5 million.

Table 1: Forecast construction cost analysis versus prospectus estimates

	As per prospectus	Updated estimates
Total Construction Costs per 0.5MW Data Centre	\$4.34M	\$4.89M
Increase in costs (versus Prospectus estimates)	\$0.55M per DC	
Upgrade from 0.5MW to 1.0MW (core supporting infrastructure)	Additional \$2.1M per DC	
Additional Contingencies	\$0.53M	
Total Estimated Construction Cost per 1.0MW Data Centre	\$7.5M	

Delivery Timetable

Subject to obtaining the final Development Approval for our Sydney site, which the Company expects to receive by the end of February 2019, and subject to managing our cash position, the Company aims to complete the Sydney data centre by the end of July 2019. The Sydney data centre is expected to Ready for Service (RFS) by the end of July 2019 and to complete the “Tier Certification of Constructed Facility – TIER III” process by end of August 2019.

Good progress has been made at the Sydney Data Centre, DXN-SYD01, with all key facility modules required to commission an initial 400KW of capacity on site and in place. Our National Head of Sales – Data Centre Services, Mr Cardin Bransgrove who joined the Company in mid-December 2018 is ramping up customer tours in February & March initially focusing on the ISP & MSP sector with a view to securing pre-commit agreements by the end of the quarter. Mr Bransgrove has also started to recruit experienced data centre sales people in order to grow his sales team. A short promotional video featuring the Sydney data centre, DXN-SYD01 has recently been released and has been received well by the industry.

View our latest Sydney data centre DXN-SYD01 promotional video [here](#).

The facility modules for the Melbourne data centre are in production. Delays in confirmation of power delivery from the power provider plus delays in obtaining landlord sublease agreements has led to the decision to defer the construction of the Melbourne data centre until later in the year.

Opex Review

The Company’s operating cash outflows have been impacted since listing because of factors including:

- Accelerated investment in seasoned personnel;
- Additional operating overheads due to project delays;
- Delays in generating colocation revenue as a result of:
 - Delays in development approvals;
 - Delays in connection of multiple megawatts of power in Melbourne;
- Slightly slower start to our infrastructure sales and lower than anticipated margins

Total operating cash outflows (including bank guarantees of \$1.07M for properties currently under lease) to date is approx. \$9.43 million. At the IPO, our prospectus estimated that the total operating expenditure for the 24 months following the IPO would be \$9.10M including working capital.

The Company currently has approx. \$4.9 million of unrestricted cash (the Company also has a further \$2 million of cash that is “restricted” cash and is secured against the ANZ Finance Facility) available to it. The Board will now consider its options to ensure adequate funding for both the near term and future requirements.

Strategic action has been taken to significantly improve contributions from infrastructure sales including the expansion of our sales capability with recruitment of a team of highly successful infrastructure sales professionals from a major competitor. The new team members who all commence in late February will be based in Kuala Lumpur to take advantage of the Asian growth opportunity. Increased sales and improving margins are forecast based on significant pipeline growth achieved over the last two quarters, combining with the positive contributions from the additional sales team and greater cost efficiencies in manufacturing and construction phases.

We are seeing a growing pipeline of opportunities in our “Edge” infrastructure fabrication business and are optimistic about the revenue this part of our business can generate moving forward.

Organisational Update

The Company has accepted the resignation of Mr Peter Christie as Chief Executive Officer and Managing Director effective immediately. Mr Christie has resigned for personal reasons. The Board has appointed Mr Richard Whiting and Mr Simon Forth as Interim Joint Chief Executive Officers effective immediately.

Richard and Simon are both highly experienced executives with strong backgrounds in technology and delivery of telecommunications and engineering projects.

Richard joined the Company in November 2018 as our Chief Commercial Officer. Richard has been responsible for the establishment of front-of-house systems, documentation and processes, as well as managing our wholesale relationships with major telecommunications providers. Richard’s responsibilities will now extend to driving sales revenue and managing the sales team.

Richard joined the Company from ASX-listed Vocus Group Ltd where he was most recently Chief Executive Officer - Western Region and General Manager of Sales Operations. Richard also previously held positions including Chief Technology Officer for then ASX-listed Amcom Telecommunications and Managing Director of then ASX-listed Amnet Limited.

Simon has been the Company’s Chief Operating Officer since joining in November 2018. Simon has overall responsibilities for all manufacturing and construction activities of the Company, including construction of our data centres, quality control, certifications and OHS.

Simon has extensive experience and a proven track record in the development and execution of strategic plans and process improvements, especially in the IT, engineering and manufacturing industries. Prior to joining the Company, Simon managed a multidiscipline engineering firm that specialises in the manufacture of plant for the gas and mining sectors. He was also previously Executive Director at ASX-listed Legend Corporation – an engineering solutions provider that operates in the IT, electrical and semiconductor industries.

Douglas Loh, Chairman of DXN said: *“DXN appreciates the contribution that Mr Christie has made to the Company and we wish him well and every success in his future endeavours.*

We are fortunate to have experienced executives of the calibre of Richard Whiting and Simon Forth to lead the Company in this interim period, to manage sales and pre-commitments and to complete the delivery of our Uptime Institute certified data centres. The management team is well equipped to execute our strategy, which is underpinned by ensuring that the group delivers on its first colocation data centre in Sydney”.

Previous Capital Raising & Share Purchase Plan Update

As outlined in the capital raising announcement dated 17 December 2018, both Mr Peter Christie (ex-CEO) and Mr Terry Smart (Non-Executive Director) participated in the placement for a total amount of \$225,000 at \$0.155 per share, subject to shareholder approval.

Shareholder approval was received at a General Meeting of shareholders held on 21 January 2019, and it is anticipated that these funds will be received by the end of the week.

The Share Purchase Plan remains open until Friday 8 February 2019, with the Company having 3 months to place any shortfall.

Summary

In December 2018, the Company became the first modular data centre developer in the world to receive both TIER-Ready III and TIER-Ready IV design review awards from Uptime Institute. It is now focussed on delivering its first-Tier III certified colocation data centre in Sydney.

Whilst we acknowledge the delays and resulting operating expense and capital expenditure increases are disappointing, we do however remain extremely positive about Company’s unique position and competitive advantages in the rapidly growing data centre market.

Despite the issues with approvals for the Sydney data centre, we are pleased to announce that we will be in a position to be able to conduct site visits to our Sydney data centre on 20th and 21st February 2019 for key investors.

For investor information, please contact:

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Chairman

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Mr Richard Whiting
Summary of Key Terms and Conditions of Employment

Appointment	The appointment is to the position of Interim Joint Chief Executive Officer of The Data Exchange Network Limited
Commencement	Effective 1 February 2019
Term	The appointment will be on an ongoing basis with termination provisions summarised below.
Remuneration	<p>There will be three components to Mr Whiting's remuneration:</p> <p>(a) Gross Annual Remuneration Package</p> <p>Mr Whiting will be paid a base annual remuneration of \$200,000 plus statutory superannuation contributions. The employer may review the employee's performance, remuneration and benefits in accordance with the employer policy from time to time.</p> <p>(b) Short Term Incentive Benefits</p> <p>Short term incentives remain at the discretion of the Board and shall be based upon achievement of performance targets to be set by the Board periodically.</p> <p>(c) Long Term Incentive Benefits</p> <p>Long term incentives in the form of performance-based equity incentives remain at the discretion of the Board and shall be based upon achievement of performance targets to be set by the Board.</p>
Termination	The employment agreement may be terminated by either party with 3 months' notice.
Other Benefits	<p>Mr Whiting is entitled to:</p> <p>The benefit of a Deed of Indemnity, insurance and access on usual commercial terms.</p>
Other Provisions	The Agreement also contains general provisions in relation to confidential information and non-compete arrangements.

Mr Simon Forth
Summary of Key Terms and Conditions of Employment

Appointment	The appointment is to the position of Interim Joint Chief Executive Officer of The Data Exchange Network Limited
Commencement	Effective 1 February 2019
Term	The appointment will be on an ongoing basis with termination provisions summarised below.
Remuneration	<p>There will be three components to Mr Forth's remuneration:</p> <p>(a) Gross Annual Remuneration Package</p> <p>Mr Whiting will be paid a base annual remuneration of \$200,000 plus statutory superannuation contributions. The employer may review the employee's performance, remuneration and benefits in accordance with the employer policy from time to time.</p> <p>(b) Short Term Incentive Benefits</p> <p>Short term incentives remain at the discretion of the Board and shall be based upon achievement of performance targets to be set by the Board periodically.</p> <p>(c) Long Term Incentive Benefits</p> <p>Long term incentives in the form of performance-based equity incentives remain at the discretion of the Board and shall be based upon achievement of performance targets to be set by the Board.</p>
Termination	The employment agreement may be terminated by either party with 3 months' notice.
Other Benefits	<p>Mr Forth is entitled to:</p> <p>The benefit of a Deed of Indemnity, insurance and access on usual commercial terms.</p>
Other Provisions	The Agreement also contains general provisions in relation to confidential information and non-compete arrangements.