

31 October 2019

DRAGONTAIL SYSTEMS – Q3FY19 QUARTERLY UPDATE

Dragontail Systems Limited (ASX: DTS) (**Dragontail** or the **Company**) is pleased to announce its quarterly performance for the period ended 30 September 2019 (Q3 FY19).

Q3 HIGHLIGHTS

- Partnering with leading global fast-food delivery aggregators to significantly increase the Company’s addressable market, integrations currently occurring with DoorDash Inc, Postmates Inc, Kin Shun and Drive Yello.
- Q3FY19 cash receipts of A\$359K represents a growth of 88% over Q3FY18. YTD Cash receipts of A\$1.4 million for the 9 months ending 30 September 2019, up 51% from last year's YTD.
- Dragontail’s Algo Platform continues to deliver with nearly 5 million orders processed globally in the quarter. The QT quality control Camera has also assessed and monitored millions of pizzas.
- Completing the “Total Technology” product which has potential to more than double revenues per store for those installations. Installation of the first stores in North America has begun and expanding this area of activity is expected.

Commenting on the Company's quarterly results, Managing Director, **Ido Levanon** said:

"Expanding the Company's marketing platform and the collaborations we created will increase the Company's revenue by deepening its penetration into existing markets and introducing its products into new markets. We also see great potential in penetrating the US market and are confident that this market will be a significant anchor for the Company's operations."

KEY OPERATIONAL METRICS

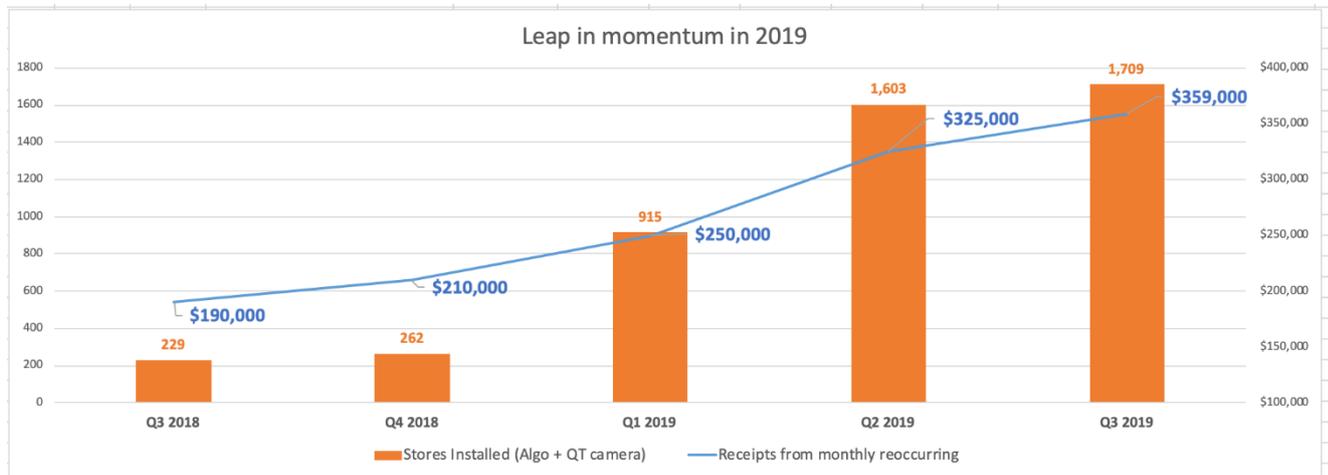
	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Stores contracted	1,842	2,191	3,364	3,364	3,364
Stores Installed (Algo + QT camera)	229	262	915	1,603	1,709
Receipts from monthly reoccurring (In Thousands)	190	210	250	325	359
QoQ growth in Monthly Reoccurring		11%	19%	30%	10%

Dragontail demonstrated an impressive scaling up of activities earlier in the year with stores contracted and stores installed growing by more than 50% and 250% respectively.

The growth in stores installed has been delayed due to a number of factors including Customers' internal operationally required preparations.

The Customers remain extremely eager to install the Dragontail's technology as it keeps delivering significant operational improvement in every store installed.

Looking forward to 2020, the Company will continue to grow the installed base whilst also looking to penetrate the US and European markets. There is a significant global opportunity for Dragontail to capitalize on in the near term.



Q3FY19 CASH FLOWS

The Appendix 4C quarterly report for the three months ended 30 September 2019 is attached.

Total operating cash payments for the quarter was A\$2.5m, 9% below forecast and demonstrates the scalability of the Company's SaaS-driven offering, which allows for significant increases in the installed base without a commensurate increase in operating costs.

The Company continues to invest in R&D to strengthen its existing product suite as well as in complementary modules that can upgrade its customers' operations. During the period, the Company invested significant resources in progressing strategic opportunities and expanding into the US and European market.

Net cash used in operating activities in Q3FY19 of A\$2.1m was lower than management expectations. Closing cash as at 30 September 2019 was A\$3.6m.

TECHNOLOGY PERFORMANCE AND CUSTOMER FEEDBACK

Dragontail successfully completed the roll out of the QT camera to more than 800 Domino's stores in Australia and New Zealand in May 2018.

Dragontail's Algo Platform continued to deliver with more than 5 million global orders being processed during the quarter. The QT quality control Camera has also assessed and monitored millions of pizzas.

Since listing on the ASX in 2016, the Company has not lost a single Customer. The Company continue to receive very positive feedback from its customers as it continues to deliver value added services that deliver positive financial and service outcomes.

PARTNERING WITH AGGREGATORS

Dragontail has attracted the attention of leading global fast-food delivery aggregators with partnerships signed with DoorDash Inc, Postmates Inc, Kin Shun and Drive Yellow Pty Ltd. Dragontail is in the process of integrating with these platforms which significantly increases the Company's addressable market and potential revenue streams.

Restaurants will benefit by integrating their own drivers with the independent drivers from the aggregator platforms. The partnership between Dragontail and the aggregators will enable the Company's customers (restaurants) to enjoy the use of the Algo Platform to automatically decide whether their own drivers or aggregator drivers are the effective option to deliver the food as a way of minimizing the cost per delivery for the restaurant. We also expect restaurants to benefit from higher levels of customer satisfaction through the Algo Platforms ability to optimize the kitchen workflow and delivery process.

Partnerships with Doordash and Postmates are expected to pave the way for continued growth as well as expediting the Company's penetration into the US. Dragontail has also partnered with Kin Shun and Yello, two leading Asia-Pacific aggregators that will contribute to the Company's near term growth.

NEW REVENUE STREAM UPDATE

Dragontail commenced the deployment of its "Total Technology" product that provides a full solution and service technology suite to customers, with the potential to more than double Dragontail's revenue per store for those installations. Installation of the first stores in North America has begun and expanding customers in this area is expected. The Total Technology solution comprises all of Dragontail's products and modules together with a POS (Point Of Sale) capability, creating a holistic solution to the Company's QSR customers.

The Company completed its first successful launch of the cross-brands shared drivers' module, to enable sharing of drivers between branches of different branded stores, and enabling greater efficiency. This ability delivers a great advantage to stores that are sharing the same trade zone, and can rely on each other's work force. The launch was conducted after an earlier launch of shared drivers module within the same brand in several markets.

FUNDING

During Q3, Dragontail secured debt funding from the Company's largest Australian-based shareholder, Alceon Liquid Strategies Pty Ltd, a member of the Alceon Group and manager of the Alceon High Conviction Absolute Return Fund (refer ASX announcement 16 July 2016). The facility is a two-year senior, unsecured corporate loan for the amount of A\$4.3m.

The Board believes that modest debt funding balances the Company's need for capital to deliver on its near-term growth plans, without significantly diluting existing shareholders by raising equity at prices that, in the Board's view, do not reflect the underlying value of the Company.

SUBSEQUENT FINANCIAL PERIOD EVENTS

Since the end of the financial period, Dragontail has extended its penetration in QSR food delivery aggregators sector by executing a collaboration agreement with one of America's leading food delivery aggregator companies - Postmates.

- END -

For further information please contact:

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About Dragontail Systems

Dragontail is revolutionising the Quick Service Restaurant (QSR) and foodservice industry with its Algo Platform and computer-vision QT quality system that uses artificial intelligence (AI) machine learning.

The Algo Platform uses a sophisticated patented algorithm to optimise and manage the entire food preparation process from order to delivery. It is the first system in the world to fully automate and streamline the kitchen flow to deliver an immediate and significant return on investment to fast food and quick service restaurants.

The QT system's sensor and camera automatically monitor the preparation and cooking process in the kitchen to improve the quality and consistency of meals. Using proprietary patented advanced AI machine-learning technology, the system keeps improving its diagnostics, becoming even more efficient.

For more information, visit www.dragontailsystems.com.

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Dragontail Systems Limited

ABN

614 800 136

Quarter ended ("current quarter")

30 September 2019

Consolidated statement of cash flows	Current quarter \$USD'000	Year to date (9 months) \$USD'000
1. Cash flows from operating activities		
1.1 Receipts from customers	244	966
1.2 Payments for		
(a) research and development	(591)	(1,969)
(b) product manufacturing and operating costs	(552)	(1,528)
(c) advertising and marketing	(75)	(197)
(d) leased assets	-	-
(e) staff costs	(236)	(681)
(f) administration and corporate costs	(252)	(714)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	6
1.5 Interest and other costs of finance paid	(3)	(9)
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	(1,462)	(4,126)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(2)	(48)
(b) businesses (see item 10)	-	-

Consolidated statement of cash flows	Current quarter \$USD'000	Year to date (9 months) \$USD'000
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other – cash acquired upon acquisition of subsidiaries.	-	-
2.6 Net cash from / (used in) investing activities	(2)	(48)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	3,022	3,022
3.3 Proceeds from exercise of share options	5	5
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
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 Loan to an employee	(57)	(57)
3.10 Loan refund from a service provider	4	11
3.11 Net cash from / (used in) financing activities	2,974	2,981

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	1,008	3,730
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,462)	(4,126)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(2)	(48)

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (9 months) \$USD'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,974	2,981
4.5	Effect of movement in exchange rates on cash held	(85)	(104)
4.6	Cash and cash equivalents at end of quarter	2,433	2,433

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 \$'000	Previous quarter \$'000
5.1	Bank balances	2,318	933
5.2	Call deposits	115	75
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,433	1,008

6.	Payments to directors of the entity and their associates	Current quarter \$USD'000
6.1	Aggregate amount of payments to these parties included in item 1.2	36
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

1. Corporate advisory fees;
2. Office services;
3. Legal fees;
4. Director's fees; and
5. Reimbursements.

7. Payments to related entities of the entity and their associates	Current quarter \$'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

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8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$'000	Amount drawn at quarter end \$'000
8.1 Loan facilities	3,000	3,000
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

During the quarter, a loan of AUD 4.3M (USD 3M) was received from Alceon Group. The loan bears an annual interest rate of 15% per annum, for month 1-8, for month 9-24: 17.5% per annum.

9. Estimated cash outflows for next quarter	\$'000
9.1 Research and development	613
9.2 Product manufacturing and operating costs	436
9.3 Advertising and marketing	99
9.4 Leased assets	-
9.5 Staff costs	222
9.6 Administration and corporate costs	227
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	1,597

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

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.

Sign here:


 (Director)

Date: 31st October 2019

Print name: Ido Levanon

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.