

30 April 2020

DRAGONTAIL SYSTEMS – Q1FY20 QUARTERLY UPDATE

Dragontail Systems Limited (ASX: DTS, the “Company” or “Dragontail”), the company revolutionising the Quick Service Restaurant (QSR) and food service industry, is pleased to provide the market with its quarterly operational update covering the three months ended 31 March 2020 (Q1 2020). The Appendix 4C quarterly report for the three months ended 31 March 2020 is attached.

Q4 Highlights:

- **Dragontail’s contracted stores for the Algo platform and the computer-vision QT quality system, consolidated, increases more than 40%, to 5,400 stores globally, (previous quarter - 3,800)**
- **The Company’s installed base of the consolidated offering increased 10% to approximately 2,200 stores globally.**
- **Demonstrating the success and the usage of the Dragontail Algo platform, the Company delivered a sharp increase in deliveries through all its markets globally.**
- **Collaborations with the world’s leading aggregators have expanded and gone live (third party delivery operators) on multiple continents: Asia, Australia, North America and Europe.**
- **Pizza Hut restaurants across Asia Pacific awarded Dragontail as the preferred partner to provide the kitchen and delivery management capabilities through the Algo Platform.**
- **YUM! Restaurants International, Inc partnered with Dragontail to deploy the Algo Platform in Pizza Hut stores operated by Telepizza, a major franchisor, in Latin America and Iberia.**
- **Dragontail expanded further into another European market, going live in Pizza Hut’s stores across Belgium.**
- **Pizza Hut Australia extended its contract with Dragontail for a further two years (to three years) following very positive results from the first Pizza Hut stores using the Dragontail Algo system.**
- **Dragontail launches in Australia its Total Technology solution which delivers a monthly recurring SaaS revenue approximately four times greater than received from the Algo Platform. The solution comprises of the Algo platform, a POS system (Point Of Sale), on-line ordering, driver tracking, and the ability to combine aggregators’ drivers together with the stores’ own drivers.**
- **Dragontail entered into a binding subscription agreement for a two-stage investment, led by strategic US investors, of up to A\$19.25m via the issue of convertible preference shares.**
- **March quarter cash burn lowest in 3 years.**

Dragontail expands its collaborations and goes live in multiple markets with the world’s leading aggregators (third party delivery operators) on multiple continents: Asia, Australia, North America and Europe.

Dragontail’s unique technology allows direct Kitchen-to-Customer optimization to maximize customer satisfaction while minimizing delivery costs to the restaurant and also allowing aggregator platforms to improve utilization of their delivery drivers. The Algo’s AI algorithm automatically compares and recommends, on the basis of pre-determined business considerations, which is the most accurate and effective alternative.

This unique technology represents the world’s first full holistic solution that integrates an aggregator platform and a store’s kitchen operations and delivery system.

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The expansion came after customers experienced positive results, demonstrating the success of the Algo Platform in combination with aggregators' drivers. As a result some QSR stores are now exclusively using third-party drivers utilizing Dragontail's latest Algo System Aggregator Module.

Positive results were received also from the collaboration with DoorDash drivers in the USA. Further collaboration with DoorDash is also expected to continue across Pizza Hut stores in Australia.

After successfully completing integration and testing, a roll out of the Algo combined with Kin Shun, a Singapore based Aggregator, was initiated and continues as planned for all Pizza Hut stores across Singapore.

Dragontail is also collaborating with a leading European Aggregator – Stuart Delivery, an on-demand logistics platform, who currently operate in over 75 cities across more than 12,000 stores. Integration with a key customer in Europe is taking place and is expected to enable penetration to other European markets.

Dragontail derives additional revenue from the Aggregator Module, when added to the Algo, through a monthly fee per location of approximately \$30 per month and in some cases revenue is be paid by the aggregators on a per order basis, estimated to be \$0.20 per order.

The engagements with the world's leading food-delivery aggregators are extremely strategic and Dragontail expects this functionality to significantly increase customer demand for the Algo, and to open up more opportunities for the Company in the USA and other markets.

Dragontail presented a sharp increase in deliveries through its Algo platform in all its markets around the globe.

The rise in the deliveries through the Algo platform averaged 68% in monthly deliveries per store in March 2020 compared to same period last year, and a 17% increase so far this year compared to January 2020. More than 1.35m deliveries were made through the Algo platform across all markets during March 2020, 73% higher than March 2019.

In addition, Dragontail is set to launch a new and sophisticated Driver's App, enabling Coronavirus management tools. The platform's scalability enables a necessary solution during the current Coronavirus global crisis, providing a strong and valid foundation for continued effective operations for Dragontail's customers' stores.

Dragontail demonstrates a consistent increase in the number of contracted stores and installed stores with its two flagship products around the world.

To date, the number of contracted stores – for the Algo platform and the computer-vision QT quality system, consolidated - is over 5,400 stores globally, up from approximately 3,800 at the beginning of the year, while the number of consolidated installed stores reached approximately 2,200 stores globally.

Dragontail has been chosen as the preferred partner to provide the kitchen and delivery management capabilities – the Algo Platform - for Pizza Hut restaurants across Asia Pacific.

After strong performance of the Algo Platform in the Singapore market during the last two years, Dragontail and Pizza Hut Asia Pacific ("PH APAC") signed a Technology Master Services Agreement establishing the strategic relationship. The Algo Platform will be rolled out across 3-4 markets initially with potential to extend to the remaining Asia Pacific markets totaling approximately 3,000 stores.

Dragontail partnered with YUM! Restaurants International, Inc for deploying its Algo Platform in Pizza Hut stores operated by Telepizza, a major franchisor, in Latin America and Iberia.

This collaboration marks Dragontail's continued penetration of major global markets. Telepizza, listed on the Spanish stock exchange, is a significant pizza delivery franchisor with a presence in more than 20 countries and more than 2,500 stores, primarily in Europe and Latin America.

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The collaboration started with a successful implementation of the Algo Platform in two stores in Ecuador following the integration with the POS (Point of Sale), and will now continue to other Telepizza stores.

Dragontail enters into another European market going live in Pizza Hut's stores across Belgium.

The nationwide rollout of the Algo platform into over 100 Pizza Hut stores across Belgium is expected to take place during Q2-Q3/2020.

The Belgian market is the third European Pizza Hut market that has selected the Algo as its recommended solution, continuing the successful launch in Pizza Hut stores in the UK and Cyprus. These European markets join several other Pizza Hut jurisdictions that have chosen to embed the Algo Platform at the national level – Singapore, Canada and Australia.

Pizza Hut Australia has extended its contract with Dragontail for a further two years (to three years) following very positive results from the first Pizza Hut stores using the Dragontail Algo system.

Pizza Hut Australia is expected to look at using the Dragontail Algo system combined with the DoorDash delivery service – this would be the first of its kind in Australia. Additionally, Pizza Hut Australia is seeking to collaborate with Dragontail on further technology projects that are expected to significantly improve customer experience, including a comprehensive delivery solution that will potentially utilize both the Algo, as well as the DoorDash delivery service.

As previously announced, the rollout of the Algo into all Pizza Hut Australia stores is being expedited, with installation expected to be complete by the end of Q2 2020.

Pizza Hut Australia has extended its contract to use the Algo to January 2023.

Dragontail launches its Total Technology solution in Australia which comprises the Algo platform, a POS system (Point Of Sale), on-line ordering, driver tracking, and the ability to combine aggregators' drivers together with the stores' own drivers.

The first Australian stores are through agreements with Perth based customer CharGrill Masters Quick Service Restaurant (“**QSR**”) chain of 11 stores, following successful installations of this product in the US and Canada.

The Total Technology solution is a combination of the full suite of Dragontail's technologies that equates to a monthly recurring SaaS revenue approximately **four times greater** than received from the Algo Platform.

The product is based on the Algo platform, providing a POS system (Point Of Sale), on-line ordering, driver tracking, and the ability to combine aggregators' drivers together with the stores' own drivers.

The Total Technology solution enables the store owner to apply all the technology that manages the store in a concentrated and cost efficient manner while optimizing customer satisfaction.

Fundraising

During the quarter, Dragontail entered into a binding subscription agreement for a two-stage investment, led by strategic US investors, of up to A\$19.25m via the issue of convertible preference shares.

The raise is led by strategically important US-based investors, Eldridge Industries (together with its affiliates, “**Eldridge**”) and Goudy Park Capital LP (together with its affiliates, “**Goudy**”), and follows the term sheet announced by the Company on 22 January 2020.

Stage 1 of the funding will raise A\$12m comprised of Eldridge's investment of A\$5.25m, Goudy's investment of A\$4.75m and a A\$2m investment by Alceon Liquid Strategies Pty Ltd as trustee of the Alceon High Conviction Absolute Return Fund (“**Alceon**”), the Company's largest Australian-based shareholder. The issue price of the convertible preference shares is A\$0.13.

The Company will use the funds to repay its existing A\$4.3m corporate loan with Alceon and the US\$2m bridge loan provided by Eldridge, thus discharging all third-party borrowings. The funding will also serve

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as a catalyst for Dragontail's entry into the US given Eldridge's experience in the F&B sector, and support its ongoing growth in other markets.

The agreement was entered into after completion of an extensive due diligence by the investors.

Completion of Stage 1 is subject to certain conditions, including shareholder approvals for the purposes of ASX Listing Rule 7.1 (and certain other purposes). It is anticipated that the notice of meeting will be circulated to shareholders in the coming weeks.

Each of Eldridge and Alceon may separately elect to participate in Stage 2 (in their absolute discretion). The Stage 2 investment may raise A\$7.25m and is comprised of A\$5.25m by Eldridge and A\$2m by Alceon via the issue of Preference Shares.

Financial Update

Total operating expenses reduced 11% compared to Q4, 2019, demonstrating the Company's ability to efficiently scale its installed base without an accompanying increase in expenses. The net cash flow outflow from operations for the March 2020 quarter of \$1.2m is the lowest quarterly outflow since early 2017. The above are reflected in the Company's EBITDA which was 17% ahead of forecast.

Cash inflows were adversely impacted by a customer error resulting in several months of invoice payments (\$19k) not being received. The error has been corrected and had these funds been received during the March quarter, sales proceeds would have exceeded the December 2019 quarter.

During the quarter the Company paid \$49K to related parties, comprising director fees, bookkeeping, and company secretarial services.

This ASX Announcement was approved and authorised by Dragontail's Board of Directors.

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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.dragontail.com.

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Appendix 4C

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

Name of entity

Dragontail Systems Limited

ABN

614 800 136

Quarter ended ("current quarter")

31 March 2020

Consolidated statement of cash flows	Current quarter \$USD'000	Year to date (3 months) \$USD'000
1. Cash flows from operating activities		
1.1 Receipts from customers	200	200
1.2 Payments for		
(a) research and development	(480)	(480)
(b) product manufacturing and operating costs	(472)	(472)
(c) advertising and marketing	(86)	(86)
(d) leased assets	-	-
(e) staff costs	(216)	(216)
(f) administration and corporate costs	(151)	(151)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(2)	(2)
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	(1,207)	(1,207)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (3 months) \$USD'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	-	-
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		
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		
3.5	Proceeds from borrowings	2,000	2,000
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings (Interest payments)	(113)	(113)
3.8	Dividends paid		
3.9	Other (Loan refund from an employee)	6	6
3.10	Net cash from / (used in) financing activities	1,893	1,893
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	965	965
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,207)	(1,207)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-

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Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (3 months) \$USD'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,893	1,893
4.5	Effect of movement in exchange rates on cash held	(46)	(46)
4.6	Cash and cash equivalents at end of period	1,605	1,605

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 \$USD'000	Previous quarter \$USD'000
5.1	Bank balances	1,490	850
5.2	Call deposits	115	115
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)	1,605	965

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$USD'000**

49

-

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

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7. Financing facilities

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.

	Total facility amount at quarter end \$USD'000	Amount drawn at quarter end \$USD'000
7.1 Loan facilities	5,000	5,000
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	5,000	5,000

7.5 **Unused financing facilities available at quarter end** -

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.

During the second quarter of 2019, 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.

During the quarter, a bridge loan of USD 2M was received from Eldridge industries. The loan bears an annual interest of 8% per annum.

8. Estimated cash available for future operating activities	\$USD'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(1,207)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	1,605
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	1,605
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	1.33

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

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:

Yes

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:

On March 22, 2020, a binding subscription agreement for a two- stages investment of up to A\$ 19.25M was signed. The first fundraising stage will end with a A\$12M raise.

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:

The upcoming investment will allow the company to continue its current operations while developing new products and support the planned expansion into the USA and other new markets. That includes building a dedicated sales and marketing infrastructure, as well as supporting the ongoing growth in other markets.

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: 30 April 2020

Authorised by: Ido Levenon
(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.