

ASX Announcement
27 February 2018
(ASX: UPD)

PRELIMINARY FINAL REPORT

YEAR ENDING 31 DECEMBER 2017

Updater has a big vision: we are reimagining the entire relocation ecosystem in the United States. With our Mover Product, we are turning a formerly painful process into an enjoyable experience for the millions of households that move within the US every year. For the Real Estate Companies that regularly interact with Movers, we deliver technology that enables them to add unprecedented value and improve their bottom line. For the Businesses that currently spend billions of dollars each year targeting Movers, we deliver technology that facilitates more efficient, helpful and relevant communication with Movers.

Management is pleased to provide highlights from the past year, and thrilled to report that our team surpassed each one of our 2017 goals.

Key Achievements

Growth in Estimated Market Penetration

- The Company's Estimated Market Penetration of Moves Processed surpassed 15% of all US household moves in Q3 2017, nearly 5 months ahead of schedule. At such scale, the Company is positioned to emerge as the core technology platform for the relocation industry. Further, Management believes that increased market penetration directly correlates with the value of Updater's Business Products.
- The Company is pleased to report that it processed a total of 2,363,048 unique household Moves in CY2017, an increase of 267% over CY2016 (886,462 Moves processed).
- The Company is also pleased to report that its Estimated Market Penetration grew each quarter throughout 2017, achieving 9.04% in Q1, 11.68% in Q2, 16.59% in Q3, and 18.03% in Q4. Management remains confident in the Company's ability to scale to 35% market penetration, which, if achieved, will solidify Updater's long-term defensible position as the nation's platform for all facets of relocation.

Material Pilot Program Results

- The Company delivered material positive results in three key Pilot Programs. In the Insurance Pilot, Updater communications delivered a 93% lift over a control group; in the Full-Service Moving Pilot, Updater communications delivered a 520% lift over a control group; and in the Pay TV Pilot, Updater communications delivered a 224% lift over a control group.
- The results demonstrate that Updater's platform, with its unique timing and trust dynamics, can help Movers make great choices and help Businesses efficiently acquire and retain customers.

Initial Verticals: Rapid Deployment of Go-To-Market Strategies

- In 2017, the Company began implementing go-to-market strategies and selling Business Products in two verticals: Insurance and Full-Service Moving. To fund those strategies and accelerate growth, the Company raised A\$50m in an institutional placement, and US\$5m in a placement to accredited US investors.
- As part of its go-to-market strategy in the Insurance vertical, the Company announced the establishment of its Insurance Division. The Insurance Division will, among other things, distribute property and casualty insurance policies on behalf of many of the largest US carriers. As the Insurance Division is a wholly-owned subsidiary of the Company, Updater can control the entire customer journey, and thereby simplify and improve the insurance renewal, transfer and buying experience for Movers and generate significant value for insurance partners. The Company's Insurance Division successfully secured licenses to distribute property and casualty insurance in 46 US states in 2017. With these licenses, the Insurance Division began negotiating for authority to conduct business on behalf of the nation's largest carriers, as well as strategic contracts with certain other carriers and insurance companies.
- As part of its go-to-market strategy in the Full-Service Moving vertical, the Company acquired two leading software companies: IGC Software and Asset Controls Inc. The two companies now operate as MoveHQ Inc. ("MoveHQ"), a wholly-owned subsidiary of the Company. The acquisition enables Updater to offer a suite of products and services that Management believes can transform the moving and storage industry. The initial technology integration between the Updater and MoveHQ platforms is on schedule for completion by the end of Q1 2018. The integration will enable (a) a new 'engagement' feature within the MoveHQ platform for moving companies to

seamlessly secure Updater Users as customers, and (b) new features within Updater's Mover Product for Users to review pricing and availability of premier moving companies and instantly reserve online.

- Upon completion of the successful PayTV/Internet Pilot Program, the Company announced that it will commence selling Business Products in the PayTV/Internet vertical in early 2018. Management looks forward to providing updates in this vertical in the coming months.

Continued Optimisation of User Conversion and Engagement

- The Company successfully optimised its User conversion funnel throughout 2017. The Company announced that 30-40% of Mover invite recipients complete the conversion funnel and become Updater Users. Prior to extensive optimisation, the Company had previously advised investors that the email conversion rate was greater than 12.5%, a rate that was already considered to be among the highest for business-to-consumer (B2C) technology platforms.

Material Growth of Revenue

Since 2012, the Company has focused on partnering and integrating with hundreds of Real Estate Companies in the US to expand national market penetration of Moves Processed. In Q4 2017, the Company began selling its Business Products after achieving substantial national scale (over 15% market penetration). The Company's Q4 2017 cash receipts totaled US\$1,694,234, a material increase over Q3 2017 cash receipts of US\$401,184.

The Company's CY2017 revenue totaled US\$2,235,405. The Company is pleased to advise that based on the reception to its Business Products in the initial verticals, it anticipates exceptionally strong growth in its CY2018 revenue. The Company is pleased to confirm that it forecasts 2018 revenue in the range of US\$19,000,000 – US\$23,000,000.

Strong Cash Position

The Company is pleased to report that at 31 December 2017, the Company held US\$49,673,427 in cash and cash equivalents (equivalent to approximately AU\$63,634,390 at 31 December 2017), well within the Company's planned budget. The Company also continues to remain debt-free.

As per Management's strategy, overall spend increased in 2017 as compared to 2016 primarily as a result of expanded operations, including the hiring of multiple new team members, the acquisition of MoveHQ, and the launch of the new

Insurance Division. There are approximately 80 full-time employees of Updater's 'internal' divisions, 70 full-time employees of MoveHQ, and 10 full-time employees of the Insurance Division. Throughout 2018, the Company will continue to increase investment in optimising operations, expanding personnel, and product development across each internal and external division.

Management is confident that the Company's cash reserves are adequate to continue its growth and development plans to solidify the Company's position as the long-term technology leader in the US relocation industry. Further, Management is confident that its current growth plans will result in cash-flow break-even without the need for additional capital.

Looking Ahead

As announced in Q3 2017, the Company's 2018 quarterly reporting will focus on Paid Programs, i.e., the establishment of the next generation relocation platform via the development and sales of its Business Products. The Company will also continue to provide a framework for analysing market penetration on an annual basis.

In Q4 2017, the Company announced the following key performance metrics to be achieved by year-end 2018:

- The Company will actively sell Business Products in five (5) verticals.
- In the Insurance Vertical, the Company will secure 15 Paid Programs running on the Updater platform.
- In the Full-Service Moving Vertical, the Company will secure 150 Paid Programs running on the Updater platform.
- In the Pay TV/Internet Vertical, the Company will secure 10 Paid Programs running on the Updater platform.

Management is confident that if the Company achieves its stated 2018 vertical-specific goals for Paid Programs, then 2018 revenue will increase materially to US\$19,000,000 – US\$23,000,000.

For more information, please contact:

David Greenberg
CEO
david.greenberg@updater.com

Simon Hinsley
Investor & Media Relations
simon@updater.com
+61 401 809 653

About Updater:

Updater makes moving easier for the millions of households that relocate every year in the US. With Updater, users seamlessly transfer utilities, update accounts and records, forward mail, and much more. Hundreds of the most prominent real estate companies in the US (from real estate brokerages to property management companies) rely on Updater's real estate products to save clients hours with a branded and personalised Updater moving experience. With significant market penetration of all US household moves, Updater enables contextual and personalised communication between relocating consumers and the US businesses spending billions of dollars trying to reach them.

Updater is headquartered in New York City, and prior to listing on the ASX, Updater received significant investments from leading US venture capital firms including SoftBank Capital, IA Ventures, and Second Century Ventures (the strategic investment division of the National Association of REALTORS®).

For more information, please visit www.updater.com.

Appendix 4E Preliminary Final Report

Reporting Period

Year ended:	Year ended:
31 December 2017	31 December 2016

Results for announcement to the market

Description (US\$)	31 December 2017	31 December 2016	% change
Revenue from ordinary activities	2,235,405	578,258	287%
Loss after tax from ordinary activities attributable to members	(13,676,399)	(8,860,152)	54%
Loss after tax from ordinary activities Attributable to members	(13,676,399)	(8,860,152)	54%

Commentary on results for the period

Updater Inc. (the "Company") is pleased to report its strong financial position at 31 December 2017.

The Company is pleased to report that as at 31 December 2017, the Company held US\$49,673,427 in cash and cash equivalents (equivalent to approximately AU\$63,634,390 at 31 December 2017), well within the Company's planned budget. Please note that this amount, calculated in accordance with US GAAP accounting standards, includes US\$2,765,580 of restricted cash related to a certificate of deposit as collateral for the Company's credit card, a letter of credit issued in conjunction with the Company's lease for the New York office, and a holdback amount for the purchase of MoveHQ. The Company continues to remain debt-free.

The Company held assets totaling US\$73,743,578 at 31 December 2017 (equivalent to approximately AU\$94,469,576 at 31 December 2017). The significant increase in total assets from 2016 year-end (US\$33,800,030) to 2017

For personal use only

Updater Inc.
Results for Announcement to the Market
Years Ended December 31, 2017 and 2016

year-end, is primarily the result of the issuance of common stock for cash, net of expense, of \$44,065,625, received in October 2017.

The Company's 2017 operating loss totaled US\$13,676,399, the vast majority of which related to personnel expenses. Included in personnel expenses is a US\$2,441,108 stock-based compensation expense, which is a non-cash transaction. The company's 2017 net operating loss, excluding stock-based compensation, was US\$11,235,291.

Although 2017 revenue of US\$2,235,405 increased significantly as compared to 2016 revenue of US\$578,258, it is important to note that increased Estimated Market Penetration, not revenue, remained the Company's primary business objective in 2017. The Company commenced selling Business Products in the Insurance and Full-Service Moving verticals in Q4 2017.

The Company was fortunate to have a strong cash position in 2017 that enabled execution of its strategy that focused the majority of its resources on increasing Estimated Market Penetration and operating Pilot Programs. In 2018, the Company will direct significant resources to Mover Product enhancements and the sale of Business Products in the initial verticals of Full-Service Moving, Insurance and PayTV/Internet.

Shares of stock

"Shares" refer to shares of common stock of the Company. The Company has CHESS Depository Interests ("CDIs") over shares of common stock that are publicly traded on the Australian Securities Exchange ("ASX").

25 CDIs are transferable for 1 share of common stock.

Dividends

The Company did not declare a dividend during the reporting period or the previous corresponding period.

Net Tangible Asset per share

	2017	2016
	Number	Number
Net tangible asset per share (US\$ cents per share)	341.96	172.83

Updater Inc.
Results for Announcement to the Market
Years Ended December 31, 2017 and 2016

Details of entities where control has been gained or lost during the period

During the year ended December 21, 2017, Updater Inc. gained 100% control over the following entities:

Move HQ Inc.	October 2017
Asset Controls, Inc.	October 2017
Integrity Group Consulting, Inc.	October 2017
WIRG LLC	October 2017
MovingSoftware, LLC	October 2017
VerticalOne Inc.	September 2017

Associates and Joint Ventures

The Company does not have any holdings in joint ventures or associates.

Accounting standards

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP).

Audit report

This preliminary final report is based on unaudited financial statements which are currently in the process of being audited.

Additional Appendix 4E disclosures can be found in the attached unaudited financial statements for the year ended 31 December 2017.

For personal use only

For personal use only

UPDATER INC. AND SUBSIDIARIES

Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Updater Inc.
Table of Contents
December 31, 2017 and 2016

Pages(s)

Consolidated Financial Statements

Consolidated Balance Sheets	1
Consolidated Statements of Operations.....	2
Consolidated Statements of Changes in Stockholders' Equity	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5-16

For personal use only

Updater Inc.
Consolidated Balance Sheets
December 31, 2017 and 2016

	December 31, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$46,907,847	\$32,251,581
Restricted cash	2,765,580	100,426
Accounts receivable	490,138	48,854
Unbilled revenue	243,801	53,120
Prepaid expenses and other current assets	258,789	188,970
Total Current Assets	<u>50,666,155</u>	<u>32,642,951</u>
Property and equipment, net	1,024,678	457,188
Goodwill	16,321,817	-
Intangible Assets, net	5,589,325	-
Other assets	<u>141,603</u>	<u>699,891</u>
	<u><u>\$73,743,578</u></u>	<u><u>\$33,800,030</u></u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued expenses	\$393,660	\$346,789
Deferred Revenue	<u>361,722</u>	<u>30,105</u>
Total current liabilities	755,382	376,894
Long-term liabilities		
Deferred rent	197,217	-
Purchase consideration payable	2,000,000	-
Other long-term liabilities	<u>307,690</u>	<u>-</u>
Total long-term liabilities	2,504,907	-
Stockholders' equity		
Common stock, \$.001 par value	21,565	19,557
Additional paid-in capital	107,214,068	56,479,524
Accumulated deficit	<u>(36,752,344)</u>	<u>(23,075,945)</u>
Total stockholders' equity	<u>70,483,289</u>	<u>33,423,136</u>
	<u><u>\$73,743,578</u></u>	<u><u>\$33,800,030</u></u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

Updater Inc.
Consolidated Statements of Operations
Years ended December 31, 2017 and 2016

	December 31, 2017	December 31, 2016
Revenue, net	\$2,235,405	\$578,258
Cost of revenue	<u>90,164</u>	<u>37,388</u>
Gross margin	2,145,241	540,870
Operating expenses		
Research and development expense	3,889,651	1,540,095
Sales and marketing expense	4,415,776	2,648,416
General and administrative expense	7,730,809	1,804,296
Stock-based compensation	<u>2,441,108</u>	<u>3,546,723</u>
Total operating expenses	<u>18,477,344</u>	<u>9,539,530</u>
Loss from operations	(16,332,103)	(8,998,660)
Other income / (expense)		
Other expense	-	(29,463)
Other income	144,772	5,698
Interest income	348,955	47,087
Change in fair value of warrants	<u>-</u>	<u>115,186</u>
Total other income, net	<u>493,727</u>	<u>138,508</u>
Loss before income tax benefit	(\$15,838,376)	(\$8,860,152)
Income tax benefit	<u>2,161,977</u>	<u>-</u>
Net loss	<u><u>(\$13,676,399)</u></u>	<u><u>(\$8,860,152)</u></u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

Updater Inc.
Consolidated Statements of Changes in Stockholders' Equity
Years ended December 31, 2017 and 2016

	<u>Common Stock</u>		<u>Additional Paid In Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>No. of Shares</u>	<u>Amount</u>			
January 1, 2016	17,079,487	\$17,080	\$29,885,371	(\$14,215,793)	\$15,686,658
Exercise of common stock options for cash, net of expense	77,291	77	203,807	-	203,884
Issuance of common stock for cash, net of expense	2,400,000	2,400	21,999,120	-	22,001,520
Reclassification of liability warrants	-	-	844,503	-	844,503
Stock-based compensation expense	-	-	3,546,723	-	3,546,723
Net loss	-	-	-	(8,860,152)	(8,860,152)
December 31, 2016	19,556,778	\$19,557	\$56,479,524	(\$23,075,945)	\$33,423,136
Exercise of common stock options for cash, net of expense	39,188	39	98,452	-	98,491
Issuance of common stock for cash, net of expense	1,800,000	1,800	44,063,825	-	44,065,625
Issuance of common stock for the acquisition of subsidiary, net of expense	168,732	169	4,131,159	-	4,131,328
Stock-based compensation expense	-	-	2,441,108	-	2,441,108
Net loss	-	-	-	(13,676,399)	(13,676,399)
December 31, 2017	21,564,698	\$21,565	\$107,214,068	(\$36,752,344)	\$70,483,289

The Notes to Consolidated Financial Statements are an integral part of these statements.

Updater Inc.
Consolidated Statements of Cash Flows
Years ended December 31, 2017 and 2016

	December 31, 2017	December 31, 2016
Cash flows from operating activities		
Net loss	(\$13,676,399)	(\$8,860,152)
<i>Adjustments to reconcile net loss to net cash used by operating activities:</i>		
Depreciation and amortization expense	445,866	40,831
Deferred income taxes	(2,161,977)	-
Change in fair value of warrants	-	(115,186)
Stock-based compensation expense	2,441,108	3,546,723
<i>Changes in operating assets and liabilities:</i>		
Accounts receivable	25,868	(20,972)
Unbilled revenue	(190,681)	(53,120)
Prepaid expenses and other current assets	822,503	(72,981)
Deferred revenue	331,617	(4,666)
Accounts payable and accrued expenses	(74,060)	92,929
Other long-term liabilities	307,692	-
Net cash used by operating activities	<u>(11,728,463)</u>	<u>(5,446,594)</u>
Cash flows from investing activities		
Purchases of property and equipment	(564,562)	(463,409)
Increase in restricted cash	(2,665,154)	(201)
Acquisition of business, net of cash acquired of \$319,000	(14,549,672)	-
Other assets	-	(649,010)
Net cash used by investing activities	<u>(17,779,388)</u>	<u>(1,112,620)</u>
Cash flows from financing activities		
Proceeds from issuance of common stock, net	44,065,625	22,001,520
Proceeds from exercise of options	98,491	203,884
Net cash provided by financing activities	<u>44,164,116</u>	<u>22,205,404</u>
Net increase in cash and cash equivalents	14,656,266	15,646,190
Cash and cash equivalents		
Beginning of year	<u>32,251,581</u>	<u>16,605,391</u>
End of year	<u><u>\$46,907,847</u></u>	<u><u>\$32,251,581</u></u>

Non-cash investing and financing activities

During 2017, 168,732 shares of common stock were issued in connection with an acquisition for consideration of \$4,131,328, net of expenses of \$68,672 (See Note 3).

During 2016, warrants valued at \$844,503 were converted to an equity classification from a liability classification due to the removal of a contingent put option.

The Notes to Consolidated Financial Statements are an integral part of these statements.

1. **Summary of Significant Accounting Policies**

Nature of Business

Updater Inc., a Delaware C-Corporation, including its subsidiaries (collectively, the "Company"), develops tools for relocating consumers to organize and complete their moving-related tasks. The Company partners with companies in the real estate industry such as real estate agents and brokers, property managers, and moving companies to provide a co-branded version of its product to clients/residents. The Company serves real estate partners throughout the United States.

Subsidiaries as of December 31, 2017

<u>Name of Entity</u>	<u>State of Incorporation</u>
Move HQ Inc.	Delaware
Asset Controls, Inc.	Missouri
Integrity Group Consulting, Inc.	Ohio
WIRG LLC	Missouri
MovingSoftware, LLC	Ohio
VerticalOne Inc.	Delaware

All subsidiaries were acquired or created, and subsequently operated as MoveHQ (See Note 3 – Business Combinations), with the exception of VerticalOne Inc. which was formed in September 2017. All subsidiaries are wholly-owned.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Significant estimates include stock based compensation expense, warrant expense, revenue recognition, intangible asset valuation, depreciation expense, and warrant valuation. Actual results may differ from those estimates.

Cash and Cash Equivalents

The Company considers cash equivalents to be only those investments which are highly liquid, readily convertible to cash and have a maturity date within ninety days from the date of purchase.

Accounts Receivable and Credit Policies

Accounts receivable are uncollateralized, non-interest bearing customer obligations due under normal trade terms, usually within 30 days of services provided.

The Company applies collections of accounts receivable to specific invoices in accordance with customer specifications, or if unspecified, to the oldest outstanding invoices.

Management individually reviews all accounts receivable balances that exceed 90 days from the invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Management may also utilize the direct write off method for specific balances that are deemed uncollectible between financial reporting periods. Management determined that no allowance for doubtful accounts was required as of December 31, 2017 and 2016.

For personal use only

Intangible Assets and Goodwill

Intangible assets that have finite lives are amortized over their useful lives and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During this review, the Company reevaluates the significant assumptions used in determining the original cost and estimated lives of long-lived assets. Although the assumptions may vary from asset to asset, they generally include operating results, changes in the use of the asset, cash flows and other indicators of value. Management then determines whether the remaining useful life continues to be appropriate or whether there has been an impairment of long-lived assets based primarily upon whether expected future undiscounted cash flows are sufficient to support the assets' recovery. If impairment exists, the Company would adjust the carrying value of the asset to fair value, generally determined by a discounted cash flow analysis.

Goodwill represents the excess of the purchase consideration over the net of the acquisition-date fair value of identifiable assets acquired, including identifiable intangible assets, and liabilities assumed in connection with business combinations. Goodwill is not amortized, but is assessed for impairment as of November 30 of each fiscal year.

Revenue Recognition

Revenue is recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the fee is fixed or determinable, and (iv) collectability is reasonably assured.

The Company's revenue is derived from the following revenue streams:

Subscription Revenue

To access the Company's business platforms, the Company typically enters into fixed fee contracts with its customers which dictate both revenue recognition and billing terms. These contracts are typically for a 1-year initial term, with annual renewals thereafter. Fees are due under the contracts in varying terms either monthly or annually. Revenue is recognized upon delivery of the service. The Company occasionally receives payment in advance of service, this payment is deferred and recognized as revenue upon delivery of the service.

The Company generally performs its services in one period with the billing occurring in the prior, current or subsequent period, depending on the contractual arrangement. When applicable the Company accrues unbilled revenue at the end of the period, provided that the other revenue criteria have been met.

The Company occasionally enters into fee-sharing agreements with its enterprise and small business clients or other referral sources. The total amount paid out pursuant to these agreements has, to date, been de minimus.

Technical Support Revenue

To provide technical support for the Company's business platforms, the Company typically enters into annual contracts with its customers, which dictate both revenue recognition and billing terms. Fees are due under the contracts typically thirty to sixty days in advance of the period. Revenue is recognized upon delivery of the service over the length of the contract.

Professional Services Revenue

The Company provides development and customization work for a limited number of customers through a statement of work. The statement of work typically describes the nature of the project, duration and the timing of billing to its customers. Revenue is recognized as services are rendered.

Property and Equipment

Property and equipment are carried at cost less depreciation. Depreciation of property and equipment are provided using the straight-line method at the following rates:

<u>Description</u>	<u>Estimated Life (Years)</u>
Computer equipment	5
Furniture	5
Leasehold improvements	*

* Shorter of lease term or useful life.

Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Expenditures for major renewals and betterments that extend the useful lives of equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Concentration of Credit Risk

The Company periodically maintains cash balances in excess of the FDIC insurance limit of its financial institutions. The Company has had no losses related to these cash balances.

The Company, may at times, have a concentration of their net accounts receivables with specific customers. Seventeen customers accounted for a total of 45% and one customer accounted for 26% of the Company's accounts receivable as of December 31, 2017 and 2016, respectively.

Research and Development

Research and development costs consist primarily of salaries and benefits paid to engineers and other members of the product development team. Costs incurred for research and development are expensed as incurred. In addition, the Company recognizes research and development expenses in the period in which it becomes obligated to incur such costs.

Advertising

The Company expenses the cost of advertising as incurred. Total advertising costs for the years ended December 31, 2017 and 2016 were approximately \$0 and \$2,600, respectively.

Cost of Revenue

Cost of revenue consists primarily of payments for data authentication and other third-party services.

Sales and Marketing

Sales and marketing consists primarily of salaries, taxes and benefits, advertising expense, and travel, meals and entertainment.

General and Administrative

General and administrative consists primarily of salaries, taxes and benefits, facilities costs, depreciation and amortization, professional services, and other general overheads.

Stock-Based Compensation

Stock-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense, net of estimated pre-vesting forfeitures, ratably over the vesting period of the award. The pronouncement dealing with the stock-based compensation also requires additional accounting related to the income tax effects and disclosures regarding the cash flow effects resulting from stock-based payment arrangements.

Calculating stock-based compensation expense requires the input of highly subjective assumptions, including the expected term of the stock-based awards, volatility, dividend yield, risk free rates and pre-

vesting forfeitures. The assumptions used in calculating the fair value of stock-based awards represent the Company's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. If factors change and the Company uses different assumptions, its stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected pre-vesting forfeiture rate and only recognize expense for those shares expected to vest. If the actual forfeiture rate is materially different from its estimate, stock-based compensation expense could be significantly different from what the Company has recorded in the current period.

The Company elected to account for its graded vesting options on a straight-line basis over the requisite service period for the entire award.

Income Taxes

The Company accounts for its income taxes using the asset and liability method. Under the asset and liability method, deferred taxes are determined for differences between the carrying values of assets and liabilities for financial and tax reporting purposes. Deferred income taxes are recognized as assets for net operating loss carry forwards that are available to offset future taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company follows the accounting pronouncement dealing with uncertain tax positions. The pronouncement clarifies the accounting for uncertainty in income taxes recognized in the Company's consolidated financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The pronouncement also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company had no uncertain tax positions at December 31, 2017 and 2016. In addition, the Company has no material income tax related penalties or interest for the periods reported in these consolidated financial statements.

The Company is required to file tax returns in the U.S. federal jurisdiction and various states/cities.

2. Restricted Cash

The restricted cash balance consists of amounts related to a certificate of deposit as collateral for the Company's credit card, a letter of credit issued in conjunction with the Company's lease for the New York office (See Note 7), and a holdback amount for the acquisition of MoveHQ (See Note 3), subject to certain conditions being satisfied post-acquisition. As of December 31, 2017 and 2016, \$2,765,580 and \$100,426, respectively, was maintained in restricted cash.

3. Business Combinations

During October 2017, the Company completed the purchases of the stock of Assets Controls, Inc. ("ACI") and Integrity Group Consulting, Inc. ("IGC"). The Company acquired ACI and IGC for combined initial consideration of \$21,000,000, of which \$14,800,000 was in exchange for cash and \$4,200,000, inclusive of expense of \$68,672, was in exchange for Updater common stock. Post-acquisition, both entities trade under the name MoveHQ and the Company is in the process of consolidating the operations of ACI and IGC into a newly formed legal entity, MoveHQ Inc., a Delaware corporation.

During the year ended December 31, 2017, the Company incurred acquisition-related costs of approximately \$477,000, consisting primarily of legal fees associated with the acquisition. Such costs have been expensed.

All of the assets acquired, and liabilities assumed in the transactions have been recognized at their estimated acquisition date fair values as of October 2, 2017.

Updater Inc.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

The initial allocation of the purchase price for MoveHQ is as follows:

Cash and cash equivalents	\$319,000
Accounts receivable	467,152
Prepaid and other assets	136,817
Property and equipment, net	154,619
Intangible assets	5,883,500
Goodwill	16,321,817
Accounts payable and accrued expenses	(120,928)
Deferred tax liability	<u>(2,161,977)</u>
Net assets acquired	<u><u>\$21,000,000</u></u>

The following are the identifiable intangible assets acquired and their respective useful lives:

	Amount	Useful Life (Years)
Trade Names	\$104,300	5
Customer Relationships	3,462,700	5
Developed Technology	<u>2,316,500</u>	5
Total	<u><u>\$5,883,500</u></u>	

In performing the purchase price allocation, the Company considered, among other factors, its anticipated future use of the acquired assets, analysis of historical financial performance, and estimates of future cash flows from MoveHQ's products and services. The allocation resulted in acquired intangible assets of \$5,883,500. The acquired intangible assets consisted of developed technology, customer relationships and trade names and were valued using the cost, relief from royalty, and excess earnings approaches. Additionally, a non-compete agreement was identified, which is considered immaterial to the consolidated financial statements. The cash flows are based on estimates used to price the transaction, and the discount rates applied were benchmarked with reference to the implied rate of return from the transaction model as well as the weighted average cost of capital.

The estimated fair values of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed. The Company believes that information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Company is waiting for additional information necessary to finalize those fair values. Therefore, the provisional measurements of fair value reflected are subject to change and such changes could be significant. The Company expects to finalize the valuation and complete the purchase price allocation but no later than one year from the acquisition date.

Included in the \$14,800,000 of cash consideration at the time of closing was \$2,705,000 related to holdbacks from the initial purchase consideration to be paid at a future date subject to certain terms and conditions being fulfilled related to indemnity obligations. During 2017, \$705,000 of this holdback was paid out once the holdback condition was met.

The purchase agreement also included a \$4,000,000 earn-out clause that is conditional based on future events as well as the recipient's continued employment, and as a result was not included in the purchase price, but will be recognized as compensation and expensed as it is earned.

Goodwill of \$16,321,817 represents the excess of the purchase price over the fair value of the underlying net tangible and identifiable intangible assets, and represents the expected synergistic benefits of the transaction, the knowledge and experience of MoveHQ's workforce in place, and the expectation that the combined company's complementary products will significantly broaden the Company's offerings, including being able to offer the Company's clients/residents full-service moves. The Company believes

For personal use only

Updater Inc.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

the combined company will benefit from a broader presence and, with the Company's direct sales force and marketing expertise, generate significant cross selling opportunities.

4. Property and Equipment

Property and equipment consists of the following at:

	December 31, 2017	December 31, 2016
Leasehold improvements	\$ 748,556	\$ 272,708
Computer equipment	341,854	158,214
Furniture	<u>192,489</u>	<u>132,796</u>
	1,282,899	563,718
Accumulated depreciation	<u>(258,221)</u>	<u>(106,530)</u>
Property and equipment, net	<u>\$ 1,024,678</u>	<u>\$ 457,188</u>

Depreciation expense charged to operations was \$151,691 and \$40,831 for the years ended December 31, 2017 and 2016, respectively.

5. Intangible Assets

Intangible assets are related to the acquisition of MoveHQ and consist of the following at December 31, 2017:

Trade names	\$ 104,300
Customer relationships	3,462,700
Developed technology	<u>2,316,500</u>
	5,883,500
Accumulated amortization	<u>(294,175)</u>
Intangible assets, net	<u>\$ 5,589,325</u>

Amortization expense charged to operations was \$294,175 for the year ended December 31, 2017.

6. Income Taxes

The provision for (benefit from) income taxes consists of the following for the years ended December 31:

	December 31, 2017	December 31, 2016
Current expense		
Federal	\$ -	\$ -
State	-	-
Deferred expense		
Federal	(1,885,898)	-
State	<u>(276,080)</u>	<u>-</u>
Benefit from income taxes	<u>\$ (2,161,977)</u>	<u>\$ -</u>

The main difference between the income tax benefit at the statutory rate and the Company's effective income tax expense for the year ended December 31, 2017 was primarily attributable to the reduction in the U.S. federal corporate income tax rate as a result of the Tax Cuts and Jobs Act and its impact on the

For personal use only

Updater Inc.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

carrying value of the Company's U.S. deferred tax assets and the increase the valuation allowance held against its U.S. deferred tax assets. The valuation allowance was also decreased as a result of the amortization of the intangible assets acquired, as disclosed in Note 3.

The Company's deferred income tax assets and liabilities consist of the following:

	December 31, 2017	December 31, 2016
Net operating loss carryforwards	\$ 7,995,522	\$ 8,206,645
R&D credit	130,359	
Other	241,502	185,335
Intangible Assets	<u>(1,371,466)</u>	<u>-</u>
Total deferred tax assets, net	6,995,917	8,391,980
Valuation allowance	<u>(6,995,917)</u>	<u>(8,391,980)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

The Company has provided for a 100% valuation allowance for all periods presented as the realization of sufficient future taxable income during the expiration period of the net operating loss carryforwards is uncertain. Beginning deferred tax assets prior to the enactment of the Tax Cuts and Jobs Act would not have changed. The decrease in the carrying value of the deferred tax assets as a result of the reduction in the U.S. federal corporate income tax rate would have been completely offset by a reduction in the valuation allowance that would have been previously established against those deferred tax assets. Accordingly, a valuation allowance of approximately \$7.0 million has been established at December 31, 2017. The valuation allowance has decreased by approximately \$1.4 million in 2017.

As of December 31, 2017, the Company has approximately \$32 million in federal, and \$42 million in state and city net operating loss carryforwards available to offset future taxable income. The majority of the federal and state net operating loss carryforwards will begin to expire in 2032.

7. Commitments

The Company had lease commitments for office space in New York City under a non-cancellable lease which expired in January 2017. In March of 2016, the Company entered into a 10-year lease for new office space in New York City. Rental payments for this lease initiated upon move-in, in January of 2017.

As part of the acquisition of MoveHQ, lease commitments were assumed for offices in Reynoldsburg, Ohio and Bridgeton, Missouri, ending in December 2020 and May 2040, respectively.

For the years ended December 31, 2017 and 2016, rent expense amounted to \$761,381 and \$131,756, respectively.

The future minimum rental payments due under the lease agreements are as follows:

Year Ending December 31:	
2018	\$ 707,000
2019	790,000
2020	790,000
2021	761,000
2022	788,000
Thereafter	<u>4,730,000</u>
	<u>\$ 8,566,000</u>

For personal use only

8. Stockholders' Equity

2017 Equity Overview

Authorized and Outstanding

At December 31, 2017, the authorized capital of the Company consisted of 55,000,000 shares of common stock and 55,000,000 shares of common prime stock. Furthermore, 21,564,698 shares of common stock were issued and outstanding and there were no shares of common prime stock issued and outstanding.

Sale of Stock

During 2017, the Company sold 1,800,000 shares of common stock (equivalent to 45,000,000 CHES Depository Interests) to new and existing stock holders for cash totaling US\$44,065,625, net of expenses.

Exercise of Stock Options

During the year ended December 31, 2017, 39,188 shares of common stock (equivalent to 979,700 CHES Depository Interests) were issued upon the exercise of stock options for cash totaling \$98,491.

Issuance of Common Stock for the Acquisition of MoveHQ

On October 2, 2017, the Company issued 168,732 shares of common stock (equivalent to 4,218,300 CHES Depository Interests) as consideration for the acquisition of MoveHQ in the amount of \$4,200,000 inclusive of expenses of \$68,672.

2016 Equity Overview

Authorized and Outstanding

At December 31, 2017, the authorized capital of the Company consisted of 55,000,000 shares of common stock and 55,000,000 shares of common prime stock. Furthermore, 19,556,778 shares of common stock were issued and outstanding and there were no shares of common prime stock issued and outstanding.

Sale of Stock

On September 28, 2016, the Company sold 2,400,000 shares of common stock (equivalent to 60,000,000 CHES Depository Interests) to new and existing stock holders for cash totaling US\$22,001,520, net of expenses.

Exercise of Stock Options

During the year ended December 31, 2016, 77,291 shares of common stock were issued upon the exercise of stock options for cash totaling \$203,884.

Common Stock and Common Stock Prime Provisions

Voting

The holders of the common stock were entitled to one vote for each share of common stock held at all meetings of stockholders (and written actions in lieu of meetings); There was no cumulative voting. The holders of common stock prime shall not be entitled to any voting rights.

Dividends

The holders of common stock shall be entitled to receive dividends, when and if declared, out of the assets legally available. The holders of common stock prime shall not be entitled to share in any dividends or other distributions of the Company.

Liquidation

In the event of any liquidation, dissolution or winding up of the Company, any assets of the Company available for distribution shall be distributed equally to the holders of the common stock and the common stock prime on a pro-rata basis.

9. Stock-Based Compensation Plan

The Company has a stock-based compensation plan for certain employees, Board members and consultants (as amended and restated, the "Plan"). The Plan provides for the granting of options and restricted stock at the discretion of the Board to employees, Board members and consultants. The Board determines the strike price of options at the date of grant based on the fair market value of the stock. Under the Plan, the total number of shares that may be optioned as of December 31, 2017 is 11,500,000 shares of common stock. Options with performance related vesting conditions generally become exercisable after achieving certain predetermined conditions that relate to company specific objectives. Options with service conditions become exercisable over terms ranging up to four years. Options with market-based conditions vest after the achieving of certain predetermined conditions related to the Company's share price on the Australian Securities Exchange ("ASX"). Option terms are generally 10 years. The fair value of market-based awards is estimated using a Monte Carlo simulation designed to calculate the probability of achieving the vesting condition. The fair value of options with performance or service conditions is estimated on the date of the grant using the Black-Scholes option valuation model based on the assumptions noted in the following table. The expected term of options represents the period that the Company's stock-based awards are expected to be outstanding. The risk-free interest rate for periods related to the expected life of the options is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected volatility is based on historical ASX trading history. The expected dividend yield is zero, as the Company does not anticipate paying dividends in the near future.

Performance Based Options

In connection with the Company's ASX listing, the Company issued certain Directors and officers of the Company an aggregate of 575,000 options at a strike price of \$3.61, which vest upon the Company surpassing 5% Estimated Market Share, as defined in the Company's Prospectus dated November 17, 2015, in any month in calendar year 2016.

During 2016, the Company announced that its Estimated Market Share of Monthly Moves Processed surpassed 5% and therefore all 575,000 shares were vested upon that date. As of December 31, 2016, the Company recognized \$835,716 in stock-based compensation expense related to these options.

On April 28, 2016, the Company issued certain employees of the Company an aggregate of 475,000 options at a strike price of \$3.50, which vest upon achievement of the following performance milestones:

- 75,000 vest upon the Company surpassing 5.00% Estimated Market Share in any month prior to December 31, 2016;
- 50,000 vest upon the Company surpassing 15% Estimated Market Share in any month prior to December 31, 2017;
- 150,000 vest upon the Company surpassing a discretionary performance milestone, to be determined by the Board of Directors, in any month prior to December 31, 2017; and
- 200,000 vest upon the Company surpassing a defined performance milestone, to be determined by the Board of Directors, in any month prior to December 31, 2018.

During 2017 and 2016, the Company announced that its Estimated Market Share of Monthly Moves Processed surpassed 5% and 15%, respectively, and therefore 75,000 and 50,000 shares were vested upon that date. In addition, the Board of Directors determined that half of the 2017 discretionary performance milestone had been satisfied, and 75,000 shares were vested accordingly. As of December 31, 2017 and 2016 the Company recognized \$228,286 and \$98,301 in stock-based compensation expense related to these options, respectively.

Updater Inc.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

On November 21, 2017, the Company issued certain employees of the Company an aggregate of 172,500 options at a strike price ranging between of \$25.00-\$50.00, which vest upon achievement of the following performance milestones:

- 34,500 vest in January 2019 upon one the Company's subsidiary undertakings surpassing a set revenue goal in any month prior to December 3, 2018;
- 43,125 vest in January 2020 upon one the Company's subsidiary undertakings surpassing a set revenue goal in any month prior to December 3, 2019;
- 43,125 vest in January 2021 upon one the Company's subsidiary undertakings surpassing a set revenue goal in any month prior to December 3, 2020; and
- 51,750 vest in January 2022 upon one the Company's subsidiary undertakings surpassing a set revenue goal in any month prior to December 3, 2021.

As of December 31, 2017 the Company recognized \$185,032 in stock-based compensation expense related to these options.

On July 1, 2016, the Company issued a consultant of the Company 6,000 options at a strike price of \$4.95, which vest upon achievement of specific marketing milestones in any month prior to December 31, 2016. On December 31, 2016 it was determined that these milestones were not met, and therefore all 6,000 of these shares were forfeited.

Market Based Options

In connection with the Company's ASX listing, the Company issued certain Directors and officers of the Company an aggregate of 575,000 shares of options at a strike price of \$3.61, which vest upon achievement of certain market-based milestones. These options vest when the 20 day volume weighted average price ("VWAP") of the Company's CDIs quoted on the ASX equaling to or exceeding an amount that is two times the IPO offer price (AU\$0.20) at any time within 18 months of the date of the Company's listing on the ASX.

During 2016, the Company announced that the 20 Day VWAP of the CDIs surpassed AU\$0.40 per share and therefore all 575,000 shares were vested upon that date. As of December 31, 2017 and 2016, the Company recognized \$137,361 and \$329,667 in stock based compensation expense related to these options, respectively.

Total stock-based compensation expense recognized during the years ended December 31, 2017 and 2016 was \$2,441,108 and \$3,546,723, respectively. As of December 31, 2017, the total unrecognized stock-based compensation balance for unvested options was \$9,761,420 which is expected to be recognized ratably through December 2021.

The weighted average grant date fair value of options granted during the years ended December 31, 2017 and 2016 was \$11.54 and \$2.86, respectively.

Updater Inc.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

The following assumptions were used to determine stock-based compensation:

	Year Ended December 31, 2017	Year Ended December 31, 2016
Expected term (in years)	7.00	7.00
Volatility	76.33 - 89.06%	59.42 - 65.03%
Risk-free interest rate	1.76 - 2.23%	1.42 - 1.60%
Dividend yield	0.00%	0.00%

The following describes changes in the outstanding stock-based compensation for the year ended December 31, 2017:

	Options Outstanding	Weighted Average Exercise Price
Balance at December 31, 2016	4,122,500	\$3.44
Options granted	994,134	\$19.34
Options forfeited	(45,875)	\$6.11
Options exercised	<u>(39,188)</u>	\$3.15
Balance at December 31, 2017	<u><u>5,031,571</u></u>	\$6.53
Exercisable at December 31, 2017	<u><u>3,822,873</u></u>	\$3.07

The aggregate intrinsic value of stock options outstanding at December 31, 2017 is \$104,526,508. The aggregate intrinsic value of stock options exercised during the year ended December 31, 2017 was \$946,638. A stock option has intrinsic value, at any given time, if and to the extent that the exercise price of such stock option is less than the market price of the underlying common stock at such time. The weighted-average remaining contractual life of options outstanding is 9.0 years.

10. Warrants

As of December 31, 2017 and 2016, the Company had an outstanding warrant for 212,750 shares of common stock with an exercise price of \$0.27 per share in exchange for participation in a mentorship and marketing program (the NAR REach program). On the date of issuance, the warrants were fully vested, exercisable at the option of the holder, in whole or in part, and expire 10 years from the date of issuance. The warrant contained a contingent put provision that could allow the holder to require the Company to settle the warrant in cash. The Company determined that the warrant qualified as a derivative instrument. Accordingly, this instrument was classified as a liability on the accompanying balance sheets. The warrant liability was recorded at fair value, using the Black-Scholes Pricing Model, with the change in fair value being recorded in the statements of operations.

On June 24, 2016, the warrants were amended and the contingent put option was removed. Accordingly, the warrants were revalued as of the amendment date and then reclassified into equity. The value of the

For personal use only

Updater Inc.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

warrants as of December 31, 2016 was \$844,503. The warrants were revalued using the Black-Scholes option-pricing model. Key assumptions used in the model include the following:

	Year Ended December 31, 2016
Expected term (in years)	6.71
Volatility	59.42%
Risk-free interest rate	1.35%
Dividend yield	0.00%

11. Subsequent Events

The Company has evaluated subsequent events through February 28, 2018, which is the date these consolidated financial statements were available to be issued, and has determined that there are no events that require recognition or disclosure in these consolidated financial statements.

For personal use only