

## ASX RELEASE

# Quarterly Update and Appendix 4C Quarterly Cash Flow – September 2019

### Key Developments

- Church Mutual Insurance Company (US) signs paid trial commencing September 2019
- Improved cash receipts from customers of \$299,000 representing best performing quarter over the past 12 months
- Net operating cash burn reduced to \$1.276 million (*\$1.294m Q4FY19*)
- Update in Board composition

**SYDNEY, October 2019**, Flamingo Ai Limited (“Flamingo Ai” or “the Company”) (ASX: FGO), machine learning based Enterprise Knowledge Hub is pleased to provide the following Quarterly update and lodgement of its Appendix 4C.

### Business strategy update

In our previous quarterly update, the Company stated its intention to shift its strategy and product focus. We detailed our plan of transitioning from selling a complex AI technology platform towards a more focused, customer-centric Software as a Service (SaaS) product and value proposition, powered by AI.

Over the last three months, the company effectively pivoted, delivering successfully against five essential milestones including:

#### 1. Identify the market opportunity

Four months of research commissioned by the Company shows that the Knowledge Sharing Problem represents AU\$250 billion of lost productivity annually in Australia and the US (Wark, 2019). In an ever-changing and highly disrupted business environment, large organisations need to transform. Being able to provide unified, fast and easy access to collaborative business information across teams, departments, divisions and countries is a significant competitive advantage. On average, employees spend one day a week searching for the knowledge needed to perform their job. Existing Knowledge Management platforms are heavy, focused on documented content rather than on people’s knowledge. With its Enterprise Knowledge Hub, Flamingo Ai will address this business problem whilst also enhancing existing business applications.

#### 2. Develop a new product: Flamingo Ai Enterprise Knowledge Hub

During the quarter the Company developed its core product, a machine-learning-based Enterprise Knowledge Hub. Created through a User-Centred Design approach, and capitalising on the Company’s proprietary AI, the product is the result of close collaboration between Flamingo Ai and its existing Enterprise clients in the American and Australian markets. The Company’s next major software release is estimated to be in production in early December. This is an important milestone and includes valuable input from client companies such as Nationwide Insurance, HSBC Bank, Australia and Church Mutual Insurance Company.

#### 3. Optimise the cash burn

The Company managed to reduce its burn rate by 61% at September 2019 compared to the corresponding quarter in September 2018. The company is leaner, organised as a Software as a Service company and structured appropriately for its business maturity. While this lean structure represents a substantial amount of additional

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work for existing team members, it has also allowed the team to step-up, thriving on having a clear product vision, understanding of the market opportunity and strong sales pipeline.

#### **4. Generate sales momentum**

During the quarter the Company started to go-to-market, presenting its product concept to prospects in the Australian and American markets. The Company's strategic intention is to attract a select set of Enterprise clients interested in our current technical capabilities as well as product vision. Since the end of July, the Company has generated more than 80 qualified leads, is in advanced negotiations with a number of potential clients and has signed one new client in the US. The interest in both US and Australian markets has been strong.

During the quarter the Company signed a paid trial contract agreement with Church Mutual Insurance Company (Church Mutual), the largest insurer of religious institutional marketplace and other compatible markets in the US. Church Mutual provides property, liability, workers' compensation and commercial automobile insurance to more than twice as many religious organizations as any other insurance company. Customers include houses of worship, denominational offices, schools, camps, non-profit and human service organizations and senior living communities. The contract with Flamingo Ai constitutes a paid trial of the machine-learning-based Enterprise Knowledge Hub and commenced in September 2019. The engagement will be conducted over a 3-month period from the time the platform goes live. At the conclusion of this trial, Church Mutual may decide to extend the use of the Company's products within the Church Mutual business.

#### **5. Retain and nurture existing client engagements**

All existing Enterprise Flamingo Ai clients have responded positively to the Company's new positioning and partnership approach. The Company expects to deploy the new Enterprise Knowledge Hub product across its existing clients over the coming months, one in production (where the current product is already live in production) and two into trial. Flamingo Ai has also been invited to participate in numerous innovation events for one of its largest worldwide clients, confirming the value of our technology, product strategy and partnership.

The Flamingo Ai team is excited and committed, looking forward to providing the market with positive announcements based on further client success.

#### **Board composition update**

Post the end of the quarter and as per the announcement on the 28<sup>th</sup> of October 2019, Mr John Murray has stepped down from the role of Chairman. Mr Olivier Cauderlier, current CEO of the Company has been appointed as Managing Director.

**Table 1: Cash receipts and revenue**

STAGE	Q4FY19 Cash receipts \$A'000	Q1FY20 Cash receipts \$A'000	Q4FY19 Revenue \$A'000	Q1FY20 Revenue \$A'000
Recurring Revenue (RR)	57	241	146	236
Concluded trial/review	-	-	-	-
Paid trial	25	9	43	12
Other	3	49	87	7
<b>Total</b>	<b>85</b>	<b>299</b>	<b>276</b>	<b>255</b>

**Notes:**

- Cash receipts includes GST / Revenue excludes GST
- Other Engagements receipted refers to recovery of agreed costs

**Table explanation:**

**RR:**

Following a successful Pilot of its Virtual Employee Assistant product in Q2FY19, during Q4 FY19, the Company signed a Master Services Agreement (MSA) with HSBC Bank Australia Limited as well as the first Statement of Work (SOW) under the MSA to deploy the technology into a production environment. The contract includes a Monthly Subscription arrangement and has an initial term of 3 years and can be extended to up to 5 years.

The current engagement with Fortune 100, US-based Nationwide Insurance, operating under a Master Services Agreement (MSA) since May 2016, involves the deployment of the Enterprise Knowledge Sharing Hub. Flamingo continues to enjoy a strong relationship with Nationwide. The Company looks forward to advising further on developments as they progress.

**Operations and People**

The Company further reduced headcount during the quarter from 21 to 17 staff. As a result, the Company incurred non-recurring termination cost of \$112,000 and is reported in the net operating cash burn of \$1.276 million in Table 2.

**Financial Update**

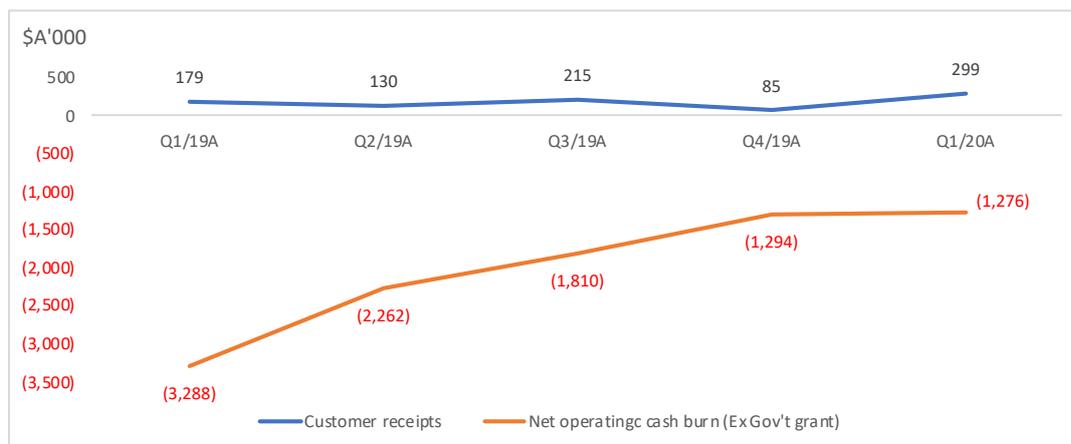
As referenced in Table 2, the quarterly net operating cash burn of \$1.276m was reduced further from preceding quarters supported by a combination of continued cost management and improved receipts from customers of \$299,000. In contrast to Q1FY19 net operating cash burn of \$3.288m, this represents a reduction of \$2.012m between the corresponding quarters over the past 12 months.

The Company reported a cash balance of \$3.756 million as at 30 September 2019, compared to \$5.032 million for the preceding quarter.

The Company has 'Estimated cash outflows for the December 2019 quarter' as referenced in Table 9 of Appendix 4C of \$1.195 million. This indicates a further reduction in operational costs from preceding quarters.

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**Table 2: Customer receipts and Net operating cash burn (excluding Government grants/tax incentives)**



## Outlook

The Company is positive about its new strategy, product and market potential. Flamingo Ai continues to undertake measures to reduce operational costs whilst continuing to accelerate sales and strengthen client engagements.

[ENDS]

**For further information, investor or media enquiries, please contact:**

Email: [investor@flamingo.ai](mailto:investor@flamingo.ai)

## ABOUT Flamingo Ai

Flamingo Ai (ASX: FGO) is an Australian listed company based in Australia (Sydney) and the USA (Hartford). The Company develops a machine-learning-based Knowledge Hub software used by Enterprises to improve operational efficiency and internal customer experience

[www.flamingo.ai](http://www.flamingo.ai)

## Flamingo Ai - Social Media Policy

Flamingo Ai is committed to communicating with the investment community through all available channels. Whilst ASX remains the prime channel for all material announcements and news, investors and other interested parties are encouraged to follow Flamingo on Twitter - [@FlamingoAI](https://twitter.com/FlamingoAI)

## Company Investor Newsletter

The Company encourages investors to subscribe to the Flamingo Ai investor community newsletter at <https://flamingo.ai/investors/>

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## 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**

Flamingo AI Limited

**ABN**

99 000 031 292

**Quarter ended ("current quarter")**

30 September 2019

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	299	299
1.2 Payments for		
(a) research and development	(382)	(382)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(64)	(64)
(d) leased assets	-	-
(e) staff costs	(782)	(782)
(f) administration and corporate costs	(390)	(390)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	23	23
1.5 Interest and other costs of finance paid	(2)	(2)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives - R&D rebate received <sup>1</sup>	40	40
1.8 Other (provide details if material)	22	22
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,236)</b>	<b>(1,236)</b>

<sup>1</sup> Proceeds received from R&D rebate.

Consolidated statement of cash flows	Current quarter \$A'000	Year to date \$A'000
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(21)	(21)
(b) businesses (see item 10)	-	-
(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	(21)	(21)
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other – cash on reverse takeover acquisition	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>(42)</b>	<b>(42)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issue of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
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 Other (provide details if material)	-	-
<b>3.10 Net cash from / (used in) financing activities</b>	<b>-</b>	<b>-</b>

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Consolidated statement of cash flows	Current quarter \$A'000	Year to date \$A'000
<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of quarter/year to date	5,032	5,032
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,236)	(1,236)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(42)	(42)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5 Effect of movement in exchange rates on cash held	2	2
<b>4.6 Cash and cash equivalents at end of quarter</b>	<b>3,756</b>	<b>3,756</b>

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 \$A'000	Previous quarter \$A'000
5.1 Bank balances	3,756	3,756
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
<b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>3,756</b>	<b>3,756</b>

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	(151)
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	

The aggregate amount of payments to directors and their associates during the quarter ended 31 September 2019 is related to director fees and salary.

7. <b>Payments to related entities of the entity and their associates</b>	Current quarter \$A'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	

8. <b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
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.		
None		

9. <b>Estimated cash outflows for next quarter</b>	\$A'000
9.1 Research and development	(300)
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing, net of grants	(45)
9.4 Leased assets	-
9.5 Staff costs	(530)
9.6 Administration and corporate costs	(300)
9.7 Other (provide details if material) <sup>2</sup>	(20)
<b>9.8 Total estimated cash outflows</b>	<b>(1,195)</b>

<sup>2</sup> Mainly related to legal fee for IP.

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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: .....

Date: ....28/10/2019.....

Print name: .....Zane Lewis.....

(Company secretary)

### 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.

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