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# DRAGONTAIL – SEPTEMBER 2020 QUARTERLY ACTIVITIES REPORT

## Highlights

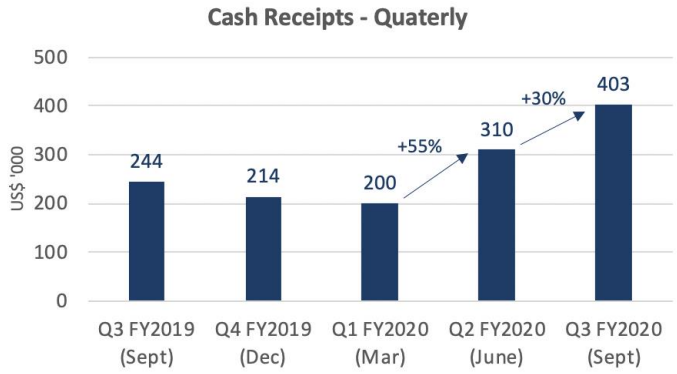
- **Cash Receipts from Customers for the September ended quarter, Q3 FY2020, of US$403k[1], up 30% compared to prior quarter of US$310k following the commencement of recurring revenue billing from new installations. This strong growth marks a continuation of growth in Cash Receipts from March Q1 to June Q2, up 55%.**
- **Key master services agreement signed with leading global QSR chain, Food Delivery Brands Group and continued expansion into other markets including QSR chains in South Africa, Spain, Sweden and Germany.**
- **Collaborations signed with leading Aggregators Uber Eats (US), Deliveroo, GRAB and FOOD PANDA, building out Dragontail's network and strategic alignment, supporting the deployment of its Algo Platform.**
- **Strong cash balance of US$3.0M (no debt).**
- **Customer retention: The Company's game changing technology leads to the fact that no single customer or a single store has ever switched from Dragontail Technology.**
- **Outlook: As part of our strategy to penetrate the US market and after establishing our first presence on the East Coast, we are currently in advanced negotiations with potential customers and are hopeful to announce positive outcomes of these negotiations in the current quarter. In other markets, the impact of the slowdown of new installations during the past 2 quarters due to Covid is expected to significantly recover and pick-up towards the end of the calendar year leading to strong revenue growth.**

**27 October 2020: Dragontail Systems Limited** (ASX: DTS, the "**Company**" or "**Dragontail**"), bringing process efficiency and improving customer satisfaction through its Algo SaaS platform and QT AI camera system to the Quick Service Restaurant (QSR) and foodservice industry, is pleased to report its Quarterly Activities Report for the three months ended 30 September 2020 (Q3 FY 2020). The Appendix 4C Quarterly Cash Flow Report for this period is attached.

## Financial results (September 2020 / US$ reporting currency)

Cash Receipts from Customers for the September ended quarter, Q3 FY2020, of US$403k[1], were up 30% compared to prior quarter US$310k, Q2 FY2020. This follows growth in Cash Receipts from Customers of 55% from Q1 to Q2 FY2020, marking two continuous quarters of strong growth.

During the quarter, the revenue base grew due to installations that were initiated prior to Covid for which recurring revenue billing commenced.




Expenditure in the September ended quarter relating to the ongoing roll-out of the Algo Platform and QT AI camera system amounted to cash outflows of US$1,587 (Section 1.2 of Appendix 4C), resulting in a Net Cash from Operating Activities outflow of US$1,143 (Section 1.9 of Appendix 4C).

[1] Unaudited

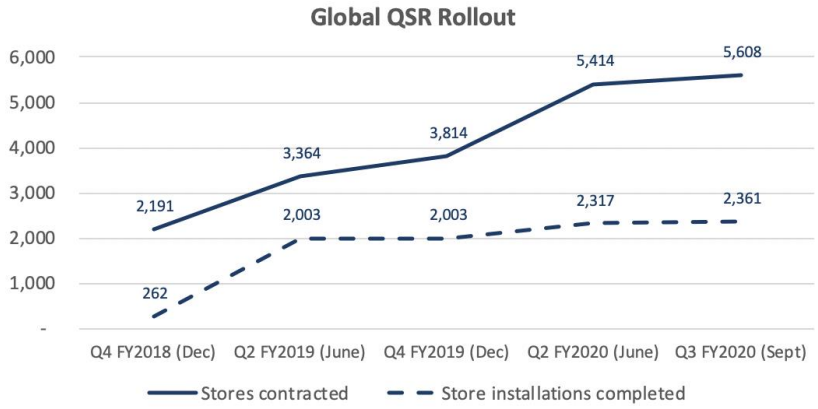
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## Operational update

The pipeline of stores contracted to receive installations (Algo Platform and/or QT camera) remains very strong growing to 5,608, of which, stores having received installations grew to 2,361 at 30 September 2020. This marks continuous quarter on quarter growth and reconfirms a strong product-market fit.

New installations remained slow during the September quarter, a trend which started in the June quarter due to Covid. However, we expect the rate of installations to pick up significantly towards the end of the current December quarter due to existing contracted customers moving ahead with installations and on the back of improved market conditions.




## Key developments during the quarter

**Penetrating into new markets**

Food Delivery Brands Group (announced 1 October 2020)

A Master Services Agreement (MSA) was signed with the aim of deploying its Algo Platform in its stores. Food Delivery Brands Group is a multi-brand Pizza Delivery operator across Latin America and other markets with a presence in approximately 30 countries and 2,500 stores globally, operating with several brands (Telepizza, Pizza Hut, Apache, Jenos Pizza). The intention is to start a rollout to multiple markets, after the successful completion of the integration in the first Latin America Market (Ecuador).

Other markets (announced 6 October 2020)

Over the past few months Dragontail has signed new contracts with QSR chains globally, leading to wider and deeper expansion into new and existing channels. This includes entry into South Africa, Spain, Sweden and Germany, now leading to activities on all continents.

**Expanding collaborations with Aggregators** (announced 6 October 2020)

Dragontail continues to build-out its network of Aggregators (third party delivery operators) which are significant platforms for deploying the Algo Platform globally and form a strategic rationale for Dragontail to strengthen its position as a leader in the QSR sector. This involves undertaking integrations between the Algo Platform and Aggregators' technology systems.

On an operating level, this results in a combination of the QSR stores' drivers and Aggregators' drivers carrying food deliveries in the most efficient way thereby saving unnecessary resources and expenses for the stores, and for the end customer, a promise that the food arrives hot and fresh. Strategically, these collaborations put the Algo in a market dominant position.

New Aggregator collaborations were announced with Uber Eats (US), Deliveroo, GRAB (acquired Uber South Asia) and FOOD PANDA. These latest collaborations follow announcements over the past year with Aggregators on multiple continents including with DoorDash (US), ZEEK (formerly "Kin Shun" - Singapore), Stuart Delivery (EU), Postmates (US) and Yello (Australia) who work with a huge number of QSR chains.

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## Corporate update

### Cash position

The financial results as of the end of the quarter provide the Company with a cash balance of US$3.0M (AU$4.2M). The Company is completely debt-free, with no outstanding loans.

### Other

Payments to related parties amounted to US$64K. As required to be disclosed by ASX Listing Rules, this amount shown in the Appendix 4C under Section 6, Payments to related parties of the entity and their associates, relates to directors fees, management and administrative services.

## Outlook

*Ido Levanon, Dragontail's Managing Director Commented: "We have made excellent progress during the September quarter in terms of our financial results as demonstrated by the substantial increase in cash receipts, despite the challenging global environment.*

*We are very well placed to continue our growth pathway and underlying this is our continued build-out of our network of Aggregators which forms an important element in our strategic positioning. We now have collaborations with all key Aggregators globally and have completed integration work into their systems which places us in a strong position to sell the Algo Platform into their customers' QSR chains.*

*The Company's game changing technology leads to the fact that no single customer or a single store has ever switched from Dragontail Technology – we have zero churn,* proving that once customers start using Dragontail's technology, they remain sticky due to the significant value add we bring. We have also witnessed recent new customers switch to us having previously used other last mile solutions.

*We are currently having advanced conversations with a number of large QSR chains in a number of geographies and this includes in the US which is a strong strategic focus, following establishing our first presence on the East Coast. We are hopeful to announce positive outcomes of these negotiations in the current quarter.*

*We expect the impact of the slowdown of new installations during the past 2 quarters due to Covid to significantly recover and pick-up towards the end of this calendar year and translate into strong revenue growth in the coming quarters."*

## Recap of growth pathway

**Key client agreements:** A strong pipeline of contracted stores to undergo Algo installation continues to grow and is a strong validation of product-market fit and represents a very large prospective recurring revenue base.

Key client agreements include a large number of well recognized QSR brands operating across multiple markets globally. While the potential to grow within these large QSR chains is enormous, Dragontail is particularly focused on increasing its rate of store installations to capture this revenue potential as soon as possible. Dragontail has presence on all continents.



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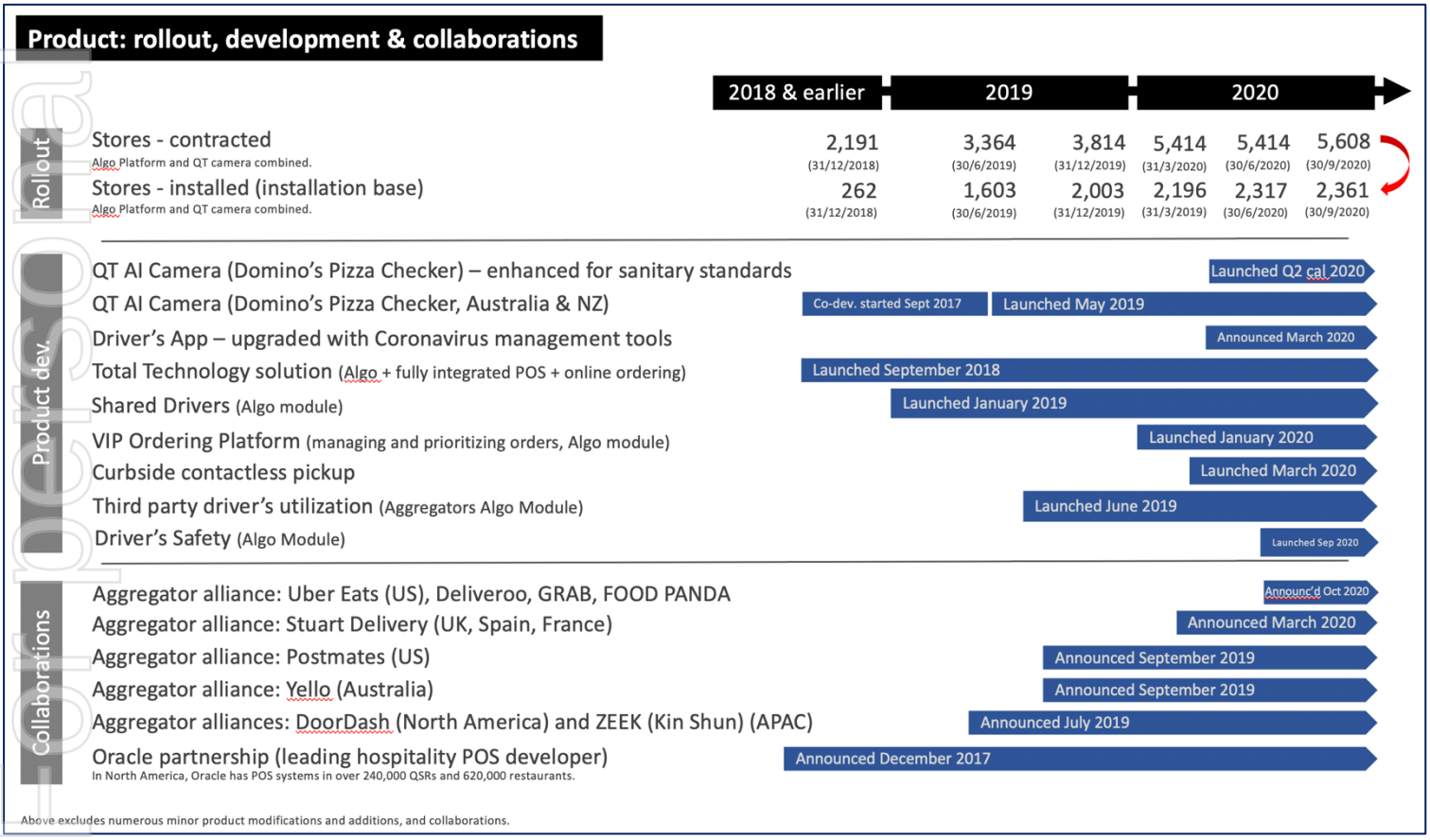
**Product suite:** Today Dragontail's product suite is increasingly recognised by large QSR brands as an indispensable must-have by the QSR industry across the globe. Our technology solution continues to evolve and address new challenges. Most recently this has seen the upgrading of Coronavirus management tools for sanitization and hygiene for both the Algo and QT Camera. An overview of our products are:

1. Total Technology solution
2. Algo Platform or full Algo
3. Algo Lite
4. QT AI camera quality system

See "About Dragontail" below for further product details.

**Collaborations:** Developing relationships with Aggregators to the QSR sector have been identified as integral to Dragontail's growth strategy. Collaborations now cover all leading operators globally which have been readied with integrations between the Algo Platform and Aggregators' technology systems, now being largely complete.

Dragontail has worked for some time with point of sale (POS) operators to the QSR sector and has formed strong compatibility with their systems. In addition, Dragontail has developed its own fully POS aligned offering found in its Total Technology solution product, under a joint venture. This product has a significantly stronger revenue model over Dragontail's other product lines and is positioned to support QSRs who are wanting a ready to go fully integrated system.




*This ASX Announcement was approved and authorised by Dragontail's Managing Director.*

Ido Levanon, CEO
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**About Dragontail Systems**

Dragontail is revolutionising the Quick Service Restaurant (QSR) and foodservice industry with its core technology offering being its patented **Algo Platform** and **QT AI camera system**, sold under a cloud-based monthly subscription-based Software-as-a-Service (SaaS) revenue model which results in time and cost savings, and improved customer satisfaction through:

- Optimising and managing kitchen process task flow and timing from order to delivery
- Checking food quality and consistency
- Providing customers visibility over their food orders
- Acting as a valuable training tool for staff
- Controlling for food hygiene and sanitisation
- Managing driver activities leading to increased efficiency

The **Algo Platform** 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 Algo integrates into a QSR's point of sale (POS) system.

The **QT AI camera** system's sensor and camera automatically monitor the preparation and cooking process in the kitchen. Using proprietary patented advanced AI machine-learning technology, the system keeps improving its diagnostics, becoming even more efficient. The QT has been upgraded in 2020 for hygiene and sanitisation checking. Dragontail's offering consists of:

1. **Total Technology solution:** Algo Platform + POS + online ordering developed by Dragontail in partnership, resulting in a full and ready integration).
2. **Algo Platform or full Algo:** Ready to integrate into an existing QSR POS system, managing the entire food preparation process from order to delivery.
3. **Algo Lite:** A delivery module – driver tracking and order aggregation. A QSR may begin with this system and migrate across to the full Algo over time.
4. **QT AI camera quality system:** Proprietary developed camera hardware and software used to quality control food preparation.

Dragontail is rolling out its technology globally and has signed contracts with leading QSR franchisors and franchisees including key contracts with Yum! Brands, TelePizza and household names like Dominos, Pizza Hut and KFC, and has formed partnerships with global aggregators (third party delivery operators such as Deliveroo, DoorDash, Grab and FOOD PANDA), across a growing number of countries globally.

For more information, visit www.dragontail.com.

# Appendix 4C

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

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| **Name of entity** | |
|---|---|
| Dragontail Systems Limited | |
| **ABN** | **Quarter ended ("current quarter")** |
| 614 800 136 | 30 September 2020 |

| **Consolidated statement of cash flows** | | **Current quarter $US'000** | **Year to date (9 months) $US'000** |
|---|---|---|---|
| **1.** | **Cash flows from operating activities** | | |
| 1.1 | Receipts from customers | 403 | 913 |
| 1.2 | Payments for | | |
| | (a) research and development | (508) | (1,392) |
| | (b) product manufacturing and operating costs | (521) | (1,440) |
| | (c) advertising and marketing | (55) | (184) |
| | (d) leased assets | - | - |
| | (e) staff costs | (230) | (607) |
| | (f) administration and corporate costs | (273) | (503) |
| 1.3 | Dividends received (see note 3) | - | - |
| 1.4 | Interest received | - | - |
| 1.5 | Interest and other costs of finance paid | (3) | (6) |
| 1.6 | Income taxes paid | - | - |
| 1.7 | Government grants and tax incentives | 50 | 512 |
| 1.8 | Other (provide details if material) | (6) | (6) |
| **1.9** | **Net cash from / (used in) operating activities** | **(1,143)** | **(2,713)** |

| **2.** | **Cash flows from investing activities** | | |
|---|---|---|---|
| 2.1 | Payments to acquire or for: | | |
| | (a) entities | - | - |
| | (b) businesses | - | - |
| | (c) property, plant and equipment | (25) | (30) |
| | (d) investments | - | - |
| | (e) intellectual property | - | - |
| | (f) other non-current assets | - | - |

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| Consolidated statement of cash flows | | Current quarter $US'000 | Year to date (9 months) $US'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** | **(25)** | **(30)** |

| | | | |
|---|---|---|---|
| **3.** | **Cash flows from financing activities** | | |
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | - | 8,271 |
| 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 | - | (123) |
| 3.5 | Proceeds from borrowings | - | 2,000 |
| 3.6 | Repayment of borrowings | - | (4,965) |
| 3.7 | Transaction costs related to loans and borrowings | - | (308) |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other (Loan refund from an employee) | 3 | 9 |
| **3.10** | **Net cash from / (used in) financing activities** | **3** | **4,884** |

| | | | |
|---|---|---|---|
| **4.** | **Net increase / (decrease) in cash and cash equivalents for the period** | | |
| 4.1 | Cash and cash equivalents at beginning of period | 4,116 | 965 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (1,143) | (2,713) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (25) | (30) |

| Consolidated statement of cash flows | | Current quarter $US'000 | Year to date (9 months) $US'000 |
|---|---|---|---|
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | 3 | 4,884 |
| 4.5 | Effect of movement in exchange rates on cash held | 62 | (93) |
| **4.6** | **Cash and cash equivalents at end of period** | **3,013** | **3,013** |

| 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 $US'000 | Previous quarter $US'000 |
|---|---|---|---|
| 5.1 | Bank balances | 2,898 | 4,001 |
| 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)** | **3,013** | **4,116** |

| 6. | Payments to related parties of the entity and their associates | Current quarter $US'000 |
|---|---|---|
| 6.1 | Aggregate amount of payments to related parties and their associates included in item 1 | 64 |
| 6.2 | Aggregate amount of payments to related parties and their associates included in item 2 | - |

*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**<br>*Note: the term "facility' includes all forms of financing arrangements available to the entity.*<br>*Add notes as necessary for an understanding of the sources of finance available to the entity.* | **Total facility amount at quarter end $US'000** | **Amount drawn at quarter end $US'000** |
|---|---|---|---|
| 7.1 | Loan facilities | - | - |
| 7.2 | Credit standby arrangements | - | - |
| 7.3 | Other (please specify) | - | - |
| 7.4 | **Total financing facilities** | - | - |

| | | |
|---|---|---|
| 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.

| | |
|---|---|
| | |

| 8. | **Estimated cash available for future operating activities** | **$US'000** |
|---|---|---|
| 8.1 | Net cash from / (used in) operating activities (item 1.9) | (1,143) |
| 8.2 | Cash and cash equivalents at quarter end (item 4.6) | 3,013 |
| 8.3 | Unused finance facilities available at quarter end (item 7.5) | - |
| 8.4 | Total available funding (item 8.2 + item 8.3) | 3,013 |
| 8.5 | **Estimated quarters of funding available (item 8.4 divided by item 8.1)** | 2.63 |

*Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.*

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

8.6.1 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: #N/A |

8.6.2 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: #N/A |

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

| |
|---|
| Answer: #N/A |

*Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.*

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## 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: October 27, 2020

Authorised by: Ido Levanon
(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.

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