

## August 2018 Investor Update

### Prospect, customer and revenue growth | International Progress

Dear Investors

We hope you have been enjoying our regular newsletters.

This update provides you as investors with further detail on our recent activity, near-term and longer-term plans as well as details on financial performance.

#### International Activity

In line with the plans we discussed with you during the capital raise last year, we are now strongly focused on pursuing and closing international sales opportunities.

Our first US customer, who was also our first water industry customer “Ranch Hill Water Supply Corp” went live in January this year and they are now a reference customer with an excellent case study (refer attached).

Our first US managed service provider (MSP) customer “Dimension4” has now completed their third month of billing on Datagate utilising our integration with Wolters Kluwer’s CCH [SureTax](#) product with Datagate for US tax calculations and compliance. Dimension4 is now a US reference customer, and we have an excellent case study resulting from this (refer attached).

Our second American MSP customer “CCR” has also agreed to feature in a case study, which we plan to produce in September.

We have a formal partnership established now with Wolters Kluwer’s CCH SureTax division for calculating the complex American taxes on telecommunications invoices, and we are receiving regular referrals of American sales leads from the CCH SureTax team and their tax consultant partners.

Our association with business management software, ConnectWise continues to be beneficial in driving new business for Datagate. In June, we sponsored a stand and presented at the Sydney Connectwise conference attended by around 150 Connectwise customers. We collected 59 Australian sales contacts for Datagate. In May, Datagate’s first Australian customer was signed, a managed service provider in Melbourne and we have a building pipeline of Australian sales opportunities.

The development team is completing several new integration functions with Connectwise. Once complete we have a backlog of around 20 sales prospects that are interested in using Datagate with Connectwise in the US, Australia, New Zealand and the UK.

In June, Mark attended the American Water Works Association annual conference (ACE18) to explore opportunities for Datagate within the American water industry and meet with Danish smart meter manufacturer, Kamstrup, who provides the smart meters for Datagate’s current water customer based in Texas. Datagate is a good fit for Kamstrup as a billing system that connects with its smart meter systems, and further discussions are taking place to formalise a relationship between the two companies. Kamstrup is starting to refer sales opportunities to Datagate and Mark is visiting Kamstrup’s American headquarters to meet with them in September.

The Datagate marketing and sales team in New Zealand has been focusing on the US and Australia during the last quarter. We currently have around 50 Australian leads for Datagate that we are working to close.

We are finding a strong level of interest in Datagate from within the American MSP market and Mark will be spending more time in the US in the second-half of the financial year to focus on American sales.

In May, we opened a US bank account with Alpine Bank of Colorado and can now receive funds from US customers directly into that account. This was not an easy task for a New Zealand resident business to open an American bank account.

### **New Zealand activity**

The NZ activity over the last 12 months has taught us the following important points:

1. There is considerable opportunity for growth in existing customers once they come on board with Datagate. Datagate' MRR grew 39% in the 12 months to 30 June 2018. 90% of this MRR growth was from customers that were existing on 1 July 2017.
2. The product is very sticky, Datagate had only 0.3% annual revenue churn in the last 12 months, this creates a long customer lifetime. We have planned on an average account monthly revenue per month (ARPA) of \$750 (currently average ARPA is \$1,130 and median RPA is \$705) and customer lifetime of 5 years which would yield a lifetime customer value of around \$36k at an 80% gross margin. This ARPA is an average value based on mostly NZ sales, but it should be noted that some of the current opportunities in the sales pipeline have considerably higher potential monthly revenues.
3. Sales cycles for utility billing solutions are long and require patience. In 2017, our resources were focused on developing Datagate version 2 for the international market, and Mark was the only sales capability until January 2018. We boosted our sales team in February 2018 with a new account manager and sales development rep. We have had ten new proposals signed this financial year. These customers have been or are currently being on-boarded. This experience has also proved that we need a broad pipeline with a long-term lead-nurture campaigns to ensure that Datagate is there when prospects are ready to upgrade their billing system.

### **Product**

Datagate version 2 is now available to all new customers, and the product is well-received when demonstrated. We continue to migrate customers from version 1 to version 2 of the product and have four customers still to migrate. A recent focus for Datagate has been completing the Suretax integration, adding functionality to make customer on-boarding easier and finalising aspects of the Connectwise integration for the US market.

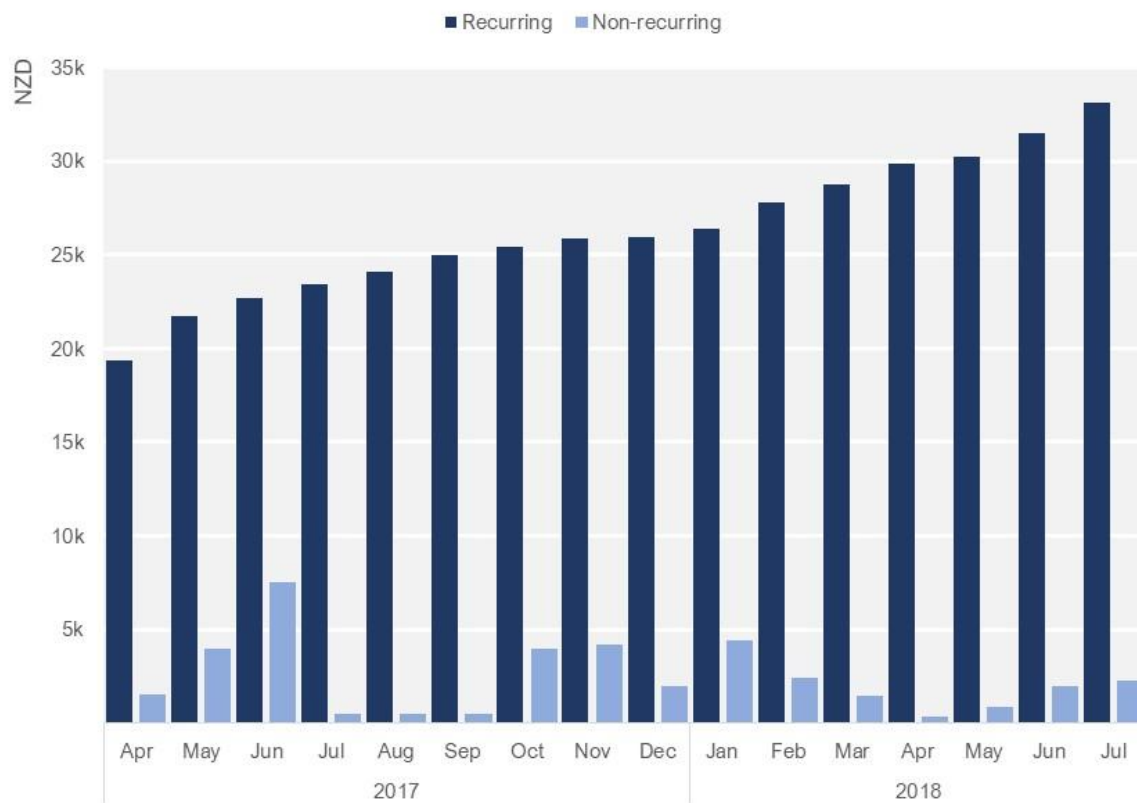
### **Team**

In response to a growing pipeline of closed customers and the prospect of Mark spending more time in North America, Datagate has recruited a senior consultant to oversee customer-facing activities from New Zealand. Headcount is currently at seven full-time employees plus some part-time outsourced resource for development, marketing, US sales and finance.

## Finances

### Revenue

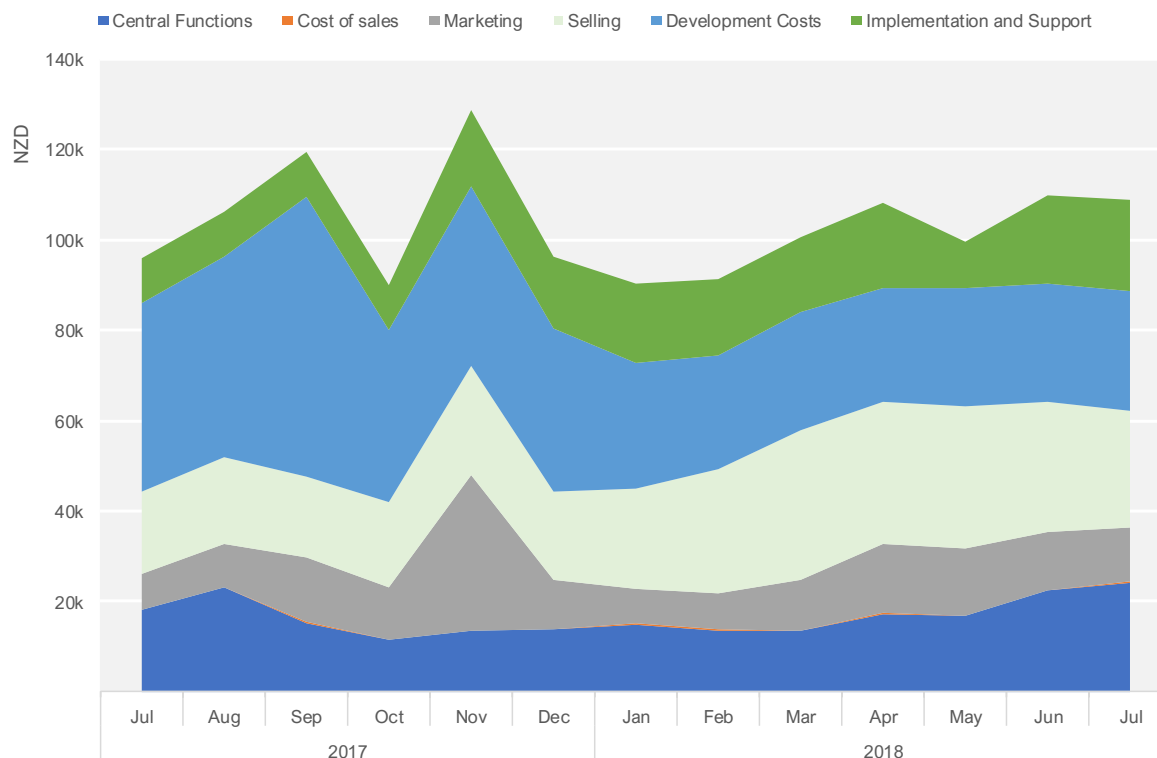
Datagate’s actual revenue performance over the past 18 months is set out in the graph below. ARR at the end of July is \$402k, a 41% increase over the previous 12 months. Given the healthy sales pipeline from existing customers and new international customers, we are forecasting for this rate of growth to accelerate over the next six months.



### Costs

Datagate has managed its costs carefully over the last 12 months, transitioning expenditure from development to marketing and sales as focus turned from building Datagate version 2 to marketing and selling the product.

A summary of the Datagate cost profile for the last 12 months is set out below.



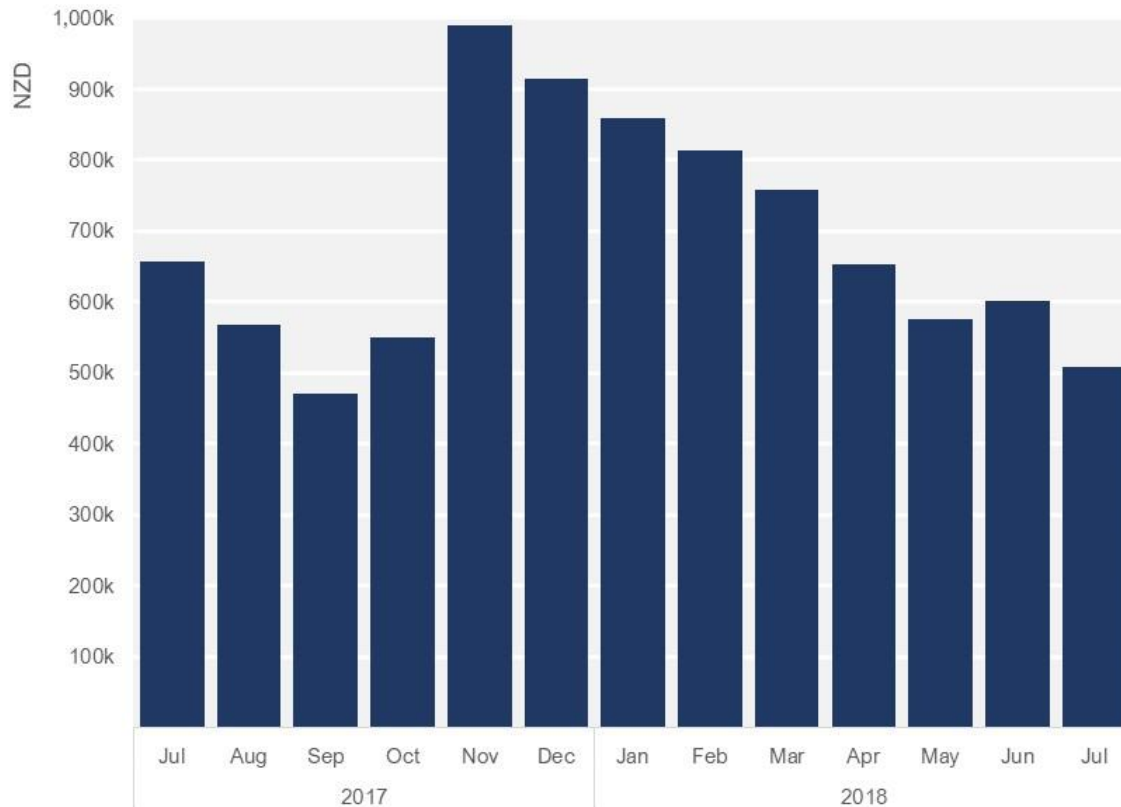
Some key points to note:

- Datagate secured Azure hosting sponsorship through the Microsoft bizspark programme which covered almost all Datagate’s Azure cost during the period. Funds under this sponsorship are now exhausted, and Datagate will be covering its Azure costs going forward.
- September 2017 developments costs were impacted by a redundancy payment.
- November 2017 marketing costs increased due to expenditure on the Connectwise conference in Florida.

### Cash

The graph below sets out Datagate’s cash position over the last 12 months. Datagate raised funds from existing investors in October 2017 and has used those funds to enhance the Datagate product for international markets and build the sales pipeline of international customers, particularly those using Connectwise and start prospecting into opportunities in the water business.

On June 18, Datagate received cash from an R&D tax credit as an outcome of our work developing the globally scalable storage infrastructure underpinning Datagate version 2. We expect to receive further funds from the R&D tax credit once the FY18 tax return is submitted.



*Forecast*

Datagate is currently forecasting cash burn to decline over the next six months, with new revenues from existing customer growth and new customers come on-board. We have a backlog of international customers waiting for completion of the US-specific Connectwise integration which is due for completion in September.

Mark is up in the US late August/early September for a number of exciting meetings with partners, (including SAP and Kamstrup) and current and potential customers. The outcome of this trip and open opportunities in ANZ will be reviewed by the Datagate Board upon Mark's return and will be a key input into business and cash planning for the next six to nine months.

As we shift more and more from our pure New Zealand sales focus to a more global American and Australasian sales focus, we will be engaging with more larger customers with larger associated revenues. We have a very positive view of our revenue growth over the next year.

**Summary**

Thank you for your support of Datagate. We continue to be very excited about the opportunities and look forward to reporting back to you again in October.