Dragontail Systems Successfully Rolling Out its Growth Strategy

August 31 2017

Dragontail Systems Limited (ASX: DTS) is pleased to announce its inaugural results as a publicly listed company for the six months ended 30 June 2017 (H1 2017). Over the period, Dragontail Systems grew its international footprint, developed new products, and progressed several client relationships.

A key growth metric validating Dragontail System's world leading proprietary 'Algo' platform is the growth in number of paying customers. After commencing sales of the 'Algo' in Q3 2016, stores installed and quantum of annualised revenue has begun to grow exponentially. Over H1 2017, the number of stores installed was up 125% to 155, and annualised revenue grew 130% to $285k.

Business growing exponentially (at 30 June 2017)

- Stores installed, up 86 to 155; 125% growth over 6 months (31 Dec 2016: 69)

- Operating countries, up 4 to 7 (31 Dec 2016: 3)

- Operating cities, up 32 to 84 (31 Dec 2016: 52)

- Point of Sale [POS] joint ventures, up 4 to 6 (31 Dec 2016: 2).

Doing what we said we would do:

- Completed rollout of 'Algo' platform to all corporate owned Pizza Hut stores in Canada; installation into franchisee stores commenced

- Agreed pilot with KFC Asia (division of Yum! Brands) in Malaysia and Singapore

- Chosen by Google Next as the use case example of business disruptive technology

- First customer referred by Google; in the fleet and fuel management segment

- Opened offices in Australia and Singapore, to complement existing offices in Israel, US and Canada

- Domino's Israel chooses to install 'Algo' across all its stores; making the 'Algo' the de facto standard platform in Israel for food delivery optimistion with the two largest pizza delivery companies now using the 'Algo'

- Completed development of the unique proprietary, patent pending, QT – a computer-vision artificial intelligence [AI] machine learning quality system for QSR chains.

Commenting on the Company's rapid progress over H1 2017, Dragontail Systems' CEO Ido Levanon said:

"The past six months have been extremely busy as we rolled out the Company's 'Algo' optimisation and delivery platform. We completed the installation of the 'Algo' across Yum! Canada's corporate owned Pizza Hut stores, and have expanded our relationship with Yum! into Asia, putting in place pilots with KFC in Malaysia and Singapore. In addition, Domino's Israel agreed to install the 'Algo' across all its pizza restaurants.

"At the end of June, Dragontail Systems was being used by three of the largest QSR businesses globally".

– Pizza Hut, KFC and Domino's. These expanding relationships led to the number of stores installed growing by 125% over the first half, with a substantial pipeline of stores yet to be installed, underpinning our continued exponential growth."

"At the heart of our technology is innovative, focused R&D, undertaken by a team that has substantial food industry and software experience. In addition to commencing the rollout of the 'Algo' platform, we continued to invest substantial time and resources in R&D, leading to the development of our QT computer-vision machine learning camera system."

"The QT is a world first technology. Utilising artificial intelligence [AI], the QT monitors key elements in the kitchen during the preparation and cooking process to improve the quality and consistency of pizzas and other meals that a restaurant is producing."

"The QT's artificial intelligence [AI] is revolutionary. This, together with our 'Algo' platform, will completely disrupt the QSR industry as well as several other industries with use cases for our technologies that assist businesses to manage costs and grow revenues. We are in advanced discussions with several new strategic customers globally, and are well placed to continue growing exponentially."

Financial Overview

Dragontail Systems finished H1 2017 with a cash balance of USD 2.5 million, following its Initial Public Offering (IPO) in December 2016.

Unlike many other technology companies that compete in the "last mile" delivery segments of the market that Dragontail Systems operates in, the Company's new business strategy is to develop relationships with large franchise chains, and sign on paying users to its platform, as opposed to "free" trials.

While this strategy may take a little longer to generate new business, it ensures that the business is sustainably revenue generating and the number of users can scale quickly given the size of client franchise networks. Over H1 2017, the Company generated USD 86k revenue, compared with USD 54k in H1 2016.

Operating Overview

Dragontail Systems is at a pivotal point in time as it commercialises its technologies. The Company is growing into new countries and cities, signing agreements with new strategic customers like Domino's Israel and KFC Asia, entering new market segments like fuel and fleet management, and expanding its range of world-leading products.

The results of Dragontail Systems' activities can be clearly seen in the rapidly scaling, exponentially growing, operations over the past two quarters (six months), as outlined in the table below.

Quarterly Operating Metrics	Sept 2016	Dec 2016	Mar 2017	Jun 2017
Operating countries	3	3	3	7
Operating cities	47	52	68	84
Number Stores installed	63	69	88	155
Number of POS joint ventures.	0	2	3	6
Annualised Revenue	$113k	$124k	$165k	$285k
Quarterly Growth	n/a	10%	33%	73%

Offices opened in Singapore and Melbourne (Australia)

While growing the number of installed stores, Dragontail Systems is also focused on exciting pilots with large multi-country QSR operators, like KFC Asia, to continue building rapid momentum. As part of these pilots, the Company opened offices in Singapore and Melbourne (Australia) to provide R&D and operational support to these pilots.

Growing local and global customer base

Having been trialled by Pizza Hut Canada for over 12 months, over H1 2017 the 'Algo' was installed in all Pizza Hut Canada corporate owned stores. The Company has commenced installations in franchisee stores, and expects to undertake a significant rollout to a large number of Pizza Hut Canada franchisee stores over H2 2017. Pizza Hut Canada has around 400 total stores across its corporate owned and franchisee network.

Another strategic partnership has formed with KFC Asia, expanding on Dragontail Systems' relationship with Yum! Brands. The 'Algo' is being piloted in Malaysia and Singapore as a pre-cursor to a potential rollout through Asia.

KFC Asia is the only KFC network globally that currently home-delivers, and has 3,400 total stores. Importantly, this was a relationship that was formed as a result of the significant operational benefits that Yum! Brands experienced using the 'Algo' in their Pizza Hut Canada corporate owned stores.

While the Company has been forming growing relationships with global QSR companies, it has also been building relationships with more local operations, as well as non-QSR companies. Early this year, the New York city based franchisee of US frozen yogurt brand 16 Handles concluded its trial of the 'Algo' early and immediately rolled out the platform across all its stores due to stronger than expected trial results.

Dragontail Systems also put in place an agreement with Monscierge, Inc to support Dragontail Systems' entry into the hotel and resort market, where the platform can streamline the preparation and serving of room service and bar drinks. In addition, the Company expanded into fuel and fleet management services, signing its first customer from that industry – Roseman Engineering – that was the first client referred to the Company by Google.

Google Next use case of disruptive technology

In May, Dragontail Systems was selected by Google as a use case globally of key disruptive technologies. Dragontail System's selection was announced at the Cloud Next event in Tel Aviv, featuring the Google Cloud platform utilisation. As outlined above, the Company has already received its first referral from Google for a company in the fuel and fleet management industry.

Leading edge technology incorporating artificial intelligence [AI]

Dragontail Systems continues to progress the R&D of its unique patent pending QT – a computer-vision artificial intelligence [AI] machine learning quality system for pizza and other QSR chains. This is a revolutionary technology that will provide significant benefits to QSR and other food operators, and clearly differentiates the Company from its competitors that largely operate in just 'last mile' delivery systems.

The QT is the world's first food preparation system that utilises machine learning to constantly improve its diagnostics. It monitors key elements in the kitchen during the preparation and cooking process to improve the quality and consistency of pizzas and other meals being produced.

The QT not only revolutionises food preparation, it is an exciting marketing and operational tool, which upgrades the customer experience (eg allowing customers to see their actual pizzas when cooked) and reduces costs (through less wastage and efficient use of ingredients) without interfering with a kitchen's workflow.

Events subsequent to 30 June 2017 – Dragontail Systems has not slowed down

Post the reporting period end, Dragontail Systems continues to make significant progress developing and commercialising the 'Algo' System and QT platform. The Company has signed several new agreements as outlined below.

Domino's Pizza Israel

Domino's Pizza Israel selected the 'Algo' dispatching system to manage the drivers and deliveries across all its more than 60 restaurants. The 'Algo' provides Domino's Pizza Israel with complete visibility of, and control over, its delivery processes, improving management of its drivers and deliveries, and generating efficiencies that reduce delivery times and overall operating costs within their restaurants.

As a result of this agreement, the 'Algo' platform became the de-facto standard for food delivery optimisation in Israel, having been selected by the two largest pizza delivery companies in the country.

Melbourne R&D facility opened and Chief Technology Officer appointed

In July, Dragontail Systems opened a Research & Development facility in Melbourne to deepen technical and professional support for current and future clients. This builds on the Company's Singapore office, to accelerate its growth ambitions in the region.

The Melbourne facility is led by Chief Technology Officer Simon Wilkson. His professional background and experience will support the Company's growth, providing the ability to manage direct contact with customers in the region, as well as lead regional strategic projects in terms of R&D and operations. Dragontail Systems views the Asia-Pacific region as a key global growth market.

Positive outlook for continued exponential growth

Over H1 2017, Dragontail Systems put in place the infrastructure necessary to drive continued exponential growth. With existing relationships with tier 1 global QSR operators like Pizza Hut, KFC and Domino's, several exciting new clients in the pipeline, and truly disruptive technology that solves key problems for QSR operators, restaurant operators, and other industries, the Company is well placed to continue its growth trajectory.

Commenting on the outlook for Dragontail Systems, Mr Levanon said: "Dragontail System's two flagship proprietary products, the 'Algo' and AI driven QT, are truly unique and disruptive technologies. The global potential of these products is vast and we have only begun delivering on this potential. The exponential growth delivered over the first half of this year, is set to continue at an even faster pace as we roll out further agreements and install our systems in additional stores."

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About Dragontail Systems

Dragontail is revolutionising the Quick Service Restaurant (QSR) industry with its Algo System and computer-vision QT quality system that uses artificial intelligence (AI) machine learning.

The Algo System uses a sophisticated patented algorithm to optimise and manage the entire food preparation process from order to delivery. It is the first system in the world to fully automate and streamline the kitchen flow to deliver an immediate and significant return on investment to fast food and quick service restaurants.

The QT system's sensor and camera automatically monitor the preparation and cooking process in the kitchen to improve the quality and consistency of meals. Using proprietary advanced AI machine-learning technology, the system keeps improving its diagnostics, becoming even more efficient.

For more information, visit www.dragontailsystems.com.