

Dragontail Systems Continues to Deliver on Its Growth Objectives With 50% Increase in Customer Receipts Quarter on Quarter

October 26 2017

Dragontail Systems Limited (ASX: DTS) is pleased to provide the market with its quarterly operational update covering the three months ended 30 September 2017 (Q3 2017).

The key metrics validating Dragontail System's world leading proprietary 'Algo' platform is the growth in number of paying customers, and importantly, the growth in total number of contracted stores. The exponential growth delivered in Q2 2017 continued through Q3 2017 with:

- Total contracted stores up 110% to 1,030 (30 Jun 17: 490)
- Annualised run-rate revenue up 148% to A\$708,000 (Q2 2017: A\$285,000).

The above growth metrics reflect substantial progress being achieved over Q3 2017 (as outlined below). In addition, post quarter end (as announced on 24 October 2017), Dragontail Systems successfully completed a heavily oversubscribed placement of ordinary shares to global and domestic sophisticated, professional and other institutional investors (Placement), raising A\$8.8 million.

Business growing exponentially (at 30 September 2017)

- Customer receipts for Q3 2017 were up 50% to A\$95k (compared to Q2 2017)
- September 2017 monthly customer receipts scaled up to A\$59k, delivering annualised revenue of A\$708k, up 148% from 30 June 2017
- Total contracted stores was up 110% to 1,030 (30 Jun 2017: 490) and up 796% year to date (31 Dec 2016: 115)
- Point of Sale (POS) joint ventures, up to 7 (30 Jun 2017: 6).

Doing what we said we would do over Q3 2017, and growing the number of contracted stores

- Signed an agreement with Cara Operations Limited (TSX: CARA), Canada's leading fast casual restaurant operator with over 1,200 stores and 14 restaurant brands. Key parts of the 'Algo' will initially be rolled out to 300 restaurants before the end of Q1 2018.
- Signed an agreement with PHC Franchised Restaurants Public Ltd (PHC), a leading restaurant chain in Cyprus with over 70 stores covering well-known global QSR and food service franchises and started commencing installations. The roll out will cover most of its brands including PH, KFC, Taco Bell and wagamama with a first installation in a Burger King restaurant.
- Progressing artificial intelligence (AI) project with global pizza business Domino's Pizza Enterprises Limited (ASX: DMP). These tests are the first undertaken by a major global pizza QSR chain.
- Domino's Israel chooses the 'Algo' platform and will start installing the system across its stores, making the 'Algo' the de-facto standard platform in Israel for food delivery optimisation with the two largest pizza delivery companies now using the 'Algo'.
- Opened an office in Melbourne (Australia) to complement existing offices in Israel, US, Canada and Singapore, and hired a Chief Technology Officer and additional developers based in Melbourne.

- Signed agreements with two QSR delivery businesses with 60 high volume stores in the US utilising the Company's Point-of-Sale relationships.

Commenting on the Company's rapid progress over Q3 2017, CEO Ido Levanon said:

"The substantial growth we have experienced over the September 2017 quarter further highlights the value Dragontail Systems can deliver to QSR, foodservice and many other industries globally. The global rollout of our proprietary game changing technologies is now quickening. We had a very busy quarter signing up new clients, including Cara Operations, Canada's leading fast casual restaurant operator, while also progressing our AI project with Domino's in Australia.

As we progress the rollout of our 'Algo' platform around the world, and add technologies to it like our AI machine learning QT camera system, industries' appreciation of the real and true value of Dragontail Systems' technologies is rapidly becoming apparent."

Financial overview

Unlike many "last mile" delivery technology companies, given the end-to-end nature of what Dragontail Systems does, and the size and scale of the Company's target clients, it takes a little longer to generate new business. However, this ensures that Dragontail Systems is sustainably revenue generating and the number of users can scale quickly given the size of client franchise networks.

Reflecting new client signings and the growth of installed stores over Q3 2017, the Company's annualised run-rate revenue at the end of the quarter was up 148% (quarter on quarter) to A\$708k.

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 and POS resellers, entering new market segments, 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 as outlined in the table below.

Operating metric	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Operating countries	3	3	3	7	7
Operating cities	47	52	68	84	89
Number of contracted stores	74	115	425	490	1,030
Number of POS joint ventures	0	2	3	6	7
Annualised run-rate revenue in A\$ (based on last month of each QTR)	\$113k	\$124k	\$165k	\$285k	\$708k

QoQ growth in annualised run-rate revenue

n / a

10%

33%

73%

148%

Progressing artificial intelligence (AI) project with Domino's Pizza Enterprises

Dragontail Systems has been progressing testing of its computer-vision QT quality system with global pizza business Domino's Pizza Enterprises.

Dragontail Systems first launched its proprietary QT System, a revolutionary computer-vision quality control system, in December 2016. The QT System's sensor and camera automatically monitor the preparation and cooking process and, using proprietary advanced AI machine-learning technology, the system keeps improving its diagnostics, becoming even more efficient.

The tests underway with Domino's Pizza Enterprises are the first to be undertaken by a major global pizza QSR chain.

'Algo' platform becomes the de-facto standard for food delivery optimisation in Israel

Domino's Pizza Israel selected the 'Algo' dispatching system to manage the drivers and deliveries across its more than 60 stores. As a result, 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 2017, Dragontail Systems opened a Research & Development facility in Melbourne to deepen technical and professional support for current and future clients. This facility is led by Chief Technology Officer Simon Wilkson.

POS channel delivers two high volume pizza QSR stores in the US

Agreements were signed with two high volume QSR delivery businesses in the US utilising the Company's POS relationships. Georgio's Oven Fresh Pizza Co will use the 'Algo' across its three QSR brands covering 50 stores based in Cleveland, Ohio. In addition, Manhattan Pizza, a fast-growing pizza chain with 10 locations in Virginia and Maryland (and another 4 being rolled out) is implementing the 'Algo' platform.

No QSR operator is too big or too small for Dragontail Systems. These two new contracts are important as they have been developed utilising the Company's POS reseller channel, a key avenue for Dragontail Systems to access hundreds of thousands of small businesses globally.

Cara Operations, Canada's leading fast casual restaurant operator, signed up

Cara Operations Limited, Canada's leading fast casual restaurant operator with over 1,200 restaurants and 14 restaurant brands, signed an agreement covering the installation of key parts of the 'Algo' platform. The 'Algo' will initially be rolled out to approximately 300 restaurants, with completion of this initial phase expected through Q1 2018.

This agreement builds on the other agreement Dragontail Systems has in Canada with Pizza Hut. It represents a significant double milestone for the Company, expanding its footprint in Canada, and beyond the QSR category into the fast casual and dine-in categories, with Cara's iconic franchises.

Burger King Cyprus commences pilot

An agreement was signed with PHC Franchised Restaurants Public Ltd (PHC), a leading restaurant chain in Cyprus

with over 70 stores covering well-known global QSR and food service franchises. PHC has initiated a pilot of the full 'Algo' platform at its Burger King Cyprus restaurants.

Following a successful pilot, PHC's intention is to roll-out the full 'Algo' platform to most of its brands – including Pizza Hut, KFC, Taco Bell and wagamama – to optimise operations at both store and Group level.

Events subsequent to 30 September 2017 – we're not slowing down

Post the reporting period end, Dragontail Systems continued to make significant progress developing and commercialising the 'Algo' System and QT platform.

KFC Asia pilot successfully commenced

After successfully completing complex preparations for IT/POS integration required by KFC Asia, Dragontail Systems went live with its 'Algo' platform for KFC Asia, as part of the pilot programme. The KFC Asia pilot is planned to run for several months, and will be undertaken in two stores in Singapore and another two stores in Malaysia. Following the successful completion of the pilot phase, the 'Algo' platform would be potentially installed across other KFC Asia locations.

Dragontail System's relationship with KFC Asia was formed following the significant operational benefits Yum! Brands experienced using the 'Algo' platform in their Pizza Hut Canada corporate owned stores.

Mutual referral agreement signed with DELIVER Plus, a leading North American POS company

DELIVER Plus and Dragontail Systems have been successful in Canada with the joint installation of the two systems – the 'Algo' and the POS system – at Pizza Hut stores. Given the success of the integrated platform in Canada, the two companies entered the US market with the combined POS and 'Algo' solution. The US represents a significant market opportunity for Dragontail Systems, with more than 240,000 QSRs, and over 620,000 restaurants in the food industry.

DELIVER Plus is installed in more than 11% of the Pizza Hut locations in North America (including approx. 95% of Pizza Hut Canada stores) as well as numerous regional chains and "mom-and-pop" pizza shops.

Expansion into Asian food sector with Japanika

Dragontail Systems is expanding the application of its 'Algo' platform and artificial intelligence (AI) QT camera system to the Asian food industry, signing an agreement with Japanika, Israel's leading Asian food restaurant chain, to install Dragontail Systems' technology platforms in Japanika's 30 stores (and growing). Japanika is the largest Asian food chain in Israel, and a significant portion of the stores' activity is delivery related with up to 150,000 deliveries per month being achieved.

Dragontail Systems' entry into the Asian food segment clearly shows the versatility of the Company's proprietary technology platforms. This builds on the current food segments covering pizza, ice cream, fast casual, chicken and burgers.

Partnership with Onosys, a leading US digital ordering platform

This partnership provides another sales channel in the US market for Dragontail Systems' flagship product, the 'Algo' platform, and is expected to benefit both companies through the mutual referral agreement signed. In addition, each partner will be exposed to new customer circles and will be able to offer a combined platform solution to restaurants throughout the US.

Onosys' enterprise-level digital ordering platform combines ordering, payments, call centre, 1:1 marketing tools

and more, into a single, customisable solution that increases sales and customer engagement. Leading brands including Outback Steakhouse, Carrabba's Italian Grill, Boston Pizza and Penn Station East Coast Subs rely on Onosys to optimise their online ordering channels. Since its inception, Onosys has processed approximately \$1 billion in total food sales and has over 1,750 (and growing) restaurant locations.

Exponential growth to continue

Q3 2017 was a very productive quarter that saw Dragontail Systems further enhance its existing relationships with tier 1 global QSR operators like Pizza Hut, KFC and Domino's, sign agreements with several exciting new clients, and advance testing on the Company's truly unique proprietary AI technologies.

Commenting on the outlook for Dragontail Systems, Mr Levanon said: "The past three months have further reinforced the global potential of Dragontail System's two flagship proprietary AI products, the 'Algo' platform and QT camera system. With a substantially larger base of contracted stores that are yet to be installed, the Company is in a very exciting position as it rapidly scales. September was our largest ever month of revenues, translating to an annualised run-rate revenue of just over A\$700,000. We believe that the rate of growth we have been able to achieve over the first nine months of 2017 will speed up following our successful capital raising that will underpin further agreements being signed and the more rapid installation of our technologies in additional stores and industries."

- ENDS -

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About Dragontail Systems

Dragontail is revolutionising the food service 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.

