

1 February, 2017

**ASX ANNOUNCEMENT**

**OPERATIONAL AND MARKET UPDATE**

***HIGHLIGHTS***

- Annualised monthly recurring revenue in 2Q FY 2017 increased to \$5.3 million, up 32% YoY
- High quality recurring revenues in 2Q FY 2017 equate to 91% of total revenues
- Significant revenue opportunity with domestic Telstra customers for existing services across multiple market segments
- Company reiterates cash breakeven in 4Q FY 2017
- Company is fully-funded to exploit the attractive domestic revenue opportunity

SYDNEY, Australia 1 February 2017 - Leading Australian Cloud Security technology company, FirstWave Cloud Technology Limited (ASX: FCT) (“FirstWave” or “Company”), provides this update on its financial and operational performance for the quarter ended 31 December 2016 following the release of the Appendix 4C quarterly cash flow report.

***Historical Monthly Recurring Revenue***

The annualised monthly recurring revenue (AMRR) of FirstWave increased during 2Q FY 2017 to \$5.3 million, an increase of 32% relative to the same quarter a year ago, and up 16% on 1Q FY 2017.<sup>1</sup>

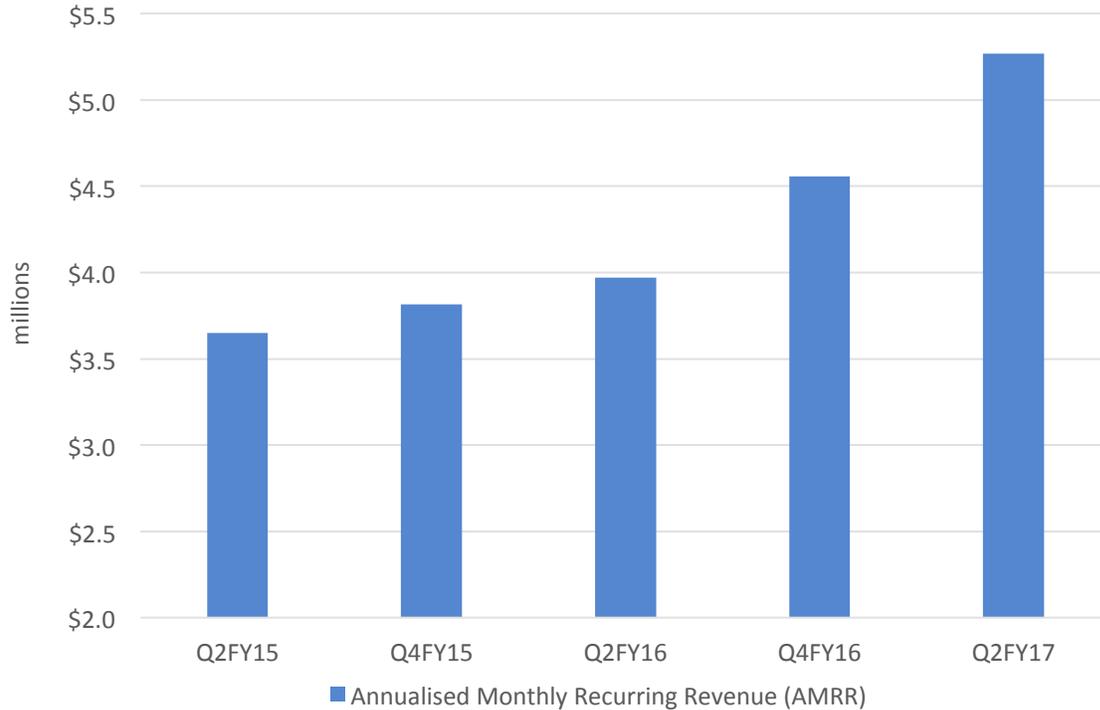
This continues the consistent AMRR growth the Company has historically exhibited (refer Figure 1) and evidences the high quality recurring revenue base which is characteristic of the Company’s cloud security service offering.

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<sup>1</sup> Annualised monthly recurring revenue (AMRR) represents the quarterly recurring revenue multiplied by four. Accordingly, it provides a 12-month forward view of monthly recurring revenue, assuming contract terms remain unchanged.

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**Figure 1: Annualised Monthly Recurring Revenue**



Notably, recurring revenues in 2Q FY 2017 equated to 91% of total revenue due to a lower contribution of one-off revenues, versus an average of approximately 70% over the past 12 months (which management would consider a more representative level going forward).

***FirstWave Annualised Recurring Revenue Opportunity***

FirstWave estimates that its addressable Australian Cloud Security market to be worth \$400 million per annum. This presents a significant revenue opportunity through its relationship with Telstra to continue to grow Annualised Recurring Revenue (ARR) in the domestic market within the Enterprise & Government and Small Medium Enterprise customer segments.

**Enterprise & Government (E&G)**

Telstra addresses 75%+ of the Enterprise & Government market. FirstWave’s addressable market for cloud security services is approximately 3,500 Telstra customers and the Company has an ambition to penetrate 20% of the segment by the end of FY2020, representing 700 Telstra customers.

The Company estimates that average Monthly Recurring Revenue (MRR) per customer will be approximately \$3,200 resulting in an exiting Annualised Recurring Revenue (ARR) opportunity of \$26.9M as at 30 June 2020 based on 700 customers.

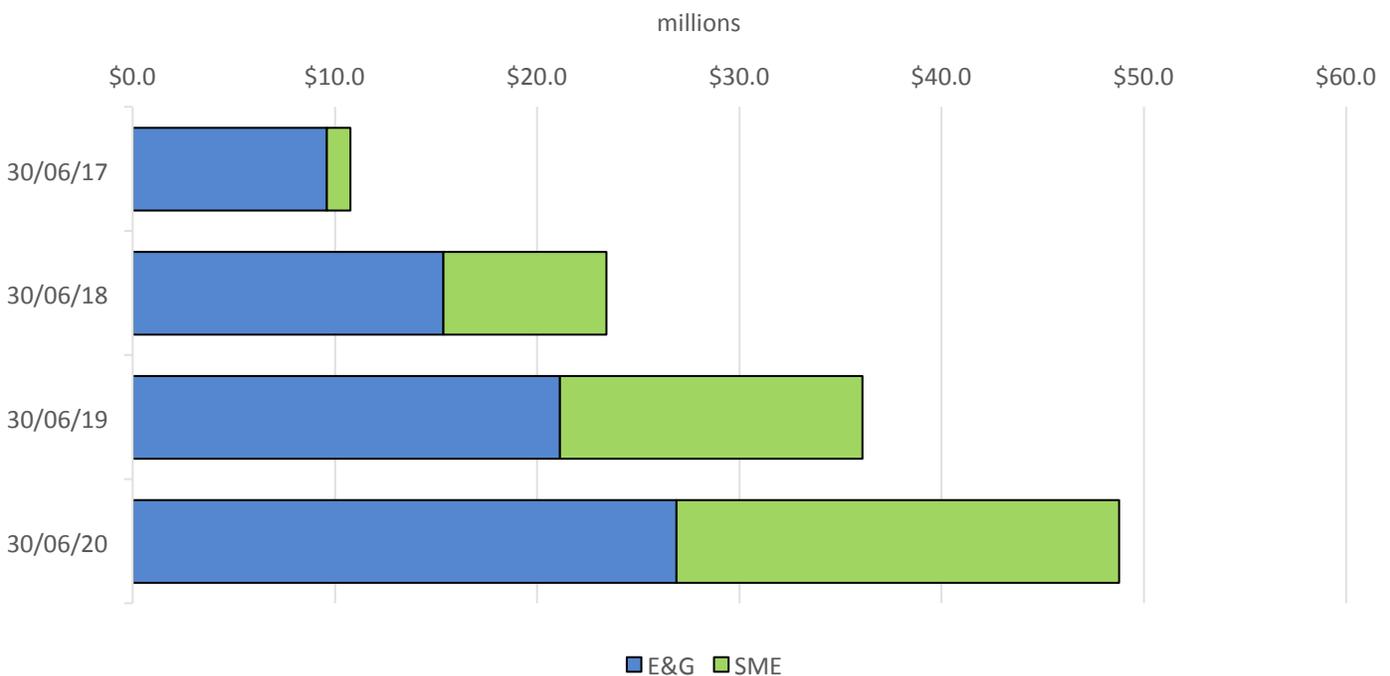
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Small Medium Enterprise (SME)

The rollout of product roadmap enhancements has expanded FirstWave’s addressable market to the SME market with a further 20,000+ Telstra customers. FirstWave has a target to penetrate 10% of Telstra’s SME addressable market for cloud security services by the end of FY2021 (recognising the later entry to this market relative to E&G), representing 2,000 Telstra customers.

The Company estimates that average MRR per customer will be approximately \$1,200 resulting in an exiting ARR opportunity of \$28.8M as at 30 June 2021 based on 2,000 customers.

**Figure 2: Exiting ARR Opportunity – presented to end FY 2020**



Notes:

1. Annualised exiting ARR represents the number of Telstra clients potentially utilising FirstWave’s SaaS platform (E&G and SME) as at the end of each financial year (based on a straight line increase in penetration to the Company’s targets for E&G at end FY2020 and SME at the end of FY2021) multiplied by estimated average MRR (on an annualised basis).
2. The number of Telstra clients, speed of take-up and MRR may vary from the assumptions reflected above .
3. Based on the provision of existing service offerings only to domestic Telstra customers (E&G and SME) and not including additional product development and professional services revenue streams
4. The above annualised exiting recurring revenue scenario is illustrative only and is based on hypothetical assumptions. These statements do not constitute a forecast or projections nor do they represent revenue in a financial year. These statements reflect views only as of the date of this announcement.

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**Management Commentary**

CEO Steve O'Brien commented: "Operationally and financially FirstWave is well positioned to exploit the sizable revenue opportunity in Australia through conversion of the identifiable customer base of Telstra's domestic clients. Penetration of both the Enterprise and Government and Small Medium Enterprise markets to targets of 20% by the end of FY2020 and 10% by the end of FY2021 respectively afford the Company a very attractive multi-year growth profile of recurring revenues.

"FirstWave reiterates that it expects to be cash breakeven in 4Q FY 2017 and is fully funded to meet the domestic market opportunity."

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