

30 April 2018

Australian Securities Exchange (ASX) Announcement

## March 2018 Quarterly Update and Appendix 4C

Brain Resource Limited (“Brain Resource,” “ASX: BRC” or “the Company”), a leader in the field of applying clinically-validated brain assessment and brain training to improve behavioural health outcomes, is pleased to report on its activities for the quarter ended 31 March 2018.

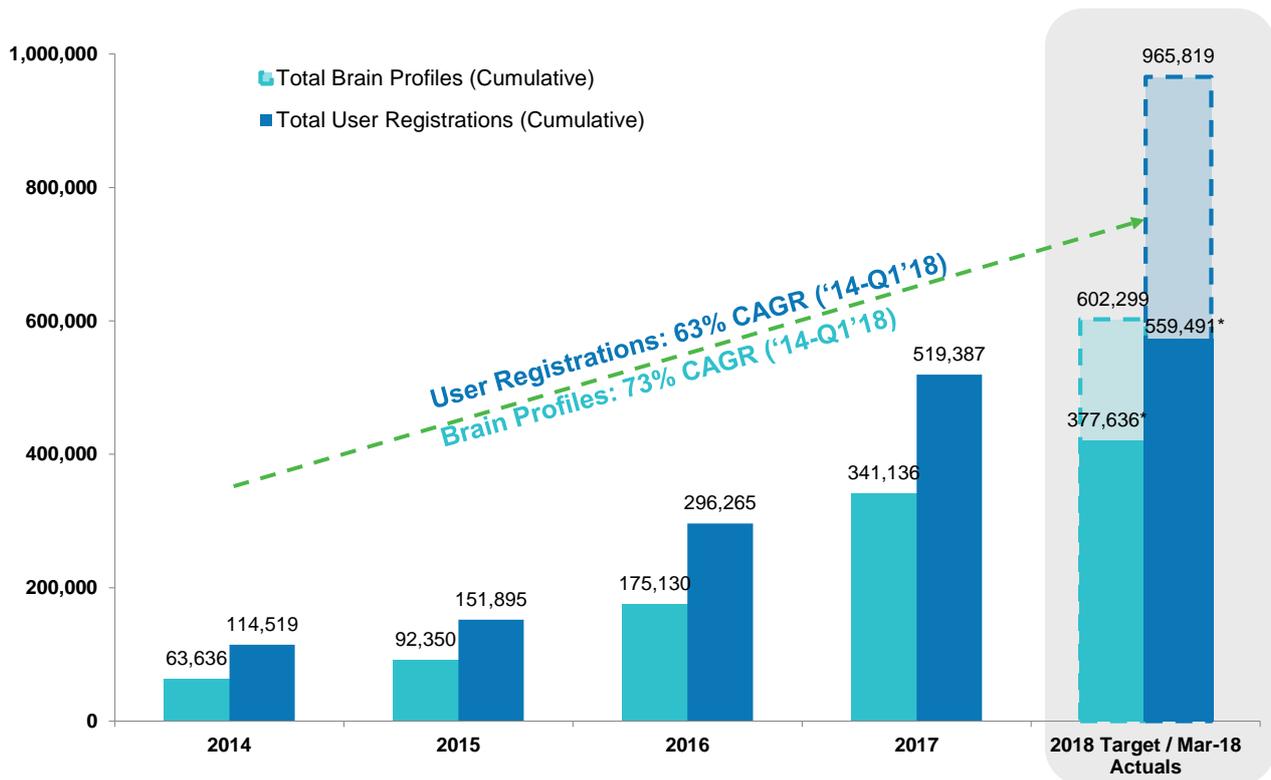
### HIGHLIGHTS

- Grew cash receipts by 33% quarter-on-quarter to A\$0.66 million.
- Added five new clients, representing A\$0.39 million in annualised revenue.
- Increased User Registrations by 40k during the quarter, representing an 8% quarter-on-quarter growth in cumulative users.
- Increased Brain Profiles by 36.5k during the quarter, representing an 11% quarter-on-quarter growth in cumulative users.
- Announced two senior additions to the team – Chief Marketing Officer Matt Resteghini from Monster Worldwide (NYSE: MWW) and VP of User Experience Pablo Sanchez from TiVo (NASDAQ: TIVO).
- Appointed two new advisors – Patrick Manzo, ex-Chief Privacy Officer of Monster Worldwide, and Christopher Dolan, CTO of ANSWR and Director of Data Platforms at Sonos.
- Competed Share Purchase Plan of A\$1.25 million and closed share sale facility for shareholders holding unmarketable parcels of BRC stock.

### USER KPIS

In addition to growing revenues, Brain Resource is focused on continued growth in user KPIS compared to CY2018 targets.

- User Registrations and Brain Profiles are the key user KPIS for the business because they directly reflect product adoption and use among clients, while also powering the value of the Brain Resource International Database. During Q3 FY2018:
  - User Registrations increased by 40k, representing an 8% quarter-on-quarter growth in cumulative users and a 63% CAGR since 2014; and
  - Brain Profiles increased by 36.5k, representing an 11% quarter-on-quarter growth in cumulative users and a 73% CAGR since 2014.
- This Q3 FY2018 growth was achieved without the benefit of a redesigned product experience, new functionalities or User Experience features, which are to be launched in 2H CY2018.



\* Represents cumulative actual figures through the quarter ended 31 March 2018. User Registration figures exclude employer-pre-registered users. Brain Profiles figures include multiple assessments taken by same user.

## CASH FLOW

<i>For the 3 months ended</i>	FY2018		
	Sep-17	Dec-17	Mar-18
<b>Cash Receipts from Customers (\$AUD)</b>	<b>\$410,000</b>	<b>\$497,000</b>	<b>\$658,715</b>
(-) Payments to suppliers and employees	(1,313,000)	(1,290,000)	(2,819,085)
(-) MBS and Test Development	-	(250,000)	(2,108)
<b>Total Quarterly net operational spend *</b>	<b>(903,000)</b>	<b>(1,043,000)</b>	<b>(2,162,478)</b>
<i>Memo: Monthly net operational spend</i>	<i>(301,000)</i>	<i>(347,667)</i>	<i>(720,826)</i>
<i>Growth in cash receipts from customers</i>		21%	33%

### Cash Inflows

Amidst significant operational changes to the business and prior to launching any of the forecast 2H CY2018 product development, Brain Resource achieved quarter-on-quarter growth of 33% in cash receipts, increasing from A\$0.50 million in the December 2017 quarter to A\$0.66 million for the March 2018 quarter. The increase was driven by stronger recurring sales of the MyBrainSolutions (MBS) product to corporate clients of A\$0.36 million, representing a 10% quarter-on-quarter increase from recurring revenues. During the period, the Company added five new clients, representing A\$0.39 million in annualised recurring revenue.

As previously communicated, the Company has made the decision to prioritise direct sales and sales via channel partners to corporate and consumer clients over select non-core business lines. The impact of this was a reduction of A\$0.05 million in quarter-on-quarter cash receipts from non-core business.

## Cash Outflows

Cash outflows from operating expenditure increased during the quarter, driven by the first full quarter of salaries paid to 13 new hires across technology, product, marketing and operations, and commencement of compensation to members of the executive team, who had previously foregone cash remuneration until the completion of the December 2017 capital raise.

The outgoings were, however, approximately \$A0.8 million lower than indicated in the Appendix 4C released to ASX on 31 January 2018, with savings experienced in the product development process and some costs of new hires deferred until later in CY2018, in line with forecast revenue growth.

## BUSINESS OPERATIONS

### Product and Technology

During the March 2018 quarter, the Company made significant progress within its Product and Technology business function. Projects completed to-date include the design approach and product roadmap for the new TotalBrain platform, and the development of a client-facing Mental Fitness Report, whilst resolving legacy IT issues, and the ongoing migration of data and services to the cloud, which would have prohibited the business' ability to scale the number of users required to achieve revenue objectives.

### Sales and Customer Success

To meet the CY2018 revenue objective of US\$3.2 million, Brain Resource continued to build out its business infrastructure for Sales and Customer Success. The team:

- implemented a CRM/pipeline solution and corresponding internal processes;
- completed a channel partner enablement plan to revive BRC's existing channel relationships;
- revamped the compensation incentive plans for internal and external sales;
- signed new sales referral agreements;
- continued to enhance predictive forecasting and pipeline systems; and
- completed an initial customer success campaign with every existing customer.

The expected outcomes of these initiatives are both an increase in market coverage and the ability to process more leads faster. Conversely, investments in customer service are focused on expansion of wallet share, retention and improved satisfaction rates by customers in advance of the new product developments to be launched in 2H CY2018.

### Marketing

BRC has made significant progress in establishing the necessary marketing infrastructure required to scale a B2B SaaS business. Areas of focus in Q3 FY2018 included:

- completing an automated B2B prospect nurturing campaign;
- improved B2B lead capture and routing;
- B2B content syndication and lead generation;
- CY2018 and CY2019 event strategies; and
- new sales enablement materials.

These initiatives resulted in 170 leads (to be qualified) generated in March 2018 alone, identifying candidates for (i) existing MBS product sales and (ii) pre-selling of the revamped MBS/Total Brain product to be launched in 2H CY2018.

## Human Resources

Among the new hires during the March 2018 quarter were Chief Marketing Officer Matt Resteghini, who joined from Monster Worldwide (NYSE: MWW) and VP of User Experience Pablo Sanchez from TiVo (NASDAQ: TIVO). Additionally, BRC appointed two new advisors – Patrick Manzo, who brings extensive data privacy and security expertise as ex-Chief Privacy Officer at Monster Worldwide, and Christopher Dolan, who brings 20 years of SaaS and big data platform architecture experience, currently CTO at Boston-based technology company ANSWR and Director of Technology at consumer technology company Sonos.

## Corporate

On 14 March 2018, Brain Resource completed the share sale facility for 99 shareholders holding unmarketable parcels of BRC stock, representing a total of 434,105 shares.

On 12 January 2018, the Company completed the previously-announced Share Purchase Plan of A\$1.25 million, enabling eligible shareholders to invest in BRC under similar terms to the placement, which closed on 19 December 2017.

Throughout the quarter, the Company continued to strengthen its financial forecasting and reporting processes, while also revamping key employee policies, including compensation, ESOP, expenses, travel and remote work.

## OUTLOOK

The Company is tracking well against its CY2018 objectives released to the market on 7 February 2018, including:

- doubling revenue to US\$3.2 million, while growing recurring subscription-based revenues and exiting non-core business;
- doubling the number of User Registrations and Brain Profiles;
- completing the product development of a new and improved MyBrainSolutions product (to be renamed TotalBrain); and
- transitioning the business from B2B Software to B2B2C SaaS Platform.

In the near term, the Company continues to invest resources in business infrastructure, talent and processes in accordance with best B2B SaaS practices within all functional areas, while also expanding its sales pipeline and closing on opportunities generated in the past quarter.

As previously communicated throughout the course of CY2018, Brain Resource will complete the transition to a mental health and wellbeing B2B2C platform, by rebranding MBS to TotalBrain, and launching a new platform that better supports the Company's positioning. At the same time, the Company will continue to optimise its go-to-market approach, maximise revenue from existing channel partners and corporate clients, and build a solid recurring revenue base to enable growth beyond CY2018.

These ongoing improvements to BRC's business and value proposition are aimed at delivering quarter-on-quarter growth in cash receipts, and user KPIs (specifically User Registrations and Brain Profiles), which will in-turn underpin growth in shareholder value.

## QUARTERLY INVESTOR CALL

Investors are invited to participate in Brain Resource's quarterly conference call with CEO Louis Gagnon on Friday, 11 May 2018.

During mid-May 2018 Louis will also be conducting investor meetings in Australia and the Company will release an updated investor presentation, which will include commentary on the iSPOT program.

The conference call details will be provided shortly via the ASX platform.

**Louis Gagnon**  
Managing Director  
Brain Resource Limited

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### **About Brain Resource Limited (ASX: BRC)**

Brain Resource Limited is a San Francisco- and Sydney-based company at the forefront of applying clinically-validated brain assessment and brain training to improve behavioral health outcomes. The Company has developed the world's largest standardised brain database and predictive analytics, which serve as platform technology for products that benefit the behavioural health sector. BRC's SaaS-based online brain assessment and training tools, geared towards large employer and consumer groups, decrease stress, increase resilience and productivity for individual users and lead to reductions in healthcare costs for employers and insurers across the United States. For more information, please visit [www.brainresource.com](http://www.brainresource.com)

## Appendix 4C

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

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

**Brain Resource Limited**

**ABN**

24 094 069 682

**Quarter ended ("current quarter")**

31 March 2018

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	659	1,566
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(287)	(556)
(c) advertising and marketing	(104)	(293)
(d) leased assets	-	-
(e) staff costs	(1,676)	(3,223)
(f) administration and corporate costs	(708)	(1,296)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4	6
1.5 Interest and other costs of finance paid	-	-
1.6 R&D offset received	467	467
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	(1)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,645)</b>	<b>(3,330)</b>

<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(43)	(54)
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	(2)	(252)
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) 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)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(45)</b>	<b>(306)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	1,074	11,211
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(7)	(894)
3.5	Proceeds from borrowings	-	(42)
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>1,067</b>	<b>10,275</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of quarter/year to date	8,843	1,570
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,645)	(3,330)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(45)	(306)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,067	10,275
4.5	Effect of movement in exchange rates on cash held	164	175
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>8,384</b>	<b>8,384</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	7,399	8,750
5.2	Call deposits	951	52
5.3	Bank overdrafts	-	-
5.4	Other – Term Deposit	34	41
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>8,384</b>	<b>8,843</b>

**6. Payments to directors of the entity and their associates**

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

<b>Current quarter \$A'000</b>
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Salaries of Executive Directors.
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<b>7. Payments to related entities of the entity and their associates</b>	<b>Current quarter \$A'000</b>
7.1 Aggregate amount of payments to these parties included in item 1.2	
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

<b>8. Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		
N/A		

<b>9. Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1 Research and development	-
9.2 Product manufacturing and operating costs	(275)
9.3 Advertising and marketing	(175)
9.4 Leased assets	-
9.5 Staff costs	(2,089)
9.6 Administration and corporate costs	(471)
9.7 Other (provide details if material)	-
<b>9.8 Total estimated cash outflows</b>	<b>(3,010)</b>

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

### 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.

Sign here:  ..... Date: 30 April 2018  
(Director/Company secretary)

Print name: **Robert J Waring**

### Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.