

January 25, 2017

Datawatch Announces First Quarter Fiscal 2017 Financial Results

Total revenue increases 17% year over year; license revenue up 38%

BEDFORD, Mass., Jan. 25, 2017 (GLOBE NEWSWIRE) -- [Datawatch Corporation](#) (NASDAQ-CM:[DWCH](#)), a leading global provider of self-service data preparation and fast data analytics solutions, today announced that total revenue for its first quarter of fiscal 2017 ended December 31, 2016 was \$8.23 million, an increase of 17% from total revenue of \$7.06 million in the first quarter of fiscal 2016. License revenue for the first quarter of fiscal 2017 was \$4.36 million, a 38% increase from the \$3.15 million recorded in the same quarter a year ago. Deferred revenue as of December 31, 2016 was \$10.20 million, a 20% increase compared to \$8.54 million as of December 31, 2015, and the highest level ever attained by the company. Total bookings for the first fiscal quarter of 2017 were \$9.40 million, a 22% increase from the \$7.73 million of bookings recorded in the same quarter a year ago.

Net loss for the first quarter of fiscal 2017 was (\$2.23) million, or (\$0.19) per diluted share, compared to a net loss of (\$3.96) million, or (\$0.34) per diluted share, for the year ago period. Excluding the effects of the non-cash amortization associated with the purchase of certain intellectual property and other intangible assets, and non-cash stock compensation costs, the Company's non-GAAP net loss for its first quarter of fiscal 2017 was (\$1.28) million, or (\$0.11) per diluted share, compared to a non-GAAP net loss of (\$2.37) million, or (\$0.20) per diluted share, for the first quarter of fiscal 2016.

"Our updated strategy to focus our efforts on the data preparation needs and requirements of our extensive customer base, while continuing the controlled transition to a subscription pricing model, is gaining steam and providing us with greater confidence that we can achieve our financial and business goals in fiscal 2017," said Michael A. Morrison, president and chief executive officer of Datawatch. "Our total bookings, the improvement in our bottom line results, important new customer wins and accelerating successes in our existing Monarch customer base, all serve to validate our business model and go-to-market approach."

He added, "We focus on our subscription license bookings on a quarterly basis, as we believe this metric is the best indicator of the underlying strength of our business over the long term, especially as we continue to move more license sales to a subscription pricing model. Total subscription bookings in the first fiscal quarter of 2017 increased a healthy 74% from the year ago quarter, reflecting fundamental improvement in both our sales execution and our go-to-market strategy. Importantly, excluding the contributions from our Panopticon and legacy businesses, we delivered 44% year-over-year license growth in our core Monarch data preparation business — a testament to our unique product differentiation and our more focused strategy centered on gaining a leadership position in the growing data preparation market."

Mr. Morrison concluded, "During the quarter, we added 188 new 'lands' of our Monarch self-service data preparation platform, reflecting a growth rate of almost 50% as compared to the prior year first quarter, with a good mixture of both heritage Monarch customers and new name logos across a variety of industries. We are particularly encouraged by the growing number of long time Monarch customers that have been off support for several years - and sometimes many years - who now see the value in our new Monarch data preparation platform and are investing in this new platform to take advantage of its added capabilities and benefits. We expect the momentum in adding new 'lands' to continue throughout fiscal year 2017, and we see a larger opportunity with all these customers to penetrate the user community more extensively and deliver additional capabilities with our self-service data preparation platform. Specifically, we believe that the data socialization and collaboration capabilities of our latest Monarch server offering exposes the capabilities of this platform to a much wider audience of users in any data preparation deployment, and our field personnel are aggressively pursuing this opportunity."

James L. Eliason, chief financial officer, commented, "We continue to make strong progress in steadily reducing our quarterly expense run-rate, and this gives us heightened confidence in our ability to meet our target of achieving operating profitability by the end of this fiscal year. We have taken the necessary steps to align our expense structure to our expected revenue performance and are where we expected to be at this point on that path. We finished the quarter with approximately \$26.3 million of cash on hand, reflecting a quarterly cash burn of \$1.7 million, which was lower than the cash burn of \$2.2 million in Q1 of fiscal 2016. Approximately \$0.9 million of the cash burn for the quarter was our non-GAAP operating loss, which was slightly more than the loss in the fourth fiscal quarter of 2016 and continues to trend downward. The remaining cash burn reflects working capital shifts on our balance sheet of \$0.7 million, which are primarily due to timing, and severance costs of \$0.2 million."

First Quarter Fiscal 2017 Business Highlights

- | Datawatch continued to penetrate the middle office and back office of leading financial services organizations with its self-service data preparation solution, including U.S. Bank, Wells Fargo, Capital One, Visa, Scotiabank, State Bank of India and HSBC.
- | Credit Agricole and Bank of Tokyo Mitsubishi joined the roster of leading financial institutions in selecting Datawatch Panopticon for fast analytics and real-time visualizations to improve effectiveness in front office trading operations.
- | Datawatch and the Hyland, a leading provider of enterprise content management solutions, announced a new technology partnership to leverage the value of the integrated Monarch data preparation and Hyland OnBase content management platform.
- | Datawatch announced the promotion of Ken Tacelli to the role of Chief Operating Officer, responsible for global sales and marketing. Mr. Tacelli was previously senior vice president of worldwide sales.
- | Datawatch was recognized by Dresner Advisory Services as a leading vendor in End User Data Preparation and presented with a Technology Innovation Award for its technology leadership.

First Quarter Fiscal 2017 Financial Highlights

- | Cash and short-term investments were \$26.3 million at December 31, 2016, down from \$28.0 million at September 30, 2016 and \$33.0 million at December 31, 2015.
- | Gross margin (excluding IP amortization expense) for the first quarter of fiscal 2017 was 91%, as compared to 89% for the first quarter of fiscal 2016.
- | Days sales outstanding were 77 days at December 31, 2016, compared to 78 days at December 31, 2015.
- | There were 7 six-figure deals in the first quarter this fiscal year, compared to 4 in the first quarter of fiscal 2016.
- | The average deal size in the first quarter of fiscal 2017 was \$40,000, an increase from \$29,000 in the first quarter of fiscal 2016.
- | Deferred revenue reached \$10.2 million at December 31, 2016, the highest in the company's history, and a 20% increase from \$8.5 million at December 31, 2015.

Conference Call

Datawatch's first quarter of fiscal year 2017 earnings conference call will take place on Thursday, January 26, 2017 at 8:30 a.m. Eastern Time. To access the conference call, the toll-free dial in number is (800) 362-0574. Internationally, the call may be accessed by dialing (785) 424-1226. The conference call will be broadcast live on the Internet at: <http://www.investorcalendar.com/IC/CEPage.asp?ID=175532>. It is recommended that listeners register to participate and download any necessary audio software from the website 15 minutes prior to the scheduled call. An archived replay of the broadcast will be available for 90 days at the same location.

About Datawatch Corporation

[Datawatch Corporation](#) (NASDAQ-CM:[DWCH](#)) enables ordinary users to deliver extraordinary results with all their data. Only Datawatch can unlock data from the widest variety of sources and prepare it for use with visualization tools or other business processes. When real-time visibility to rapidly changing data is critical, Datawatch enables you to visualize streaming data for the most demanding business environments such as capital markets. Organizations of every size worldwide use Datawatch products including 93 of the Fortune 100. Datawatch is headquartered in Bedford, Massachusetts with offices in New York, London, Frankfurt, Stockholm, Singapore, and Manila, and with partners and customers in more than 100 countries worldwide. See how Datawatch can help you by downloading a free version at www.datawatch.com.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

Any statements contained in this press release that do not describe historical facts may constitute forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Any such statements, including but not limited to those relating to results of operations, contained herein are based on current expectations, but are subject to a number of risks and uncertainties that may cause actual results to differ materially from expectations. The factors that could cause actual future results to differ materially from current expectations include the following: risks associated with the continuing weak global economy; risks associated with fluctuations in quarterly operating results due, among other factors, to the long sales cycle with enterprise customers and the size and timing of large customer orders; risks associated with acquisitions; the risk that our goodwill resulting from acquisitions may become impaired and require a write-down; limitations on the effectiveness of internal controls; rapid technological change; Datawatch's dependence on the introduction of new products and product enhancements and possible delays in those introductions; competition in the software industry generally, and in the markets for next generation analytics in particular; Datawatch's dependence on its principal products, proprietary software technology and software licensed from third parties; Datawatch's concentration of customers in the financial sector; risks associated with international sales and operations; risks associated with indirect distribution channels and co-marketing arrangements, many of which were only recently established; the adequacy of Datawatch's sales returns reserve; risks associated with a subscription sales model; Datawatch's dependence on its ability to hire and retain skilled

personnel; disruption or failure of Datawatch's technology systems that may result from a natural disaster, cyber-attack, security breach or other catastrophic event; risks related to actions by activist stockholders, including the amount of related costs incurred by Datawatch and the disruption caused to Datawatch's business activities by these actions; and uncertainty and additional costs that may result from evolving regulation of corporate governance and public disclosure. Further information on factors that could cause actual results to differ from those anticipated is detailed in various publicly-available documents, which include, but are not limited to, filings made by Datawatch from time to time with the Securities and Exchange Commission, including but not limited to, those appearing in the Company's Annual Report on Form 10-K for the year ended September 30, 2016 and its subsequently filed Form 10-Q reports. Any forward-looking statements should be considered in light of those factors.

Use of Non-GAAP Financial Information

We define non-GAAP net loss as U.S. Generally Accepted Accounting Principles ("GAAP") net loss plus goodwill and long-lived assets non-cash impairment charges, non-cash amortization associated with the purchase of certain intellectual property and other intangible assets, non-cash stock compensation costs and Swedish non-cash deferred tax valuation allowance. We discuss non-GAAP net loss in our quarterly earnings releases and certain other communications as we believe non-GAAP net loss is an important measure that is not calculated according to GAAP. We use non-GAAP net loss in internal forecasts and models when establishing internal operating budgets, supplementing the financial results and forecasts reported to our Board of Directors and evaluating short-term and long-term operating trends in our operations. We believe that non-GAAP net loss assists in providing an enhanced understanding of our underlying operational measures to manage the business, to evaluate performance compared to prior periods and the marketplace, and to establish operational goals. We believe that these non-GAAP financial adjustments are useful to investors because they allow investors to evaluate the effectiveness of the methodology and information used by management in our financial and operational decision-making.

Non-GAAP net loss is a non-GAAP financial measure and should not be considered in isolation or as a substitute for financial information provided in accordance with GAAP. This non-GAAP financial measure may not be computed in the same manner as similarly titled measures used by other companies. We expect to continue to incur expenses similar to the non-GAAP net loss financial adjustments described above, and investors should not infer from our presentation of this non-GAAP financial measure that these costs are unusual, infrequent or non-recurring.

The table below entitled "Non-GAAP Disclosure - Reconciliation of Net Loss to Non-GAAP Net Loss" reconciles the Company's GAAP net loss to the Company's non-GAAP net loss.

DATAWATCH CORPORATION
Condensed Consolidated Statements of Operations
Amounts in Thousands (except per share data)
(Unaudited)

	Three Months Ended December 31	
	2016	2015
REVENUE:		
Software licenses	\$ 4,357	\$ 3,147
Maintenance	3,555	3,602
Professional services	321	306
Total revenue	<u>8,233</u>	<u>7,055</u>
COSTS AND EXPENSES:		
Cost of software licenses	703	689
Cost of maintenance and services	532	598
Sales and marketing	4,747	5,748
Engineering and product development	2,203	1,827
General and administrative	2,215	2,234
Total costs and expenses	<u>10,400</u>	<u>11,096</u>
LOSS FROM OPERATIONS	(2,167)	(4,041)
Other income (expense)	<u>(62)</u>	<u>(24)</u>

LOSS BEFORE INCOME TAXES	(2,229)	(4,065)
Income tax (expense) benefit	(2)	101
	<u>(2,231)</u>	<u>101</u>
NET LOSS	<u>\$ (2,231)</u>	<u>\$ (3,964)</u>
Net loss per share - Basic	<u>\$ (0.19)</u>	<u>\$ (0.34)</u>
Net loss per share - Diluted	<u>\$ (0.19)</u>	<u>\$ (0.34)</u>
Weighted Average Shares Outstanding - Basic	<u>11,951</u>	<u>11,635</u>
Weighted Average Shares Outstanding - Diluted	<u>11,951</u>	<u>11,635</u>

Non-GAAP Disclosure - Reconciliation of Net Loss to Net Loss Excluding the Effects of Certain Items:

GAAP Net Loss	\$ (2,231)	\$ (3,964)
Add-back Amortization of Intangibles & IP	519	572
Add-back Share-Based Compensation	431	1,023
Add-back Swedish Deferred Tax Valuation Allowance	-	-
Subtotal of additions	<u>950</u>	<u>1,595</u>
Net (Loss) Income (non-GAAP)	<u>\$ (1,281)</u>	<u>\$ (2,369)</u>
Net (loss) income per share - Basic	<u>\$ (0.11)</u>	<u>\$ (0.20)</u>
Net (loss) income per share - Diluted	<u>\$ (0.11)</u>	<u>\$ (0.20)</u>
Weighted Average Shares Outstanding - Basic	<u>11,951</u>	<u>11,635</u>
Weighted Average Shares Outstanding - Diluted	<u>11,951</u>	<u>11,635</u>

DATAWATCH CORPORATION
Condensed Consolidated Balance Sheets
Amounts in Thousands
(Unaudited)

	December 31 2016	September 30, 2016
	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 26,285	\$ 28,034
Accounts receivable, net	7,040	6,932
Prepaid expenses and other current assets	<u>2,397</u>	<u>2,265</u>
Total current assets	35,722	37,231
Property and equipment, net	1,211	1,210
Intangible and other assets, net	<u>9,470</u>	<u>9,990</u>
	<u>\$ 46,403</u>	<u>\$ 48,431</u>
Accounts payable and accrued expenses	\$ 3,506	\$ 4,077
Deferred revenue - current portion	10,038	9,630
Deferred tax liability- current portion	<u>-</u>	<u>-</u>
Total current liabilities	13,544	13,707
Other long-term liabilities	<u>661</u>	<u>766</u>
Total long-term liabilities	661	766

Total shareholders' equity	<u>32,198</u>	<u>33,958</u>
	<u>\$ 46,403</u>	<u>\$ 48,431</u>

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