

## ASX Announcement (SOV)

19 January 2022

### Appendix 4C Release – Quarter to 31 December 2021

Sovereign Cloud Holdings Limited (“SOV”, the “Company”), trading as AUCloud, is pleased to provide its activity update for the quarter ended 31 December 2021 (“Q2FY22”).

SOV also released its Appendix 4C today.

#### Key Highlights – Q2FY22

- Cash of \$40.6 million at 31 December 2021, following the successful capital raising of \$35 million
- NEXTDC Limited (ASX: NXT) is AUCloud’s new Partner and strategic investor (19.99%)
- Craig Scroggie, CEO and Managing Director of NEXTDC has now joined the Board
- Work is already underway for platforms to be deployed in Brisbane
- New Federal Govt legislation around critical infrastructure will create opportunities
- IaaS revenues of \$1.07 million during Q2FY22
- TCV Closed of \$2.52 million during Q2FY22, with TCV Outstanding of \$6.6 million at 31 December 2021

#### Revenues

AUCloud generated \$1.07 million in IaaS revenue during Q2, a slight increase on the Q1 result. The impact of the lengthy Covid-19 lockdown period continued to be felt in Q2, with project designs taking time to regain momentum and convert into revenues.

#### Total Contract Value

TCV Closed during Q2 was up \$1.04 million (119%) on Q1 to \$2.52 million, which largely related to nine (9) contract extensions. AUCloud also secured two (2) new direct contracts with government agencies and one (1) new contract via a partner. A summary of the key TCV metrics are as follows:

Summary of TCV Metrics	Q1FY22 \$'m	Q2FY22 \$'m
Opening Total Contract Value (TCV)	5.96	5.77
Add: Closed TCV	0.87	2.52
Reduce: Terminated Contracts		(0.61)
Less: Revenue recognised	(1.06)	(1.07)
Closing TCV Outstanding	5.77	6.61

Late in Q2 the Company was advised of a decision by its long-term customer ANU, to revert to pre-COVID operational practices, which would result in winding down of the virtual desktop program. This impact has been included in the TCV Outstanding at the end of Q2FY22.

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## Cash Flow

Cash receipts from customers were \$1.12million in Q2FY22. Net cash outflow from operations in the period was \$2.48million, largely reflecting employment costs.

Capital expenditure payments during Q2FY22 totalled \$0.54million. In line with the strategic partnership and investment from NEXTDC, SOV expects to continue to strategically invest in the expansion of its national AUCloud footprint, which it expects will drive future growth.

## CEO Commentary

The team was very pleased to be able to return to face-to-face meetings with customers and partners after the extended lockdown and is looking forward to continuing to build on that momentum in Q3. We are cognisant that with a Federal Election taking place in the first half of 2022, our sales focus during this period will need to intensify on state government, critical national industry and enterprise. We are excited about the opportunities emerging in these areas via our new strategic relationship with NEXTDC.

Strategically, the quarter was underlined by the investment by NEXTDC and the related successful entitlement offer to raise \$35m. The investment will not only underpin development of operational platforms in Queensland, Victoria, and South Australia to complement our existing footprints in ACT and NSW but also trigger more rapid expansion into the wider industry sectors. The technical team have work underway on the first of the platforms which will be deployed in the Brisbane NEXTDC environment and is targeted for completion in the first half of calendar year 2022.

Most notably, the Company looks forward to the anticipated opportunities arising from the new Federal government legislation passed during Q2 around protecting “Critical Infrastructure and Systems of National Significance reforms”, which extended the formal number of industry sectors designated under critical infrastructure legislation from four to eleven including: communications; financial services and markets; data storage or processing; defence industry; higher education and research; energy; food and grocery; health care and medical; space technology; transport; and water and sewerage. These sectors, along with a growing range of security conscious enterprise organisations with increased awareness of cyber security risks, will likely begin to transition their security practices to align with that of Federal Government; an area where AUCloud remains one of the leading sovereign cloud practitioners.

The Company today announced a strategic partnership with Arqit to support the development of Sovereign QuantumCloud™, with AUCloud providing underlying infrastructure and accredited environments to Government, Defence, Space and Enterprise deployments in Australia.



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Philip Dawson  
Managing Director

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## Operating Metrics Defined

Summarised below are new operating metrics adopted by management for measuring the progress of business:

- **Total Contract Value (TCV)** is the total value of expected revenue from estimated consumption of Infrastructure-as-a-Service (IaaS), services secured through non-enforceable customer contracts (e.g. purchase orders, statement of works). Invoices are raised typically on a monthly basis against these contracts based on actual customer usage. Such contracts generally form part of a larger contractual scope that is less defined but provides overarching commercial terms (e.g. Master Services Agreements, Channel Partner Agreements, Teaming Agreements). As such, TCV provides an estimated of the total IaaS consumption expected by a customer over a defined time period, typically 12 months.
- **TCV Closed** in any period is the aggregated revenue associated with all signed commercial contracts in that period.
- **TCV Outstanding** is the remaining aggregated balance of all signed contracts at a point in time, net of any consumption utilised to date recognised against the respective contracts.
- **IaaS Consumption** is the revenue recognised based on the aggregated consumption of IaaS services, including contractual implementation, consulting and setup charges. In the Company's experience it is reasonable to expect IaaS Consumption to be repeated in subsequent periods. Quarterly IaaS Consumption (QIC) and Monthly IaaS Consumption (MIC) are terms that are also used referring to the relevant period.

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## Use of Funds – ASX Rule 4.7B

The Company is required to provide analysis of its expenditure since the date of its ASX listing (14 December 2020) and a comparison of actual expenditure against the estimated amounts set out in the “Use of Funds” section included in the Prospectus (Section 7.3). Actual cash expenditure post ASX Listing is shown below, together with a comparison of total estimated amounts included in the “Use of Funds” section in the Prospectus.

Use of funds	Estimated Total per Prospectus \$ million	Actual Incurred \$ million	
		Total FY21	YTD FY22
Customer growth capex	9.3	0.5	0.9
Lease Liabilities	3.1	1.8	2.0
Increase in headcount	2.7	0.6	0.3
Working capital	9.7	4.6	3.7
Offer costs	1.7	1.6	-
<b>Total uses</b>	<b>26.5</b>	<b>9.1</b>	<b>6.9</b>

Cash expenditure post ASX Listing is intended to be used to fund the following:

- Customer Growth Capex:** AUCloud’s operating model requires ongoing investment in computer and storage capacity to meet customer demand. As revenue grows, platform capacity will need to be expanded. Cash raised from the IPO will be used to fund estimated platform capacity expansion in 2021 and 2022 in accordance with growth in demand.
- Lease Liabilities:** The lease finance facilities were used to develop the second cloud platform based in the Sydney Data Centre and each facility has a term of three years. Cash raised from the IPO will be used to fund lease payments while the Company grows its revenue base.
- Increase in Headcount:** The Company’s activities are forecast to expand as customers are on-boarded, which will require additional service and support as well as an increase in the sales and marketing team to continue to grow the revenue pipeline. The Company also intends to proactively market its services to State Governments, Defence and Research Organisations, through additional sales and marketing personnel.
- Working Capital:** As an IaaS provider, and currently positioned at early revenue stage, AUCloud expects to incur losses until monthly revenue meets and exceeds cash outflows from operations. Cash raised from the IPO will be used to fund the Company’s working capital requirements during this period.

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## Appendix 4C

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

**Name of entity**

Sovereign Cloud Holdings Limited

**ABN**

80 622 728 189

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

December 2021

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (6 months) * \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	1,116	2,210
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(944)	(1,492)
(c) advertising and marketing	(122)	(182)
(d) leased assets	-	-
(e) staff costs	(2,048)	(3,843)
(f) administration and corporate costs	(402)	(904)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2	6
1.5 Interest and other costs of finance paid	(83)	(171)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	376
1.8 Other (IPO costs expensed)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(2,481)</b>	<b>(4,000)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(542)	(925)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) * \$A'000
2.2 Proceeds from disposal of:		
(a) entities		
(b) businesses		
(c) property, plant and equipment		
(d) investments		
(e) intellectual property		
(f) 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 Net cash from / (used in) investing activities</b>	<b>(542)</b>	<b>(925)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	35,072	35,072
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	(946)	(946)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(1,078)	(2,082)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
<b>3.10 Net cash from / (used in) financing activities</b>	<b>(33,048)</b>	<b>(32,044)</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of period	10,598	13,504
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,481)	(4,000)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(542)	(925)

Appendix 4C  
Quarterly cash flow report for entities subject to Listing Rule 4.7B

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (6 months) * \$A'000</b>
4.4	Net cash from / (used in) financing activities (item 3.10 above)	33,048	32,044
4.5	Effect of movement in exchange rates on cash held		
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>40,623</b>	<b>40,623</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	40,623	10,598
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Bank Guarantee)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>40,623</b>	<b>10,598</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1	Aggregate amount of payments to related parties and their associates included in item 1	0
6.2	Aggregate amount of payments to related parties and their associates included in item 2	0
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

<b>7.</b>	<b>Financing facilities</b> <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>																												
7.1	Loan facilities	1,993	1,993																												
7.2	Credit standby arrangements																														
7.3	Other (please specify)																														
7.4	<b>Total financing facilities</b>	1,993	1,993																												
7.5	<b>Unused financing facilities available at quarter end</b>		0																												
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.																														
	The company has historically funded part of the computer hardware & related assets required to run its business under finance lease arrangements where the Company chooses the equipment required which is then purchased by a third party (often a company related to the supplier of the equipment). Details of each facility is summarised below:																														
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;">Lender</th> <th style="width: 15%;">Balance Owning \$'000</th> <th style="width: 25%;">Maturity date</th> <th style="width: 30%;">Interest Rate</th> </tr> </thead> <tbody> <tr> <td>Cisco Capital #1</td> <td style="text-align: center;">102</td> <td>February 2022</td> <td style="text-align: center;">4.17%</td> </tr> <tr> <td>Cisco Capital #2</td> <td style="text-align: center;">426</td> <td>September 2024</td> <td style="text-align: center;">5.10%</td> </tr> <tr> <td>Cisco Capital #3</td> <td style="text-align: center;">423</td> <td>November 2024</td> <td style="text-align: center;">5.53%</td> </tr> <tr> <td>Cisco Capital #4</td> <td style="text-align: center;">778</td> <td>November 2024</td> <td style="text-align: center;">5.47%</td> </tr> <tr> <td>Other</td> <td style="text-align: center;">264</td> <td>May 2023</td> <td style="text-align: center;">7.0%</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: center;"><b>1,993</b></td> <td></td> <td></td> </tr> </tbody> </table>			Lender	Balance Owning \$'000	Maturity date	Interest Rate	Cisco Capital #1	102	February 2022	4.17%	Cisco Capital #2	426	September 2024	5.10%	Cisco Capital #3	423	November 2024	5.53%	Cisco Capital #4	778	November 2024	5.47%	Other	264	May 2023	7.0%	<b>Total</b>	<b>1,993</b>		
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	The above finance facilities are secured by the respective computer equipment and software assets acquired. The above facilities exclude lease liabilities relating to right-of-use leased assets, such as data centres.																														



8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(2,481)
8.2	Cash and cash equivalents at quarter end (item 4.6)	40,623
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	40,623
8.5	<b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	16
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
	8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer: NA	
	8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	Answer: NA	
	8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer: NA	
	<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

### 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.

Date: 19 January 2022

Authorised by: The Board of Directors  
(Name of body or officer authorising release – see note 4)

### Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.

**Appendix 4C**  
**Quarterly cash flow report for entities subject to Listing Rule 4.7B**

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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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.