

ASX Announcement (SOV)

26 April 2022

Appendix 4C Release – Quarter to 31 March 2022

Sovereign Cloud Holdings Limited (“SOV”, the “Company”), trading as AUCloud, is pleased to provide its activity update for the quarter ended 31 March 2022 (“Q3FY22”).

SOV also released its Appendix 4C today.

Key Highlights – Q3FY22

- Cash of \$34.4 million at 31 March 2022
- IaaS Revenues down \$0.3 million (34%) QoQ to \$0.73 million
- TCV Closed down \$1.3 million (53%) QoQ to \$1.2 million, with TCV Outstanding of \$7.1 million at 31 March 2022
- Advanced strategic initiatives with NEXTDC:
 - AUCloud Sovereign Bridge which is on track to go live in June 2022; and,
 - Brisbane Sovereignty Zone.
- Significant progress on the Critical National Industries sales pipeline
- New Chief Revenue Officer
- New Chief Financial Officer

Revenue

AUCloud generated IaaS revenue of \$0.73 million during Q3FY22. The decrease of \$0.3 million QoQ, largely reflects a transitional quarter before the ramp up of new projects begins to contribute in Q4FY22, together with the loss of the ANU contract at the end of Q2FY22.

Total Contract Value

TCV Closed during Q3FY22 of \$1.2 million, across sixteen (16) contracts, which comprised six (6) new contract LANDS, two (2) partner/customer EXPANSIONS and eight (8) contract EXTENSIONS.

AUCloud secured an initial contract from Arqit to provide IaaS services and professional services to support their Australian operations.

A summary of the key TCV metrics are as follows:

Summary of TCV Metrics	Q1FY22 \$'m	Q2FY22 \$'m	Q3FY22 \$'m
Opening Total Contract Value (TCV)	5.96	5.77	6.61
Add: TCV Closed	0.87	2.52	1.20
Less: Terminated Contracts		(0.61)	-
Less: IaaS Revenue recognised	(1.06)	(1.07)	(0.73)
Closing TCV Outstanding	5.77	6.61	7.08

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Cash Flow

Cash receipts from customers were down \$0.2 million (19%) QoQ to \$0.9 million during Q3FY22, reflecting a reduction in revenues noted above.

Net cash outflow from operations in the period was \$3.6 million, largely reflecting a ramp up in employment costs as the business continues to invest in new capability.

Capital expenditure payments during Q3FY22 totalled \$2.1 million, which reflects some early enablement work to initiate the national access to, and expansion, of AUCloud's services footprint.

CEO Commentary

Work supporting the Australian Electoral Commission ahead of the impending Federal election period was anticipated to drive greater revenues in Q3FY22. The timing of this revenue has now been deferred into 4QFY22 as the Federal election has been delayed until 21 May 2022.

Pre-election considerations have somewhat dampened direct and partner momentum in our main Federal market, however, the appointment of the Chief Revenue Officer in Q3FY22, combined with the NEXTDC strategic partnership, have enabled AUCloud to make considerable progress on sales pipeline within the new target market of Critical National Industries. Expansion into new critical infrastructure sectors is anticipated to lead to improved revenues in FY23.

Expansion across the NEXTDC network will go live in Q4FY22 and will also support the delivery of new state-based revenue streams as AUCloud increases its relevance to those customers with a national footprint.

We are encouraged at the burgeoning relationship with Arqit, and we are pleased to have been chosen to support their growth ambitions in the region.

PLATFORM

Q3FY22 saw significant platform expansion planning with NEXTDC and infrastructure vendors, which will see a national backbone (the AUCloud Sovereign Bridge) go live in Q4FY22 to provide immediate local access across Australia for workloads, storage and back up services based on AUCloud's sovereign capabilities.

AUCloud's capital expenditure priority for Q3FY22 was the design, build and deployment of local platform capability in conjunction with NEXTDC. The first of these new zones is on track for delivery in Brisbane in Q1FY23.

PRODUCT

The strategic partnership announced in January with Arqit has progressed with AUCloud procuring a pilot licence from Arqit and initiating the build of a Sovereign QuantumCloud environment for Australian early adopters. This is matched with a contractual commitment from Arqit for AUCloud to provide a range of IaaS services and technical delivery services to support the build out of Arqit's Australian operations.

VMware has increased engagement support to improve market awareness of AUCloud as the only VMware Sovereign Cloud provider in Australia across all core target market sectors.

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PEOPLE

Our newly appointed Chief Revenue Officer, Simon Denney, joined the company on 1 March and a full-time CFO, Ms Haidee Van Ruth, has been appointed and will start with the company in Q4FY22. Simon has made several appointments across the regions to support sales activities across our new national profile.



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, by quarter, 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	3.4
Lease Liabilities	3.1	1.8	2.5
Increase in headcount	2.7	0.6	1.8
Working capital	9.7	4.6	9.7
Offer costs	1.7	1.6	-
Total uses	26.5	9.1	17.4

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.
- 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

ABN80 622 728 189**Quarter ended ("current quarter")**March 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) * \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	913	3,123
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(779)	(2,271)
(c) advertising and marketing	(37)	(219)
(d) leased assets	-	-
(e) staff costs	(2,192)	(6,035)
(f) administration and corporate costs	(1,450)	(2,354)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	15	21
1.5 Interest and other costs of finance paid	(21)	(192)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	376
1.8 Other (IPO costs expensed)	-	-
1.9 Net cash from / (used in) operating activities	(3,551)	(7,551)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(2,075)	(3,000)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 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)		
2.6 Net cash from / (used in) investing activities	(2,075)	(3,000)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	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	(10)	(956)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(541)	(2,623)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	(551)	31,493

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	40,623	13,504
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(3,551)	(7,551)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(2,075)	(3,000)

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) * \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(551)	31,493
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	34,446	34,446

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	34,446	40,623
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Bank Guarantee)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	34,446	40,623

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
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

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.

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000																								
7.1	Loan facilities	1,699	1,699																								
7.2	Credit standby arrangements																										
7.3	Other (please specify)																										
7.4	Total financing facilities	1,699	1,699																								
7.5	Unused financing facilities available at quarter end		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.																										
<p>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:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;">Lender</th> <th style="width: 15%;">Balance Owing \$'000</th> <th style="width: 20%;">Maturity date</th> <th style="width: 35%;">Interest Rate</th> </tr> </thead> <tbody> <tr> <td>Cisco Capital #2</td> <td style="text-align: center;">386</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;">387</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;">711</td> <td>November 2024</td> <td style="text-align: center;">5.47%</td> </tr> <tr> <td>Other</td> <td style="text-align: center;">215</td> <td>May 2023</td> <td style="text-align: center;">7.0%</td> </tr> <tr> <td>Total</td> <td style="text-align: center;">1,699</td> <td></td> <td></td> </tr> </tbody> </table> <p>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.</p>				Lender	Balance Owing \$'000	Maturity date	Interest Rate	Cisco Capital #2	386	September 2024	5.10%	Cisco Capital #3	387	November 2024	5.53%	Cisco Capital #4	711	November 2024	5.47%	Other	215	May 2023	7.0%	Total	1,699		
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Total	1,699																										

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(3,551)
8.2	Cash and cash equivalents at quarter end (item 4.6)	34,446
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	34,446

8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	9.7
<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: 26 April 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.
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

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

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.