ASX Announcement - EP&T Global Limited (ASX:EPX)

EP&T provides an update on current operations and outlines pathway to run rate operating cashflow breakeven

11 July 2022

Building energy optimisation company EP&T Global Limited (ASX: EPX) ('EP&T' or 'the Company') is pleased to provide an update on current operations to 30 June 2022 and outline its planned pathway to achieving a monthly run rate operating cashflow breakeven position[3].

Highlights

- Annualised Contract Value (ACV) as at 30 June 2022 of $13.3m[1], representing an increase of 25% from 30 June 2021.
- Annualised Recurring Revenue (ARR[2]) as at 30 June 2022, of $9.2m representing an increase of $3.9m or 75% from 30 June 2021.
- Internal analysis projects that the monthly run rate operating cashflow[3] breakeven point of the business will be achieved when ARR reaches ~$13.5m.
- ARR of ~$13.5m is estimated to be achieved during Q3 FY23 and requires an additional ~$4.3m in ARR over the current $9.2m:
    - Of the $4.3m ARR required, currently $3.2m (74%) is already contracted and included in our current ACV. Planning is underway to install and commence billing of these contracts; and
    - The required ARR balance of ~$1.1m (26%) is targeted to be delivered from EP&T's current global sales pipeline.
- As EP&T progresses towards monthly operating cashflow break even, the level of monthly net operating cash outflows and subsequently cash burn is expected to improve, compared to historical cash runway levels[4].
- The Company has numerous growth opportunities and initiatives across its global operations, including planned further investment in product development. Available cash reserves are being closely monitored in light of these growth and investment opportunities.

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[1] ACV is calculated into Australian dollars based on historical long term exchange rates. On conversion to actual cashflow, the exchange rate prevailing at the time of billing may be higher or lower to the historical long term average exchange rates used to determine the ACV value.

[2] ARR is the contracted recurring revenue component of subscriptions on an annualised basis.

[3] Monthly operating cashflow breakeven is defined as monthly operating cash inflows (being receipts from operations and other revenue) less monthly operating cash outflows (being ordinary operating costs of the business including employment costs, direct cost of goods sold, occupancy, marketing, corporate and other operating costs) but excluding new project deployment costs and other investing and financing cash flows.

[4] Compared to the Company's cash runway based on historical levels of operating cash outflows as per FY22 Quarterly Appendix 4C releases

Sales update

EP&T continues to achieve growth in ACV with recent contract wins including:

- Increased penetration in the hospitality vertical with a large 12 property portfolio that is managed by a global hotel brand across multiple countries, for an ACV of A$0.8m and a TCV[5] of A$5.5m
- Further extending EP&T's Australian hospitality and club presence with securing a further seven (7) properties from a large NSW based club operator for an ACV of ~A$0.1m; and
- Successful renewal of a Hong Kong based client, which extends the relationship with the client to over 5 years for a total contract value of ~A$0.1m.

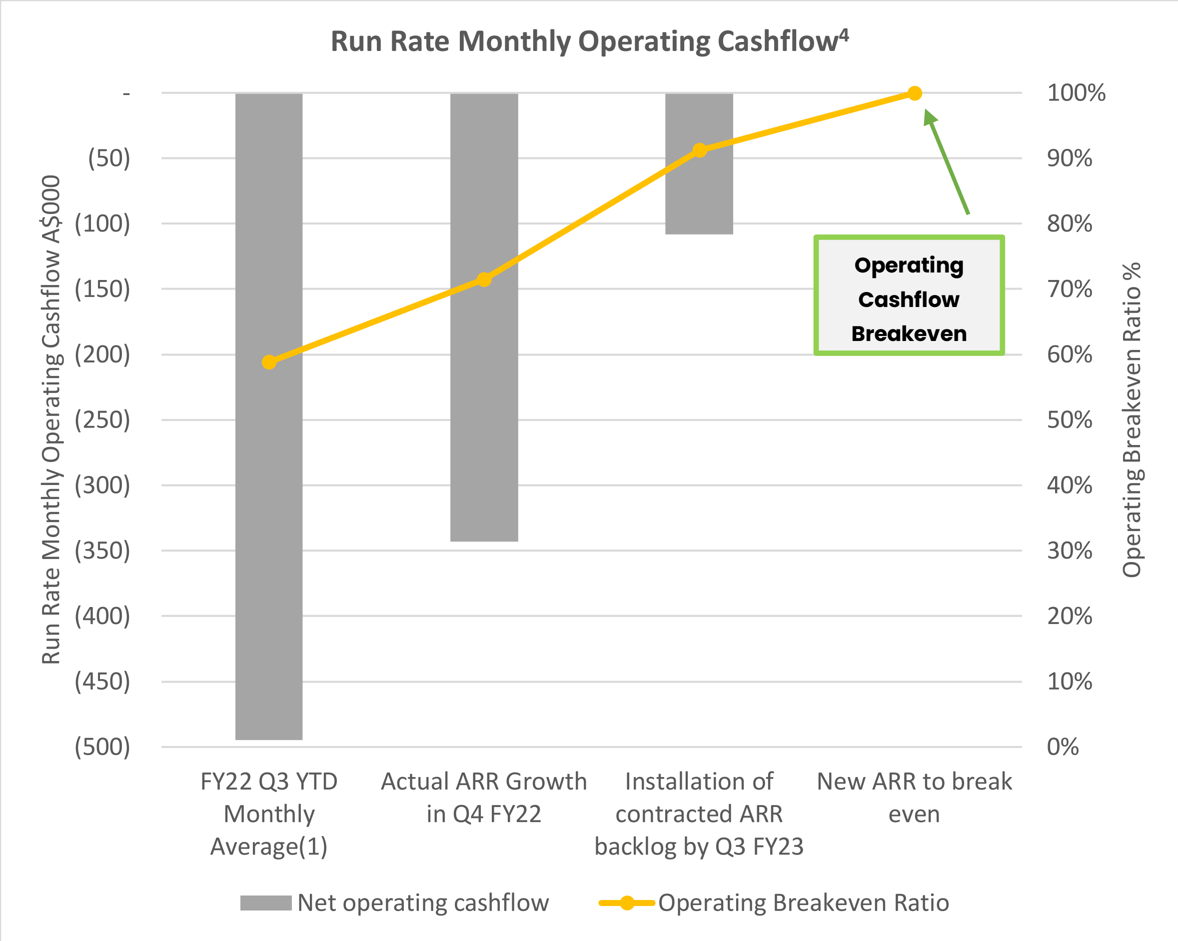
Additionally, EP&T are seeing continued interest in our building energy efficiency and optimisation product offering, which is being reflected in our sales pipeline.

Operating Cashflow Breakeven Target[6]

EP&T outlines below the Company's planned pathway to reach monthly run rate operating cashflow breakeven[3]. The operating cashflow breakeven point of the business is projected to be achieved when ARR reaches ~$13.5m.

The projected improvement in EP&T's monthly run rate operating cashflow over the stages of ARR growth is summarised below. The Company also shows the ratio of operating cash inflows as a percentage of operating cash outflows ('***Operating Breakeven Ratio'***). Operating cashflow breakeven is achieved when EP&T's Operating Breakeven Ratio reaches 100%.

[5] TCV is defined as the total of all monthly fees charged under the contract over the total term of the contract
[6] Subject to delays caused by further COVID-19 related restrictions, supply constraints or other factors outside of the Company's control



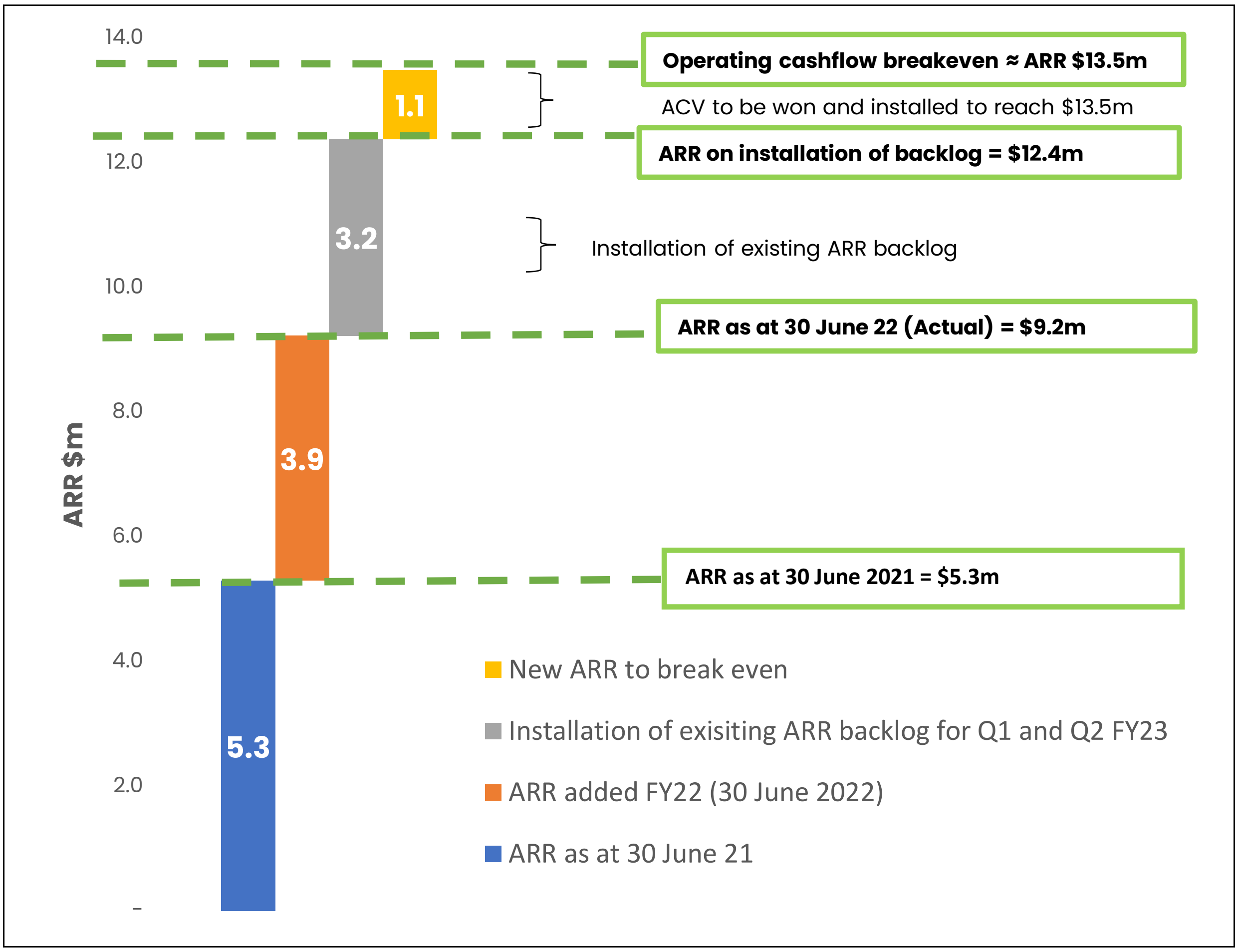
<u>*Notes:*</u>

1. *FY22 YTD monthly average operating cash flow is the average YTD FY22 operating cash usage as disclosed in EP&T's March 2022 Appendix 4C.*
2. *Installation of projects on hand and conversion to ARR may be subject to delays caused by further COVID-19 related restrictions or other factors outside of the Company's control.*
3. *Allowance made for $0.4m of increased operating costs in FY23, which may be subject to change as actual costs may be higher or lower than this estimate.*
4. *Monthly operating cashflow is defined as monthly operating cash inflows (being receipts from operations and other revenue) less monthly operating cash outflows (being ordinary operating costs of the business including employment costs, direct cost of goods sold, occupancy, marketing, corporate and other operating costs) but excluding new project deployment costs and other investing and financing cash flows.*

As EP&T progresses towards monthly operating cashflow breakeven, the level of monthly net operating cash outflows and cash burn is expected to decrease compared to FY22 YTD run rate levels.

ARR Growth Pathway

The below graph shows changes to ARR from FY21 and the planned pathway to reach ARR of ~$13.5m.



EP&T's ARR as at 30 June 2022 was $9.2m, being a 75% increase from 30 June 2021. An additional $4.3m in ARR is required to achieve the estimated operating cashflow breakeven ARR of ~$13.5m, with the breakdown being:

- Of the $4.3m ARR required, currently $3.2m (74%) is already contracted and included in our current ACV, with planning underway to install and commence billing of these contracts; and
- The required balance of ~$1.1m (26%) of ARR is targeted to be delivered from EP&T's current global sales pipeline

Operating Cost Position

Since its IPO in May 2021, EP&T has invested in all areas of the business and increased its operating cost base to support growth in ARR. The Company has now established a core operating structure, with the main cost area of growth being staff. Since IPO, staff numbers have increased by approximately 35%. This level of staff increase has allowed EP&T to service its 75%+ growth in ARR since IPO.

Whilst investment in the operating cost base is now slowing, management continue to review costs in conjunction with the Company's ability to support the revenue pipeline for FY23.

There are pressures on the cost base of the Company, with the largest being the anticipated changes as a result of annual salary increases and steps to assist with staff retention. Within its industry, EP&T is experiencing skills shortages which are pushing up wages growth at higher than historical levels. As a global business, EP&T does have the ability to drive efficiency through allocating resources across different regions, but each territory still requires local delivery with skilled and experienced staff, and hence the Company is not immune to wage pressures. To combat this and assist in the on-going operating efficiency of the Company's cost base, management has also identified opportunities for cost rationalisation of up to $0.5m[7] to assist with offsetting cost pressures.

Whilst minimal additional resources are considered necessary to achieve the key ARR milestone of ~$13.5m, available cash is being closely monitored, particularly as the Company assesses numerous growth opportunities and initiatives across its global operations. In addition, the Company is also planning to invest further in product development.

UPDATE ON CEO SEARCH AND INTERIM CEO REMUNERATION

Mr. John Balassis, who currently serves on EP&T's Board of Directors, assumed the position of interim CEO on 2 May 2022 following the resignation of EP&T's CEO, Mr. Trent Knox. The Board has engaged a specialist executive search firm to complete a market-wide search for a new CEO. The process is well advanced, with an update on the appointment expected to be announced to the market prior to the end of July 2022.

Mr. Balassis did not receive any compensation for acting as interim CEO on top of his standard Board fees for the month of May 2022. The Non-Executive Directors of the Board have agreed the following compensation arrangement for Mr Balassis for a fixed period of three months, starting 4 June 2022:

- A fixed amount of $14,500 per month in addition to Mr Balassis's existing Board fee.
- Superannuation of $1,450 per month in addition to Mr Balassis's existing Board fee.
- This arrangement is to be fixed for three months and will then cease.
- The total fees, including superannuation, payable to Mr. Balassis over this period will be $47,850

During the course of this arrangement, the Company's Non-Executive Directors, Mr. Jonathan Sweeney and Mr. Victor van Bommel, have agreed to each forgo two months of their full board fees on a no recourse basis, equating to a cost reduction of $30,830. The net cost to the Company of this arrangement will be ~$17,020 over the three-month period.

This announcement has been authorised for release to the ASX by the Board of EPX.

[7] Cost rationalisation opportunities are being implemented across the business. The rationalisation cost savings is an estimate and is to be implement by 31 December 2022.

About EP&T Global

EP&T Global is optimising buildings for a sustainable future. EP&T's proprietary technology solution combines multiple information sources with cloud-based data analytics to detect real-time energy inefficiencies in buildings. This highly accurate identification of faults and inefficiencies enables EP&T to collaborate with building managers to improve and optimise building plant operating systems.

EP&T's "EDGE Intelligent System" is a data repository incorporating 20+ years of building energy efficiency knowledge – collecting and analysing more than 5.6 billion points of data per annum with proprietary algorithmic analysis and machine learning.

To learn more visit **www.eptglobal.com**

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