

ASX Announcement (SOV)

28 July 2022

Appendix 4C Release – Quarter to 30 June 2022

Sovereign Cloud Holdings Limited (“**SOV**”, the “**Company**”), trading as AUCloud, is pleased to provide its activity update for the quarter ended 30 June 2022 (“**Q4FY22**”).

Today, the Company also released its supporting Investor Presentation containing its preliminary, unaudited FY22 results ahead of scheduled investor briefings.

The Company’s finalised, audited financial reports within the Appendix 4E for FY22 are scheduled to be released to the market on 26 August 2022.

Key Highlights – Q4FY22¹

- IaaS Revenues increased \$0.66 million 90% QoQ to \$1.39 million
 - Benefited from heightened activity period for the Australian Electoral Commission (AEC) contract
- Federal Election caused delays to contract closures
 - TCV Closed down \$0.40 million 33% QoQ to \$0.80 million
 - TCV Outstanding of \$6.50 million at 30 June 2022 (31 March 2022: \$7.08 million)
- Net cash of \$27.3 million at 30 June 2022 (31 March 2022: \$33.0 million)²
- Launched AUCloud’s Sovereign Bridge in conjunction with NEXTDC in June 2022
- Appointment to NSW’s Whole of Government Cloud Service Provider Panel

Revenue

AUCloud generated revenues of \$1.39 million during Q4FY22, comprising IaaS revenue of \$1.20 million and services revenue of \$0.19 million. This represented AUCloud’s largest reported quarterly revenue to date, driven by the heightened activity connected to the AEC contract attributable to the Federal Election in Q4FY22.

Total Contract Value

TCV Closed during Q4FY22 of \$0.80 million, across fourteen (14) contracts, which comprised five (5) new contract LANDS, four (4) partner/customer EXPANSIONS and five (5) contract EXTENSIONS.

¹ Refer AUCloud Investor Presentation dated 28 July 2022 for Glossary, including key operating metrics

² Represents cash of \$28.7m less borrowings of \$1.4m at 30 June 2022

AUCloud's key TCV metrics are summarised as follows:

Key Metrics	Q1FY22 \$'m	Q2FY22 \$'m	Q3FY22 \$'m	Q4FY22 \$'m
Opening Total Contract Value (TCV)	5.96	5.77	6.61	7.08
Add: TCV Closed	0.87	2.52	1.20	0.80
Less: Terminated Contracts		(0.61)	-	-
Less: IaaS Revenue recognised	(1.06)	(1.07)	(0.73)	(1.39)
Closing TCV Outstanding	5.77	6.61	7.08	6.49

Free Cash Flows

During Q4FY22, the Company experienced a reduction in free cash flow ("**FCF**"), before financing activities of \$5.2 million, consisting of:

- Net cash outflow from operations of \$4.7 million; and
- Cash outflow from investing activities (capital expenditure) of \$0.5 million

AUCloud's FCF reduction largely reflects the ramp up in employment and overheads as the business continues to invest in new capability and scale its national footprint.

AUCloud's balance sheet remains strong, with net cash of \$27.3 million at 30 June 2022³.

CEO Commentary

Sales performance

AUCloud's sales performance did not meet expectations for the period.

The May 2022 Federal Election, resulted in a visible slowdown in AUCloud's sales cycle, which negatively impacted the sales (contract closed) for the quarter. Whilst AUCloud entered the quarter with ambitious sales targets, several of the larger LAND and EXPAND opportunities in the sales pipeline have shifted into FY23.

The current sales pipeline of qualified opportunities has strengthened for FY23 following an expansion of the sales team under new leadership and improved regulatory tailwind for our industry.

Importantly, the recent passing of further amendments to the Security of Critical Infrastructure ("**SOCI**") Act have led to a widening of AUCloud's addressable market and the renewed focus on our product offering targeting data sovereignty and security.

³ Represents cash of \$28.7m less borrowings of \$1.4m at 30 June 2022

Operational performance

Throughout Q4FY22, AUCloud has maintained its strategic focus of accelerating value for customers and partners through targeted investment across Platforms, Products and People:

Platforms

- In partnership with NEXTDC, AUCloud launched the Sovereign Bridge in June 2022, as an innovative customer onboarding solution developed in response to supply chain challenges
 - Provides government and critical infrastructure sectors customers faster, more efficient, more capable, and more secure local access to their sovereign workloads across Australia
- Continued investment in the planning and development of the geographic rollout of cloud Sovereignty Zones, with hardware orders placed for Brisbane and Melbourne. Following supply chain disruptions, completion is now targeted for Q2FY23 and Q3FY23 respectively (previously: Q4FY22 and Q2FY23)
- Partnership announcement with Arqit was progressed in Q4FY22 with AUCloud now providing the underlying infrastructure and accredited environments to allow for Australian deployment of a Sovereign Quantum Cloud to support local and world-wide assessments of quantum safe solutions

Products

- AUCloud has now established a credible SOCaaS offering to support the highest levels of cyber security defences following the successful deployment for the AEC during Q4FY22
- VMWare's global acknowledgement of the importance of Sovereign Cloud and AUCloud's appointment as the first Australian provider is driving joint activities across all target markets

People

- As the Company continues to develop its important people capability, AUCloud has increased (net) Full Time Equivalent (FTEs) employees by 13 over Q4FY22 to 68 at 30 June 2022
- AUCloud has made notable new key hires to support the GTM function in Q4FY22, including a Head of Partners and Alliances and Head of Strategic Pursuits
- New hires delivered significant enhancement in product capability and service offerings, including SOCaaS, Quantum Cloud, SECRET Cloud and AI capabilities
- In line with the rollout of AUCloud's national footprint, the Company now has a staff presence in Canberra, Brisbane, Melbourne and Sydney

We are confident that AUCloud's continued investment and customer engagement activities will enable a step change in performance during FY23.

Philip Dawson
CEO & Managing Director

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Acting Chief Financial Officer

Haidee Van Ruth advised that for personal reasons she will conclude her employment with the company and agreed with management this will take effect on July 25th.

We wish Haidee all the best in the future.

Ms Michelle Crouch will resume her duties as Acting Chief Financial Officer.

Authorised for release by the Board of Sovereign Cloud Holdings Limited.

ENDS

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About AUCloud

AUCloud is Australia's sovereign cloud Infrastructure-as-a-Service (IaaS) provider, exclusively focused on the Australian Government, Defence, Intelligence, Critical Industry communities and security conscious enterprises.

Located, owned and operated in Australia by security cleared Australian citizens, all AUCloud services and the hosted data, remains in Australia. This includes customer data, account data, metadata, support and administrative data and derived analytics data.

AUCloud is Certified Strategic in accordance with the DTA's Hosting Certification Framework, Cloud Assessed and Authorised under the Australian Cyber Security Centre's framework to support Protected data, a VMware Sovereign Cloud Provider and ISO27001 certified across all aspects of the business.

AUCloud enables customers to benefit from sovereign data protection with the scale, automation, elasticity, and lower costs associated with hyperscale public cloud offerings.

For further information, please visit: AUCloud – Australian Sovereign Cloud (australiacloud.com.au)

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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")

June 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) * \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,449	4,572
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(2,577)	(4,848)
(c) advertising and marketing	(45)	(264)
(d) leased assets	-	-
(e) staff costs	(2,816)	(8,851)
(f) administration and corporate costs	(659)	(3,013)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	21	42
1.5 Interest and other costs of finance paid	(80)	(272)
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	(4,707)	(12,258)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(520)	(3,520)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 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	(520)	(3,520)

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	-	(956)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(173)	(1,991)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (ROU Repayments)	(332)	(1,137)
3.10	Net cash from / (used in) financing activities	(505)	30,988

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	34,446	13,504
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(4,707)	(12,258)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(520)	(3,520)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) * \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(505)	30,988
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	28,714	28,714

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	28,714	34,446
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)	28,714	34,446

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
<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>		

7.	Financing facilities <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>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000																								
7.1	Loan facilities	1,437	1,437																								
7.2	Credit standby arrangements																										
7.3	Other (please specify)																										
7.4	Total financing facilities	1,437	1,437																								
7.5	Unused financing facilities available at quarter end		0																								
7.6	<p>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> <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"> <thead> <tr> <th>Lender</th><th>Balance Owing \$'000</th><th>Maturity date</th><th>Interest Rate</th></tr> </thead> <tbody> <tr> <td>Cisco Capital #2</td><td>324</td><td>September 2024</td><td>5.10%</td></tr> <tr> <td>Cisco Capital #3</td><td>331</td><td>November 2024</td><td>5.53%</td></tr> <tr> <td>Cisco Capital #4</td><td>609</td><td>November 2024</td><td>5.47%</td></tr> <tr> <td>Other</td><td>173</td><td>May 2023</td><td>7.0%</td></tr> <tr> <td>Total</td><td>1,437</td><td></td><td></td></tr> </tbody> </table> <p>The above finance facilities are secured by the respective computer equipment and software assets acquired.</p> <p>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	324	September 2024	5.10%	Cisco Capital #3	331	November 2024	5.53%	Cisco Capital #4	609	November 2024	5.47%	Other	173	May 2023	7.0%	Total	1,437		
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8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(4,707)
8.2	Cash and cash equivalents at quarter end (item 4.6)	28,714
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	28,714

8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)

6.1

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.

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

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.

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: 28 July 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

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.