

ASX Announcement (SOV)

19 October 2022

Appendix 4C Release – Quarter to 30 September 2022

Sovereign Cloud Holdings Limited (“SOV”, the “Company”), trading as AUCloud, is pleased to provide its activity update for the quarter ended 30 September 2022 (“Q1FY23”).

Key Highlights – Q1FY23

- TCV Closed of \$3.4 million
- TCV Outstanding of \$8.7 million
- Revenues of \$1.2 million
- Net cash of \$19.6 million
- First Sovereign Bridge customer

Revenues

AUCloud generated revenues of \$1.2 million during Q1FY23. Total revenue comprised IaaS revenue of \$1.0 million and services revenue of \$0.2 million.

The Q1FY23 revenue performance represents continued growth in AUCloud’s IaaS Revenue consumption, after allowing for the spike in AEC revenues in the last quarter during the Federal Election.

Total Contract Value

TCV Closed of \$3.4 million during Q1FY23, with the most significant new contract win being with Arqit Quantum (Nasdaq: ARQQ) (“Arqit”) to support its Australian and near-region customers’ assessment of quantum safe solutions.

AUCloud’s key TCV metrics are as follows:

Summary of TCV Metrics	Q4FY22 \$'m	FY22 \$'m	Q1FY23 \$'m
Opening Total Contract Value (TCV)	7.08	5.96	6.49
Add: Increase in Quarterly TCV	0.80	5.39	3.40
Less: Revenue	(1.39)	(4.86)	(1.18)
Closing TCV Outstanding	6.49	6.49	8.71

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Free Cash Flow

The Company experienced a reduction in free cash flow (“FCF”), before financing activities of \$7.4 million during Q1FY23, consisting of:

- Net cash outflow from operations of \$5.6 million; and
- Cash outflow from investing activities (capital expenditure) of \$1.8 million

As reported in AUCloud’s FY22 results, the rollout of AUCloud’s new Sovereignty Zones in Brisbane and Melbourne have been delayed due to supply chain disruptions, pushing additional capital payments into Q1FY23. AUCloud anticipates the new Sovereignty Zones in Brisbane and Melbourne to now be deployed in Q2FY23 and Q3FY23 respectively.

Included at item 6.1 of the Appendix 4C are payments to related parties and their associates of \$177,500 for director fees, excluding reimbursements of out-of-pocket expenses.

AUCloud had cash of \$20.8 million and debt of \$1.2 million at 30 September 2022.

CEO Commentary

TCV / Revenue

AUCloud was delighted to secure an important contract expansion with its strategic partner, Arqit, to support the deployment of the Asia Pacific region’s first Quantum Safe Symmetric Key Agreement Platform as a Service, which will enable end users to protect against ‘Harvest Now, Decrypt Later’ attacks. The team is looking forward to continuing to work with Arqit across a range of domestic and international opportunities.

The accompanying license fees and service costs to support the deployment of the new Arqit contract will initially generate AUCloud low incremental margins. These look-through profit margins will improve as new contract expansions are secured over time given the relatively fixed cost nature of the licence fees.

During FY22 AUCloud supported the Australian Electoral Commission protect the Australian Federal Government election from cyber security risks and compromise. Following the formal close out of the election, we are seeing higher levels of core activity with AEC, including the first of a range of expansion opportunities, closed out in Q1FY23.

It was also very pleasing to secure the first contract enabled by Sovereign Bridge in Q1FY23 following the initial launch activities conducted in partnership with NEXTDC in June and July 2022. The launch of Sovereign Bridge and subsequent marketing activity continues to drive additional qualified sales leads, which AUCloud expects will drive additional TCV expansion opportunities in FY23.

Canberra based sales activity in the quarter was slower than anticipated as the new Federal Government changes took effect across departments and agencies, which resulted in delays in several of the opportunities in the existing sales pipeline. The sales team began to see activity return to normalised levels by the end of the quarter.

Sovereignty considerations are increasingly becoming a key element in the decision making around cloud IaaS service. The AUCloud team is encouraged at the significant opportunities beginning to emerge within industries captured under the Security of Critical Infrastructure (SOCi) Act, which, combined with heightened corporate and public awareness, appears to be driving a positive impact on the narrative within board rooms as larger enterprises increasingly become aware of their new obligations.

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Recent high profile data breaches have also increased awareness of the very real nature of the cyber security risk landscape and continue to support increased sales opportunities.

Operational performance

Throughout Q1FY23, AUCloud has maintained its strategic focus of accelerating value for customers and partners through targeted investment across Platforms, Products and People:

Platforms

- The Sovereign Bridge connectivity is in place to enable customers at any NEXTDC facility utilise the Company's service offerings
- Queensland customers will shortly benefit from the local availability of the new Brisbane Sovereignty Zone ("BSZ"), which is targeted to be ready for service before the end of Q2FY23

Products

- Technical, marketing and product management resources have been focused on productisation of the Symmetric Key Agreement Software platform connect to the Arqit partnership and Sovereignty Zones to enable automated on-boarding and adoption
- Continued progress was made on additional applications for products within the VMWare partnership scope, which were utilised within the recent national Cyber Taipan competition for high school student

People

AUCloud has increased Full Time Equivalent ("FTEs") employees by 5 during Q1FY23 to 73, with most of the new additions' sales personnel brought on to complete our local presence across all major eastern seaboard markets.

The Company is confident that it now has a solid base of skilled and capable resources to deliver on the opportunities ahead, with any further additional growth in headcount to be aligned to revenue generation activities.

Resignation of Non-Executive Director - Allan Brackin

AUCloud advises that Allan Brackin has today resigned as a Non-Executive Director of the Company.

Allan has been an Independent Non-Executive Director since AUCloud's IPO in December 2020.

Chair, Cathie Reid said: *"It has been a pleasure having Allan on the Board and I thank Allan for his valuable contribution to AUCloud. On behalf of the Board and Management of AUCloud, I sincerely wish Allan all the best for his future endeavours."*



Philip Dawson
Managing Director

END

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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).

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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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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")**September 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) * \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,164	1,164
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(2,434)	(2,434)
(c) advertising and marketing	(31)	(31)
(d) leased assets	-	-
(e) staff costs	(3,125)	(3,125)
(f) administration and corporate costs	(1,167)	(1,167)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	28	28
1.5 Interest and other costs of finance paid	(48)	(48)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (IPO costs expensed)	-	-
1.9 Net cash from / (used in) operating activities	(5,613)	(5,613)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(1,771)	(1,771)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 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	(1,771)	(1,771)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	
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	-	
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(258)	(258)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (ROU Repayments)	(286)	(286)
3.10	Net cash from / (used in) financing activities	(544)	(544)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	28,714	28,714
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(5,613)	(5,613)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,771)	(1,771)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) * \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(544)	(544)
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	20,786	20,786

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	20,744	28,714
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Bank Guarantee)	42	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	20,786	28,714

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	182,500
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	1,179	1,179																								
7.2	Credit standby arrangements																										
7.3	Other (please specify)																										
7.4	Total financing facilities	1,179	1,179																								
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> <div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> <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="text-align: left;">Lender</th><th style="text-align: right;">Balance Owing \$'000</th><th style="text-align: left;">Maturity date</th><th style="text-align: right;">Interest Rate</th></tr> </thead> <tbody> <tr> <td>Cisco Capital #2</td><td style="text-align: right;">261</td><td>September 2024</td><td style="text-align: right;">5.10%</td></tr> <tr> <td>Cisco Capital #3</td><td style="text-align: right;">275</td><td>November 2024</td><td style="text-align: right;">5.53%</td></tr> <tr> <td>Cisco Capital #4</td><td style="text-align: right;">506</td><td>November 2024</td><td style="text-align: right;">5.47%</td></tr> <tr> <td>Other</td><td style="text-align: right;">137</td><td>May 2023</td><td style="text-align: right;">7.0%</td></tr> <tr> <td>Total</td><td style="text-align: right;">1,179</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> </div>			Lender	Balance Owing \$'000	Maturity date	Interest Rate	Cisco Capital #2	261	September 2024	5.10%	Cisco Capital #3	275	November 2024	5.53%	Cisco Capital #4	506	November 2024	5.47%	Other	137	May 2023	7.0%	Total	1,179		
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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)	(5,613)
8.2	Cash and cash equivalents at quarter end (item 4.6)	20,786
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	20,786

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

3.7

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: 19 October 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.