

ASX Announcement (SOV)

31 January 2023

Appendix 4C Release – Quarter to 31 December 2022

Sovereign Cloud Holdings Limited (“SOV” the “Company”), trading as AUCloud, is pleased to provide its activity update for the quarter ended 31 December 2022 (“Q2FY23”).

Key Highlights – Q2FY23

- Total Revenues of \$1.4 million
- TCV Closed of \$1.1 million
- TCV Outstanding of \$8.4 million
- Net cash of \$12.4 million

Revenues

AUCloud revenues comprised entirely of IaaS Consumption Revenue and were up \$0.3 million (23%) to \$1.4 million for Q2FY23.

Total Contract Value

AUCloud’s key TCV metrics are as follows:

Summary of TCV Metrics	Q1FY23 \$'m	Q2FY23 \$'m
Opening Total Contract Value (TCV)	6.49	8.71
Add: TCV Closed	3.40	1.14
Less: Revenue	(1.18)	(1.45)
Closing TCV Outstanding	8.71	8.40

Following a successful launch in November 2022, the Company was pleased to secure its first Brisbane Sovereignty Zone (“BSZ”) customer in Q2FY23.

Free Cash Flow

The Company experienced negative free cash flow (“FCF”), before financing activities of \$6.9 million during Q2FY23, consisting of:

- Net cash outflow from operations of \$4.24 million; and
- Cash outflow from investing activities (capital expenditure) of \$2.62 million

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AUCloud FCF performance improved relative to Q1FY23. This was largely driven by an 11% increase in receipts from customers to \$1.3 million, and a 38% decrease in payments for product manufacturing and operating costs to \$1.5 million.

This improved operational performance was offset by an increase in Capital Expenditure in Q2FY23, focused on the launch of the BSZ and the rollout of the Melbourne Sovereignty Zone (“MSZ”). AUCloud continues to focus on the rollout of its national footprint, with the launch of AUCloud’s newest Sovereignty Zone (MSZ) now confirmed for Q3FY23.

In Q2FY23, AUCloud also commenced two new Right of Use leases, including the NEXTDC data centre in Brisbane in support of the newly established BSZ. As a result, ROU repayments increased 23% from Q1FY23 to \$0.4 million.

Included at item 6.1 of the Appendix 4C are payments to related parties and their associates of \$182,500 for director fees, excluding reimbursements of out-of-pocket expenses.

AUCloud had cash of \$13.3 million and debt of \$0.9 million at 31 December 2022.

Key Commentary

- BSZ launched and first customer confirmed
- MSZ launch confirmed for February 2023

TCV / Revenue

In terms of TCV Closed, new business in Q2FY23 did not meet expectations with several opportunities anticipated to close before the Christmas break now extending into Q3FY23.

Notwithstanding the disappointing new business performance, AUCloud’s ability in Q2FY23 to continue to expand contracts with existing customers provides promising signs that the increased investment in sales to support customer/partner expansion is beginning to have a positive effect beyond the Federal Government and Defence sectors. In addition, AUCloud is beginning to see evidence of Land and Expand progress outside of the ACT, with outpaced growth across the portfolio of products with a resilience focus (e.g. Microsoft and general backups and SOCaaS).

The high-profile data breaches experienced by Optus and Medibank continued to influence customer behaviour during the quarter, with an uplift in the number of inbound enquiries which are now moving through the pipeline and expected to translate into revenue and customer growth in the second half of FY23.

Operational performance

Throughout Q2FY23, AUCloud has continued to maintain its strategic focus of accelerating value for customers and partners through targeted investment across Platforms, Products and People:

Platforms

- AUCloud’s Symmetric Key Agreement Software (“SKAS”) platform is now enabled to provide end customers with the capability to integrate symmetric keys into their services via the Arqit partnership.
- AUCloud’s new BSZ, is now ready for service, following its launch in November 2022

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- The MSZ launch is on track for Q3FY23

Products

Aside from core IaaS product functionality aimed at accelerating adoption and improving feature automation, product development activities are now focused exclusively on sales enablement through:

- “Powered by AUCloud” white label solutions to support an emerging and growing requirement from OEM vendors
- The portfolio of resilience focused products that enable improved cyber security and reduce data risks
- The Arqit SKAS Platform (see above)

People

As announced to ASX on 31 January 2023, the following AUCloud Management changes have now been made:

- Peter Maloney has been appointed CEO and Managing Director; and
- Phil Dawson (Former CEO) will assume the role of Executive Director focused on product development and government relations

AUCloud’s Full Time Equivalent (“FTEs”) employees have reduced by 3 people during the Q2FY23 to 70.

Strategic Plan and Capital Raising

The Board is conscious that AUCloud’s current cash reserves may prove to be inadequate given the cash burn rates that are expected to prevail in the short term.

The Board has tasked the new CEO with undertaking an immediate review of the AUCloud business, together with the preparation of a new strategic plan addressing the market opportunities, operational cost base and funding requirements for the next 24 months (**Strategic Plan**).

Subject to the outcome of the Strategic Plan, the Board expects it will need to raise new equity capital in 4QFY23 or shortly thereafter, most likely via a pro-rata entitlement offer to existing shareholders. NEXTDC and the Reid Family account for approximately 31% of the Company’s shares outstanding and remain supportive of AUCloud’s market opportunity. Subject to the outcomes of the Strategic Plan, both these major shareholders expect to take up their pro-rata rights in any new capital raising.



Philip Dawson
Executive Director

END

This ASX announcement was authorised for release by AUCloud’s Board of Directors.

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Further information, please contact:

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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 (www.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

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

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) * \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,292	2,456
1.2 Payments for		
(a) research and development		-
(b) product manufacturing and operating costs	(1,499)	(3,933)
(c) advertising and marketing	(60)	(91)
(d) leased assets	-	-
(e) staff costs	(3,241)	(6,366)
(f) administration and corporate costs	(936)	(2,103)
1.3 Dividends received (see note 3)		-
1.4 Interest received	95	123
1.5 Interest and other costs of finance paid	(53)	(101)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	163	163
1.8 Other (IPO costs expensed)	-	-
1.9 Net cash from / (used in) operating activities	(4,239)	(9,852)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(2,624)	(4,395)
(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)	-	-
2.6	Net cash from / (used in) investing activities	(2,624)	(4,395)

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	(262)	(520)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (ROU Repayments)	(352)	(638)
3.10	Net cash from / (used in) financing activities	(614)	(1,158)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	20,786	28,714
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(4,239)	(9,852)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,624)	(4,395)

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 (6 months) * \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(614)	(1,158)
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	13,309	13,309

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	13,224	20,744
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Bank Guarantee)	85	42
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	13,309	20,786

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

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	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000																								
<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>																										
7.1 Loan facilities	917	917																								
7.2 Credit standby arrangements																										
7.3 Other (please specify)																										
7.4 Total financing facilities	917	917																								
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"> <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>197</td> <td>September 2023</td> <td>5.10%</td> </tr> <tr> <td>Cisco Capital #3</td> <td>218</td> <td>November 2023</td> <td>5.53%</td> </tr> <tr> <td>Cisco Capital #4</td> <td>401</td> <td>November 2023</td> <td>5.47%</td> </tr> <tr> <td>Other</td> <td>101</td> <td>May 2023</td> <td>7.0%</td> </tr> <tr> <td>Total</td> <td>917</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	197	September 2023	5.10%	Cisco Capital #3	218	November 2023	5.53%	Cisco Capital #4	401	November 2023	5.47%	Other	101	May 2023	7.0%	Total	917		
Lender	Balance Owing \$'000	Maturity date	Interest Rate																							
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Cisco Capital #4	401	November 2023	5.47%																							
Other	101	May 2023	7.0%																							
Total	917																									

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(4,239)
8.2 Cash and cash equivalents at quarter end (item 4.6)	13,309
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	13,309

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

3.1

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: 31 January 2023

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.