2023
IGNITE LIMITED
APPENDIX 4C QUARTERLY CASH FLOW REPORT
AND
QUARTERLY ACTIVITY REPORT
31 DECEMBER 2022

ABN 43 002 724 334

Lodged with ASX under Listing Rules 4.7B and 4.7C.

www.igniteco.com

Appendix 4C

Quarterly Cash Flow Report for Entities Subject to Listing Rule 4.7B

Name of entity

Ignite Limited

ABN	Quarter ended ("current quarter")
43 002 724 334	31 December 2022

Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 months) $A'000
1.	**Cash flows from/ (used in) operating activities**		
1.1	Receipts from customers	32,738	63,505
1.2	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs	(26,097)	(52,140)
	(c) advertising and marketing	(143)	(338)
	(d) leased assets	(86)	(309)
	(e) staff costs	(2,605)	(5,641)
	(f) administration and corporate costs	(524)	(1,243)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	2	2
1.5	Interest and other costs of finance paid	(85)	(161)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (GST)	(1,961)	(3,890)
1.9	**Net cash from/ (used in) operating activities**	**1,239**	**(215)**

2.	**Cash flows (used in)/ from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(1)	1
	(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 (reclassification of system implementation costs)	-	-
2.6	**Net cash (used in)/ from investing activities**	**(1)**	**1**

3.	**Cash flows (used in)/ 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	-	209
3.6	Repayment of borrowings	(1,143)	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (payment of lease liabilities)	(101)	(198)
3.10	**Net cash (used in)/ from financing activities**	**(1,244)**	**11**

4.	**Net increase/ (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at the beginning of the period	173	367
4.2	Net cash from/ (used in) operating activities (item 1.9 above)	1,239	(215)
4.3	Net cash (used in)/ from investing activities (item 2.6 above)	(1)	1
4.4	Net cash (used in)/ from financing activities (item 3.10 above)	(1,244)	11
4.5	Effect of movement in exchange rates on cash held	8	11
4.6	**Cash and cash equivalents at the end of the period**	**175**	**175**

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	175	173
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter** **(should equal item 4.6 above)**	**175**	**173**

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[1]	66
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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.

1. These amounts comprise the total fees paid to Directors of the Company during the quarter. This is a decrease from the prior period as one of the Independent Non-Executive Directors retired under the Constitution on 22 November 2022 and did not seek re-election.

7.	**Financing facilities** *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.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (debtor finance facility)	5,328	2,529
7.4	**Total financing facilities**	**5,328**	**2,529**
7.5	**Unused financing facilities available at quarter end**		**2,799**
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.		

The Company relies on a secured debtor finance facility provided by ScotPac Business Finance, expiring on 20 February 2025 (the "Facility"), to meet its working capital requirements. The maximum Facility amount is the lower of 85% of approved trade receivables or $15,000k and is subject to certain drawdown conditions. As at 31 December 2022 the applicable interest rate was 9.01% p.a.

8.	Estimated cash available for future operating activities	$A'000
8.1	Net cash from operating activities (item 1.9)	1,239
8.2	Cash and cash equivalents at quarter end (item 4.6)	175
8.3	Unused finance facilities available at quarter end (item 7.5)	2,799
8.4	Total available funding (item 8.2 + item 8.3)	2,974
8.5	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	N/A

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: N/A

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: N/A

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: N/A

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: 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 Finance Director 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.

Quarterly Activity Report for Entities Subject to Listing Rule 4.7C

Ignite Limited (ASX: IGN) (the "Company") presents its unaudited Quarterly Activity Report for the quarter ended 31 December 2022.

FINANCIAL SUMMARY

The quarter ended 31 December 2022 reflected the following:

- Gross profit of $3,397k on par with the comparative quarter in FY22 due to:
  - contingent labour hire revenue increased by 8% (and 3% compared to Q1),
  - managed services revenue decreased by 33% due to a restructuring in On Demand IT Services to focus on higher margin clients generating a better return with a smaller team and
  - a significantly weaker result in Talents Solutions due to lack of recurring and new projects in the quarter;
- Overall, revenue of $27,217k decreased 5% against the comparative quarter in the 2022 financial year ("FY22");
- Total operating overheads were 1% higher than the comparative quarter in FY22 due to marginally higher salary costs. However, total overheads in the December 2022 quarter were 10% lower compared to the September 2022 quarter due to a reduction in headcount and shared services costs.
- Gross profit margin was 12.5%, up from 11.8% for the comparative quarter in FY22, due to the increase in the gross margin on contingent labour. The increase in gross profit margin was driven by an increase in the average margin in our contract business which represents 81% of group gross margin. The outcome was achieved through increase in volume from our IT business and a revised pricing strategy for FY23 and a continued focus on higher margin placements;
- Cash receipts from customers were $32,738k and payments for contingent labour were $26,097k;
- Cash payments for staff costs were $2,605k; and
- Net cash from operating activities for the quarter was $1,239k.

FINANCIAL UPDATE

Revenue

During the quarter ended 31 December 2022 the Company generated revenue of $27,217k, a decrease of 5% against the comparative quarter in FY22 due to a continued focus on higher margin placements, rather than on high volume, low margin placements as well as a reduction in the contribution of managed services.

The Company's gross profit for the December 2022 quarter was $3,397k, which was on par with comparative quarter in FY22. While revenue decreased against the comparative quarter, gross profit remained flat due to the improvement in gross margin across the portfolio of contingent labour placements, offset by the reduction in the managed services business as noted above. Permanent placement revenue was down 3%.

Within the Specialist Recruitment division, the Federal Government business recovered after the temporary hold on hiring caused by the Federal election and change in government. By contrast, the On Demand IT Services business experienced a reduction in gross profit following the business restructuring to focus on higher margin clients generating a better return with a smaller team. The Technology & Talent Solutions business experienced a significant reduction in gross profit against the comparative period in FY22 which included a number of non-recurring projects as well as projects delayed from the previous quarter.

Across all divisions, including Managed Services, active contractors as at 31 December 2022 grew by 33 contractors to 767 compared to the September 2022 quarter. The 31 December 2021 quarter had 882 active contractors. As the reduction in contractor headcount was largely in lower margin verticals, there was a 15% increase in the average gross margin per active contractor.

Expenditure

Contingent labour costs were $23,820k for the December 2022 quarter, a decrease of 6% against the comparative quarter in FY22.

During the December 2022 quarter, total employee headcount decreased by 8 versus the comparative quarter in FY22 (an 11% decrease in total headcount) and 10 versus the prior quarter (a 13% decrease in total headcount) due to strategic decisions to reduce headcount in areas of the business where anticipated productivity gains were not being achieved. Salary and on costs increased 2% against the comparative quarter in FY22, primarily due to the recruitment of several senior positions throughout the business during FY22.

The December 2022 quarter saw a 1% decrease in other operating costs relative to the comparative quarter in FY22. This decrease arose mainly due to savings on office premises relocations in the first quarter of Financial Year 2023 ("FY23") and a reduction in one-off consulting costs associated with the implementation of two software as a service ("SaaS") platforms in the comparative FY22 period. This was offset by an increase in insurance premiums, increased travel costs as a result of interstate travel restrictions being lifted and increased advertising costs.

Cashflows

Cash and cash equivalents as at 31 December 2022 were $175k, down 24% from $230k as at 31 December 2021. The net cash position for the December 2022 quarter increased 1% ($2k) from the prior quarter, with net cash received from operating activities of $1,239k, offset by the net cash used in financing activities of $1,244k and net cash used in investing activities of $1k. Net operating costs is a largely a function of the temporary timing difference of receipts from customers relative to payments made to contractors.

Cash receipts from customers were $32,738k for the December 2022 quarter, up 6% on the prior quarter ($30,767), while cash payments for contingent labour were $26,097k on par with the prior quarter ($26,043k). Cash receipts decreased 1% while cash payments decreased 7% on the comparative quarter in FY22. The trend of cash payments comprising a smaller proportion of cash receipts is due to the focus on higher margin placements.

Cash payments for staff costs in the December 2022 quarter were $2,605k, a 14% decrease on the $3,036k in the prior quarter. The September 2022 quarter included accrued leave entitlement payments related to the departure of the Chief Financial Officer within the Shared Services Division as well as the FY22 annual commissions and bonuses that were paid in the first month of the September 22 quarter. Further savings in the December quarter occurred due to the reduced headcount across all divisions other than On Demand IT Services and Shared Services which occurred within the December 2022 quarter.

Cash payments for administration and corporate costs in the December 2022 quarter were $524k, a 27% decrease on the prior quarter, which included FY22 audit fees, higher consulting and SaaS fees (including post go-live support) and annual subscription and licencing fees.

OPERATIONAL UPDATE

Specialist Recruitment

During the December 2022 quarter, the Specialist Recruitment business contributed a gross profit increase of 7% against the comparative quarter in FY22. Salary and on costs increased 11%, largely due to a combination of the change in composition of the team in the current period. Other operating costs increased 16% due to increased travel as a result of interstate travel restrictions being lifted and increased advertising costs due to both increases in contracted rates and activity. This was partially offset by reductions in rental expenses due to office relocations.

The gross profit increase reflected an 8% increase in contingent labour gross profit, while permanent placement revenue remained flat against the comparative period in FY22, with customers opting to engage candidates on a contingent basis rather than permanent basis over the December 2022 period, particularly within Federal Government. The Federal Government business has improved on the September 2022 period which was tempered by the Federal Government election and certain federal agencies awaiting the announcement of the budget for additional spend in FY23. We have seen gross margin improvements in the key targeted market of IT, with decreases in Business support due to loss of clients requesting renewals below new pricing strategy. Further, both IT and Business support have been impacted by stand-downs at key clients which have reduced the gross margin in December and will continue to impact January. The Engineering vertical also delivered another strong result for NSW. While NSW saw an improvement in permanent placement revenue, ACT remained flat and the remaining states saw a reduction versus the comparative quarter in FY22. Overall, there was an increase in contingent labour gross profit due to an increase in the contingent labour gross profit contribution across ACT and NSW.

Gross profit for the December 2022 quarter decreased 2% on the prior quarter, with a 26% decrease in permanent placement revenue, partially offset by contingent labour gross profit only increasing 2%. The gross profit result for the ACT improved 2% against the prior quarter, with a gain in contingent labour gross profit and a loss in permanent placement revenue. NSW experienced an increase of 3% in gross profit on the prior quarter, with a gain in contingent labour gross profit, while permanent placement revenue decreased. Meanwhile, the Victorian business was down in both contingent labour gross profit and permanent placement revenue due to a decrease in contractors in federal agencies as well as a reduction in team size servicing the market. Reduction in internal headcount was due to short tenured staff not becoming productive within expected timeframes, with management making the decision to reduce headcount to reduce exposure to ongoing salary costs without commensurate gross margin contribution.

As at 31 December 2022 active contractors were 659 versus 640 as at 30 September 2022 and 750 as at 31 December 2021. This decrease is due to the movement away from high volume, low margin placements. The reduction in headcount was in some of our lower margin verticals, which has been offset by a 15% increase in the average gross margin per active contractor.

On Demand IT Services

The On Demand business was restructured at the end of FY22 to focus on higher margin clients with a lower cost delivery model. The December 2022 quarter gross profit increased 19% against the prior quarter due to improved margins due to renegotiated contract rates on some clients, while other operating costs decreased 47% due to a reduction in SaaS post go-live support costs against the prior quarter. The result in the December quarter is a 21% decrease in gross margin, however a 49% decrease in salary and oncosts have significantly improved the performance of the business. Further, other operating costs decreased significantly due to one-time implementation project costs for a SaaS platform to replace the legacy customer and contractor management system incurred in the comparative period.

Technology & Talent Solutions

The division recorded a 39% reduction in gross profit in December 2022 against the comparative quarter in FY22 (Second strongest quarterly result of FY22) due to short-term non-recurring projects with government agencies and consulting firms secured in the prior period without equivalent projects secured in the current year. Salary and on costs increased 18% against the comparative quarter in FY22 with the creation of the Technology Solutions team in the September 2022 quarter, partially offset by reduction in bonus accruals. The change in team also led to an increase in other operating costs due to increased travel and conference costs as business development managers continued to actively pursue new projects once interstate travel restrictions were lifted. Gross profit remained flat against the prior quarter.

Shared Services

Net corporate overheads decreased 7% against the comparative quarter in FY22, with salary and on costs decreasing 11% and other operating costs decreasing 4%. Salary and on costs decreased largely due a lower headcount against the comparative quarter in FY22, which was marginally offset by the fees paid to an additional Director and higher training costs. The decrease in other operating costs was mainly due to the savings on rental payments associated with the relocation of the head office and software licence costs relate to legacy accounting systems. These decreases were offset by increases in annual insurance premiums. Interest expense on the debtor finance facility increased 126% against the comparative quarter in FY22 due to the combination of an increase in the total facility drawn down and significant increases in the official cash rate pushing up the debtor finance facility borrowing rate to 9.01% in December 2022.

The December 2022 quarter net corporate overheads decreased 13% against the prior quarter. This decrease reflected a 12% decrease in salary and on costs due to reduced headcount along with the departure and final pay out of the CFO in the September 2022 period. Similarly, there was a 13% decrease in other operating costs largely due to a rental reduction due to the relocation of the Sydney CBD office premises as well as reduced server support fees related to the office relocations, reduction in software licence fees and other consulting expenses.

PAYMENTS TO RELATED PARTIES OF THE ENTITY AND THEIR ASSOCIATES

Payments to related parties of the Company and their associates comprised the fees paid to the Directors of the Company, which totalled $66k during the December 2022 quarter.

DEBTOR FINANCE FACILITY

The Company relies on a secured debtor finance facility provided by ScotPac Business Finance expiring on 20 February 2025 (“Facility”) to meet its working capital requirements. The maximum Facility amount is the lower of 85% of approved trade receivables or $15,000k and is subject to certain drawdown conditions. The total available Facility as at 31 December 2022 was $5,328k and the applicable interest rate was 9.01% p.a.

OUTLOOK FOR THE THIRD QUARTER 2023

In the Specialist Recruitment division, customer sentiment is cautious going into March 2023 quarter and the remainder of the financial year, with a cyclical decrease expected in January due to end of calendar year office shutdowns. Given the stated aim in the Federal budget of reducing use of external labour, subject to more information being provided by our Federal government clients, this may impact the ability of the group to grow this segment of the business, especially within the ACT. With over 70% of our gross margin contribution generated from Federal Government, Ignite has been impacted by stand-downs of contractors in key clients and one of the larger clients in IT and Business Support reducing contractor usage. Business Support delivered a stronger result in the December quarter which is expected to continue into March 2023. We are seeing continued demand in the Engineering market and intend to increase our exposure to this vertical.

The On Demand IT Services division has continued to build on the strong result from the September quarter following the restructure, which has enabled the team to operate with a significantly reduced cost base and delivered a stronger result in the December quarter. The business segment is expected to continue in line with the December 2022 quarter.

The business will enter the March quarter with a lower total employee headcount versus the comparative quarter in FY22 which will result in reduced salary and on costs. Further, we anticipate operating costs in the March 23 quarter to remain materially in line with the December 22 quarter, whereas the March 22 quarter was higher due to SaaS implementation costs. Cyber insurance renewal rates are expected to be significantly higher due to the increased incidence of cyber breaches in the current financial year in the corporate environment. This is due for renewal at the end of the March 23 quarter and will impact the June 23 quarter.

The key areas of focus for the March 2023 quarter are to:

- Grow the active contractor numbers at higher average rates across the ACT and NSW Specialist Recruitment businesses, particularly Federal Government and IT placements, to drive gross profit growth;
- Acquire clients that will provide the opportunity to grow and enable a quicker route to productivity for existing and new hires;
- Drive the Technology Solutions business to grow the pipeline of projects, improve the conversion rate and grow the gross profit contribution; and
- Continue to grow gross margin and improve overall Specialist Recruitment consultant productivity.

Despite the current global uncertainty, the Australian contingent labour employment market remains resilient. The Directors and management will continue to monitor current market conditions with a view to maintaining our focus on the key areas above.