

# Sovereign Cloud Holdings Limited

## Equity Raising

1 June 2023



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# Summary



**AUCloud (SOV) is today launching a ~A\$8.49 million pro-rata non-renounceable entitlement offer (“Entitlement Offer”)**

- 1 for 1 Entitlement Offer
- \$0.05 per New Share (“**Offer Price**”)
- 37.5% discount to the TERP<sup>1</sup> of \$0.08 or 53% discount to the one-month VWAP of \$0.106



Binding commitments have been received from five major shareholders to fully or partially take up their entitlements. The balance of the offer (to the extent not covered by the commitments) is underwritten by entities associated with Peter Maloney, CEO and Managing Director of AUCloud, Catherine Reid, Chair of AUCloud, and NEXTDC



**Net proceeds of the Entitlement Offer will predominantly fund working capital requirements** associated with executing the Company’s initiatives identified in the recent Strategic Review.

# AUCloud Investment Highlights



## **MARKET DRIVERS REMAIN STRONG**

Demand for Cloud Services remains robust, while the Cyber Security market has exhibited strong growth following recent high profile attacks on Optus, Medibank, Latitude and others.



## **SCALABLE PLATFORMS DELIVERED**

Sovereign Cloud has invested over 5 years, building scalable cloud platforms, which are IRAP and Certified PROTECTED, supported by a highly skilled workforce of over 60 people.



## **GROWTH OPPORTUNITIES IN CYBER SECURITY**

The AUCloud Security Operations Centre (SOC) ensures continuous network monitoring for cyber threats and attacks for high profile Government Agencies such as the AEC. This capability positions AUCloud to expand cyber security revenue.



## **SOVEREIGN CLOUD PARTNERSHIPS**

Capitalise on the emerging global market trend of hyperscale cloud providers partnering with domestic Sovereign Cloud providers to expand revenue into Multi-Cloud and Public Cloud markets.



## **SALES MOMENTUM**

Following a period of investment in building a network of Sovereign Cloud Solutions, the Company is focused on driving revenue by building enterprise sales whilst not losing sight of the proven success in Government sales.



# Strategic Review

# Strategic Review Summary

## The fundamentals are in place



**The demand for Cyber Security and Cloud Solutions** continues to build enabling broadening of solutions



Significant capital has been invested to build a network of **Sovereign Cloud Solutions designed for scale**



**Security Operations Centre (SOC)**, relied on by high-profile customers, such as the AEC, with a significant opportunity to expand offering.



**A network of over 60 Channel Partners** including MSPs, ISVs & OEMs **to leverage market access**



**Credentialed workforce & accredited systems** including NV1 Cleared Personnel, IRAP Certification, PROTECTED Certification & ISO27001 Accreditation.

## Strategy changes



**Strengthen sales and marketing capabilities**, with increased emphasis on channels to market, Enterprise sales whilst maintaining a dedicated Government team.



**Expand the AUCloud offering in Cyber Security** through building, partnering or buying capability, leveraging the success of the Security Operations Centre to move deeper into the cyber security ecosystem.



**Partner in the Multi-Cloud and Public Cloud markets** to leverage the capital invested in the existing four Sovereign Cloud platforms.



**Targeted focus on industry specific solutions** through the addition of complimentary products & services to the existing product suite.



**Align cost base** to the changed focus of the business and current activities.

# Tailwinds for Cyber Security & Cloud Solutions remain strong

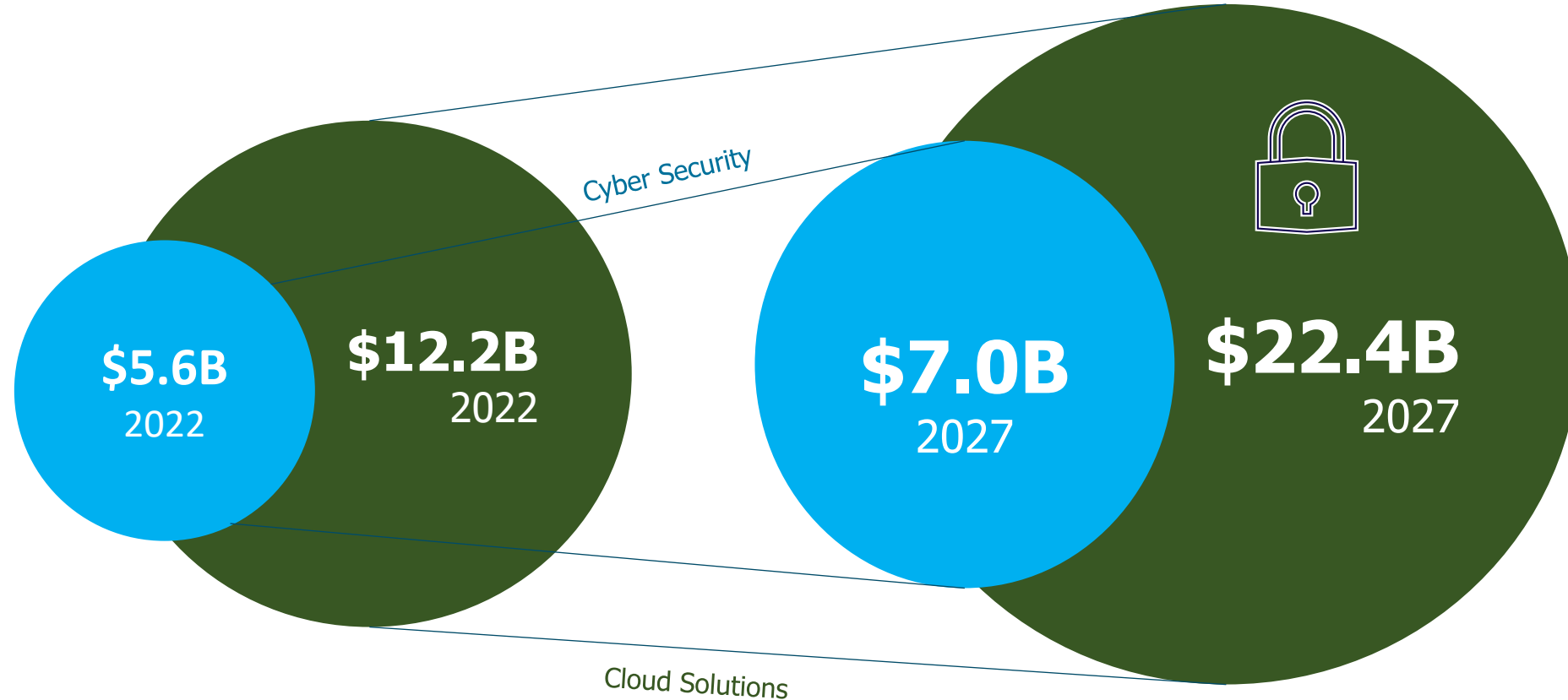
Most Australian companies (60%) are expected to increase cyber budgets in 2023

Cyber Crime is committed every 7 minutes costing Australia billions

Ongoing reviews of Australian legislation focussed on enhancing data sovereignty laws

Federal regulatory framework driving cyber market growth

Cloud Solutions market is forecast to continue its growth trajectory



Source: <https://www.austrade.gov.au/news/insights/insight-australia-s-a-7-billion-cyber-security-opportunity>  
Public Cloud Services Opportunities and Dividends to the Australian and New Zealand Economies, an IDC White Paper • November 2022



# FY23 Highlights (9 months)



## Revenue Growth

### Revenue increased to \$4.3m up 52% YOY <sup>1</sup>

- Increased revenues reflect growth from new customers and existing customer net revenue retention
- Cyber Security accounts for c. 40% of all revenue



## Total Contract Value

### TCV Outstanding increased \$681k (10%) to \$7.2m in 9 months to 31 March 2023

- 0% customer churn <sup>2</sup>
- Sales pipeline improving but requires more focus to increase spread of revenue



## Customer Unit Economics

### Growing Customer Unit Economics

- ARR up 58% to \$5.8M <sup>3</sup>
- ARPU <sup>4</sup> steady at \$90,000 p.a.



## Network expansion

### Eastern Seaboard Coverage

- Brisbane Sovereignty Cloud opened in December 2022 & Melbourne opens in June 2023
- Future capital to focus on Cloud Solutions & Cyber Security product expansion to capture increased share of wallet



## Industry Tailwinds

### Heightened market awareness in areas of cyber security and data sovereignty

- Significant cyber security breaches in high profile Australian companies
- Government tenders are increasingly focused on how data sovereignty requirements are to be addressed

1. 9-month period ending 31 March 2023 compared to same period FY22

2. All customers with monthly spend >\$1,000

3. Month revenue x 12 in July 2022, compared to Month revenue x 12 in March 2023.

4. ARPU defined as Average Revenue Per Customer per annum



# Financial Overview

# Profit & Loss

## Revenue

- In December 2021 the Company raised \$35m to invest in new cloud platforms as part of a national expansion strategy and fund working capital to scale AUCloud to critical mass.
- In FY22 and YTD FY23 the Company expanded its reach across the eastern states through new cloud platforms in Brisbane and Melbourne.
- Revenue growth in YTD FY23 (9 months) has come from new contracts, and through the contract expansion with Arqit to support the deployment of the Asia Pacific region's first Quantum Safe Symmetric Key Agreement Platform as a Service which has resulted in lower overall gross margin due to licence fees.

## Cost of Sales

- Cost of sales mostly relates to software licensing and maintenance fees associated with the cloud platforms and related services some of which are on charged to customers where appropriate. A component of these costs are fixed and not proportionate to revenue volumes which will allow gross margins to improve as revenue grows.

## Operating Expenses

- Employee costs increased in FY22 and YTD23 primarily due to additional head count in conjunction with the geographic rollout of cloud sovereignty zones starting in Brisbane. At 31 December 2022 total headcount of full time equivalent employees was 74 and is currently 66.
- The Company believes the current employee numbers are required to scale the business and implement the changes following the recent strategic review.

Profit & Loss Summary (\$m)	31 March 2023	30 June 2022	30 June 2021
	(Unaudited)	(Audited)	(Audited)
Cloud Services	2.9	2.7	2.0
Cyber Security	1.4	1.5	0.5
<b>Total Revenue</b>	<b>4.3</b>	<b>4.2</b>	<b>2.5</b>
Cost of Sales	(3.7)	(3.3)	(2.2)
<b>Gross Profit</b>	<b>0.6</b>	<b>0.9</b>	<b>0.3</b>
Employee Expenses	(10.1)	(9.5)	(6.4)
Other Expenses	(2.3)	(2.5)	(1.6)
<b>Total Operating Expenses</b>	<b>(12.4)</b>	<b>(12.0)</b>	<b>(8.0)</b>
<b>EBITDA</b>	<b>(11.8)</b>	<b>(11.1)</b>	<b>(7.7)</b>
Depreciation & Amortisation	(4.1)	(4.2)	(3.5)
Interest expense, net	(0.1)	(0.2)	(0.4)
<b>Loss for year/period</b>	<b>(16.0)</b>	<b>(15.5)</b>	<b>(11.6)</b>

# Cash Flow

## Operating Activities

- The net cash outflows from operating activities over the past three financial years reflect the investment in new cloud platforms as part of a national expansion strategy; resulting in higher operating costs, as expected, while the cash inflow from increased revenue has been less than expected.
- It is generally acknowledged that the business model to scale an early stage infrastructure-as-service business requires initial years of negative operating cashflows as more customers utilise the platforms.

## Investing Activities

- Payment for property, plant & equipment in FY22 and YTD FY23 primarily relates to the new cloud platforms in Brisbane & Melbourne.

## Financing Activities

- Proceeds from share issues relate to the IPO capital raising in December 2020 and the December 2021 placement to NEXTDC & entitlement offer to existing shareholders.
- Lease payments relate to both data centre right of use assets and the funding of computer equipment & software located at the Sydney data centre (Sovereignty Zone 2). Lease liabilities relating to the computer equipment & software will be fully paid by November 2023.

Cashflow Summary (\$m)	31 March 2023	30 June 2022	30 June 2021
	(Unaudited)	(Audited)	(Audited)
<b>Operating Activities</b>			
Receipts from customers	4.0	4.6	2.5
Payments to suppliers and employees	(17.6)	(15.9)	(10.3)
R & D Tax Rebate	0.2	0.4	0.4
IPO expenses	-	-	(0.5)
Interest Paid	(0.2)	(0.3)	(0.4)
<b>Net Cash Flows from Operating Activities</b>	<b>(13.6)</b>	<b>(11.2)</b>	<b>(8.3)</b>
<b>Investing Activities</b>			
Payment for property, plant and equipment	(5.4)	(4.4)	(0.5)
<b>Net Cash Flows from Investing Activities</b>	<b>(5.4)</b>	<b>(4.4)</b>	<b>(0.5)</b>
<b>Financing Activities</b>			
Proceeds from share issue	-	35.1	25.4
Principal portion of lease payments	(1.8)	(3.3)	(3.1)
Payment of share issue costs	-	(1.0)	(1.1)
<b>Net Cash Flows from Financing Activities</b>	<b>(1.8)</b>	<b>30.8</b>	<b>21.2</b>
<b>Net Cash Flows</b>	<b>(20.8)</b>	<b>15.2</b>	<b>12.4</b>
<b>Cash and Cash Equivalents</b>			
Cash and Cash Equivalents at the beginning of the period	28.7	13.5	1.1
Net change in cash for period	(20.8)	15.2	12.4
<b>Cash and cash equivalent at end of period</b>	<b>7.9</b>	<b>28.7</b>	<b>13.5</b>

# Actual and Pro Forma Balance Sheets (\$m)

## Pro Forma Balance Sheet

The 31 March 2023 historical balance sheet shown opposite has been adjusted to reflect the impact of the Entitlement Offer as if it had taken place at 31 March 2023 comprising:

- The issue of 169.7 million shares at 5 cents each to raise capital of \$8.5 million.
- The payment of an estimated \$0.2 million in costs incurred by the Company in relation to the costs of the transaction.

### Proceeds and Use of Funds (\$m)

Proceeds received from the Entitlement Offer	8.5
Use of funds	
Working capital associated with executing the Company's Strategic initiatives	8.3
Transaction costs associated with the Offer	0.2
	8.5

- The Company expects net cash outflows from operations to continue.
- Funds raised from the Entitlement Offer will be used to fund the Company's working capital requirements as it executes on its strategic initiatives.
- It is expected that the Company will need to raise further funds in the future.

	Actual		Pro Forma 31 March 2023 (Unaudited)
	30 June 2022 (Audited)	31 March 2023 (Unaudited)	
<b>Assets</b>			
Cash and cash equivalents	28.7	7.9	16.2
Trade and other receivables	0.6	1.2	1.2
Prepayments	1.7	4.5	4.5
<b>Total Current Assets</b>	<b>31.0</b>	<b>13.6</b>	<b>21.9</b>
Property, plant and equipment	8.6	10.7	10.7
Intangible assets	0.3	0.3	0.3
Right of use leased assets	4.8	6.5	6.5
Other assets	1.3	0.7	0.7
<b>Total Non-Current Assets</b>	<b>15.0</b>	<b>18.2</b>	<b>18.2</b>
<b>Total Assets</b>	<b>46.0</b>	<b>31.8</b>	<b>40.1</b>
<b>Liabilities</b>			
Trade and other payables	3.0	3.3	3.3
Lease liabilities	2.2	1.9	1.9
Provisions	0.5	0.5	0.5
<b>Total Current Liabilities</b>	<b>5.7</b>	<b>5.7</b>	<b>5.7</b>
Lease liabilities	2.3	4.0	4.0
Provisions	0.1	0.1	0.1
<b>Total Non-Current Liabilities</b>	<b>2.4</b>	<b>4.1</b>	<b>4.1</b>
<b>Total Liabilities</b>	<b>8.1</b>	<b>9.8</b>	<b>9.8</b>
<b>Net Assets</b>	<b>37.9</b>	<b>22.0</b>	<b>30.3</b>
<b>Equity</b>			
Share capital	87.6	87.6	95.9
Reserves	0.7	0.7	0.7
Accumulated losses	(50.4)	(66.3)	(66.3)
<b>Total Equity</b>	<b>37.9</b>	<b>22.0</b>	<b>30.3</b>



# Offer Summary

# Offer Summary

<b>Equity Raising</b>	\$8.49 million equity raising via a pro rata non-renounceable entitlement offer, for the issue of up to 169,700,336 new ordinary shares ( <b>New Shares</b> ) based on an offer ratio of one new ordinary share for each existing ordinary share held as at the Record Date ( <b>Entitlement Offer</b> )
<b>Offer Price</b>	\$0.05 per New Share representing ( <b>Offer Price</b> ): <ul style="list-style-type: none"><li>• 53% discount to the one-month VWAP of \$0.106 as at close of last trading on Wednesday, 31 May 2023</li><li>• 37.5% discount to the TERP<sup>(1)</sup> of \$0.08</li></ul>
<b>Ranking</b>	New Shares issued will rank equally with existing AUCloud shares
<b>Use of proceeds</b>	The proceeds of the Equity Raising will largely be deployed to assist with funding working capital requirements associated with executing the Company's strategic initiatives.
<b>Commitments</b>	The Company has received binding commitments from five major shareholders to take up their entitlements either in full or in part, which together represent approx. 35.7% of total New Shares offered under the Entitlement Offer and the equivalent of approx. \$3.04 million based on the Offer Price.
<b>Underwriting</b>	<p>The Entitlement Offer is, to the extent not covered by the binding commitments, underwritten by Peter Maloney, the CEO &amp; Managing Director of the Company, (or an entity controlled by Peter Maloney), NEXTDC Ventures Holdings No. 1 Pty Ltd (NEXTDC) (an entity controlled by NEXTDC Limited), and Badger 31 Pty Ltd (Badger) (an entity controlled by Catherine Reid, a current director and chair of the Company). The underwriting commitments are allocated as follows: Peter Maloney (10,000,000 New Shares), NEXTDC (62,966,055 New Shares) and Badger (36,081,827 New Shares). The underwriting represents approx. 64.3% of total New Shares offered under the Entitlement Offer (being the balance of New Shares not subject to the binding commitments from major shareholders) and the equivalent of approx. \$5.45 million based on the Offer Price.</p> <p>Peter Maloney will have a priority right in respect of his underwriting, with the balance of the total underwritten New shares to be allocated between NEXTDC and Badger based on their respective shareholdings in the Company as between each other (approx. 63.6% and 36.4% respectively) and up to their respective underwritten amounts.</p>

*(1) The Theoretical Ex-rights Price (TERP) is calculated by reference to AUCloud's closing price on Wednesday, 31 May 2023 of \$0.11 per share, being the last trading day prior to the announcement of the Entitlement Offer. TERP is a theoretical calculation only and the actual price at which AUCloud shares trade immediately after the ex-date of the Entitlement Offer and will depend on many factors and may not approximate TERP. TERP includes the new shares issued under the placement.*

# Equity Raising Timetable

Date	Activity
Thursday, 1 June 2023	Announcement of Entitlement Offer
Monday, 5 June 2023	Ex-date for Entitlement Offer
Tuesday, 6 June 2023	Record Date for Entitlement Offer (7.00pm Sydney time)
Friday, 9 June 2023	Entitlement Offer Information Booklet and personalised Entitlement and Acceptance Forms despatched, and announcement of despatch
Friday, 9 June 2023	Entitlement Offer opens
Tuesday, 20 2023	Last day to extend the Closing Date for the Entitlement Offer
Friday, 23 June 2023	Closing Date for the Entitlement Offer (5.00pm (Sydney time))
Tuesday, 27 June 2023	Announcement of results of Entitlement Offer
Wednesday, 28 June 2023	Settlement of the Entitlement Offer
Thursday, 29 June 2023	Allotment of New Shares issued under the Entitlement Offer
Friday, 30 June 2023	Normal trading on ASX for New Shares issued under the Entitlement Offer commences
Monday, 3 July 2023	Despatch of holding statements for New Shares issued under the Entitlement Offer





# Key Risks

# Key Risk Factors

AUCloud is subject to various risk factors. Some of these are specific to its business activities, while others are of a general nature. Individually, or in combination, these risk factors could have a material adverse impact on AUCloud's assets and liabilities, financial position and performance, profits and losses and prospects, and the value of its shares. The key risk factors are described below. The risks set out below are not an exhaustive list of the risks associated with AUCloud or the industry in which it operates, or an investment in AUCloud shares either now or in the future, and this information should be used as guidance only. There can be no guarantee that AUCloud will achieve its stated objectives or that any forward-looking statement or forecasts will eventuate. Before deciding whether to invest in AUCloud, you should read the entire presentation and satisfy yourself that you have a sufficient understanding of these potential risks and should consider whether an investment in AUCloud is suitable for you after taking into account your own investment objectives, financial circumstances and tax position. If you are in any doubt as to anything in this presentation, you should consult your accountant, financial adviser, stockbroker, lawyer or other professional adviser.

## SPECIFIC RISKS

- **Competitive landscape and actions of others:** AUCloud operates in a competitive landscape alongside a number of other service providers with competing technologies, product offerings and geographic presence. These include a number of global IaaS providers which offer competing services to AUCloud on a global scale. Although AUCloud is in a niche market, and notwithstanding the barriers to entry in that market, AUCloud may face competition from new entrants and existing competitors who may have significant advantages, including greater name recognition, longer operating history, lower operating costs, pre-existing relationships with current or potential customers or decision makers and greater financial, marketing and other resources. If competitor product offerings are perceived to be superior to AUCloud's, or competitors are able to compete effectively on price, AUCloud may lose existing or potential customers, incur costs to improve its network, or be forced to reduce prices.
- **Sustained losses:** Like many start up technology companies, AUCloud has incurred regular operating losses since inception. AUCloud may not be able to achieve or maintain profitability or positive free cash flow in the near term if at all and as such the business will likely require ongoing funding from cash reserves or from new equity issuances.
- **Cyber risk:** Given AUCloud's business model is premised on providing secure cloud services, any unauthorised access to customer data would severely prejudice AUCloud's reputation as a credible provider of such services to its targeted customers. While instances of "cyber-crime" are particularly damaging, other events, such as accidental loss of confidential data or experiencing significant network issues may also cause financial loss or reputational damage (or both). While AUCloud is particularly focused on mitigating the likelihood of cyber risk, given its business model, the consequences of the risk including the adverse effect on AUCloud's future financial performance and position, are potentially significant.
- **Changes to law or Government policy:** The collection, storage and protection of data, including the migration of systems to the cloud, for Governments and CNIs is a current focus of Government policy, which is evolving rapidly. As Government departments and agencies consider transitioning legacy systems and datasets to third party hosted environments, including to the cloud, there is a growing focus on how Government agencies can ensure the security of that data. Rules and guidelines for Government departments and agencies in relation to outsourcing cloud functions, and the requirements of third party providers of those functions, have been developed, however there is no guarantee that the implementation of those rules and guidelines will occur in the manner currently anticipated by AUCloud. In addition, those rules and guidelines will likely be supplemented and varied over time. AUCloud has limited capacity to predict policy developments, it is possible that policies will be implemented in the future that may preclude or hinder AUCloud's competition in the market for Government outsourcing of cloud services.
- **Authorisations and accreditations:** AUCloud relies on authorisations and accreditations to operate its business. In particular, AUCloud is IRAP-accredited which provides credentials as a provider of its services to the Australian Government. IRAP is an ASD initiative. ASD endorses suitably qualified ICT professionals as IRAP assessors to provide relevant security services and highlight information security risks which aim to secure broader industry and Australian Government information (and associated) systems. AUCloud is ISO/IEC 27001 certified. There is no guarantee that AUCloud will be able to obtain or retain the authorisations and accreditations it requires to compete in the market. Any failure by AUCloud to obtain additional authorisations or accreditations mandated by the Australian Government would materially adversely affect AUCloud's operational and financial performance.

# Key Risk Factors (continued...)

- **Concentration of customer base and nature of customer contracts:** AUCloud has a relatively concentrated customer base. If AUCloud was to lose one or more of its key customers, AUCloud's business and financial condition could be adversely impacted. There may also be a long lead-time to secure new customer contracts for AUCloud, and by their nature, such customer contracts are relatively short-term (with a typical contract term of between three months and five years). If AUCloud was to lose one or more of these customer contracts, its operations, earnings and financial condition could be adversely impacted. In addition, if one or more of these contracts is not renewed upon expiry and AUCloud is unable to add new customers, its business, financial condition and financial performance could be adversely impacted in the future.
- **Ability to attract and retain key employees:** AUCloud's business is dependent on attracting and retaining highly skilled and experienced employees. It is essential that appropriately skilled staff be available in sufficient numbers to support AUCloud's business. AUCloud requires staff to have a variety of skills and expertise, some of which are niche specialities in which there are limited practitioners available for recruitment. Accordingly, the loss of, or the inability to attract, skilled and experienced employees is a key risk for AUCloud. The loss of key staff to a competitor may exacerbate this impact. AUCloud's ability to attract and retain employees in a cost effective manner is subject to external factors such as unemployment rates, prevailing wage legislation and changing demographics in its operating markets. Changes that adversely impact AUCloud's ability to attract and retain quality employees could materially adversely affect AUCloud's future financial performance and position.
- **Operating history:** The execution of AUCloud's business plan may take longer to achieve than planned and the costs of doing so may be higher than budgeted. AUCloud's operating business plan requires working capital and there can be no assurance that the objectives will be achieved. Accordingly, AUCloud may need to raise capital again in the near future, and with fewer operational objectives achieved, which may have an adverse effect on AUCloud's share price.
- **Low customer uptake of service:** A lack of customer demand and aggressive competition could limit AUCloud's ability to achieve desired rates of return on investment, and have a material adverse effect on the growth prospects and/or financial position of AUCloud, which may cause AUCloud to require further funding.
- **Funding and capital:** The continued growth of AUCloud relies on customer acquisition. Capital is required to maintain and grow the existing technology platform. AUCloud requires sufficient access to capital to fund this expenditure. Failure to obtain capital on favourable terms may hinder AUCloud's ability to expand and pursue growth opportunities, which may reduce competitiveness and have an adverse effect on the financial performance, position and growth prospects of AUCloud. AUCloud's continued ability to implement its business plan effectively over time is dependent in part on its ability to raise future funds. There is no assurance that additional funds will be available in the future, and/or be secured on reasonable commercial terms. If adequate funds are not available or not available on reasonable commercial terms in the future, then AUCloud may not be able to take advantage of opportunities, develop new ideas or otherwise respond to competitive pressures.
- **Interruptions to operations, including infrastructure and technology failure:** AUCloud could be exposed to short, medium or long-term interruptions to its services, some of which is provided by third parties. AUCloud may be unable to deliver a service as a result of numerous factors, including:
  - human error;
  - power loss;
  - improper maintenance by entities not related to AUCloud;
  - physical or electronic security breaches;
  - fire, earthquake, hurricane, flood and other natural disasters;
  - water damage;
  - intentional damage to the networks from vandalism;
  - accidental damage to the networks from civil works;
  - war, terrorism and any related conflicts or similar events worldwide; and
  - sabotage and vandalism.

# Key Risk Factors (continued...)

- **Change in technology:** Demand for cloud services can change rapidly because of technological innovation, new product introductions, declining prices and evolving industry standards, amongst other factors. New solutions and new technology often render existing solutions and services obsolete, excessively costly or otherwise unmarketable. As a result, the success of AUCloud depends on AUCloud being able to keep up with the latest technological progress and to develop or acquire and integrate new technologies into its product offering. Advances in technology also require AUCloud to commit resources to developing or acquiring and then deploying new technologies for use in operations.
- **Relationships with key intellectual property licensors and technology:** AUCloud relies on relationships with key intellectual property licensors and technology partners, from whom it licenses the right to use particular intellectual property and technology. AUCloud's ability to offer its cloud services is dependent on its ability to use particular intellectual property and technology, and any change in the ability to use or protect the intellectual property AUCloud relies on may have an effect on AUCloud's future financial performance and position.
- **Insurance:** AUCloud seeks to maintain appropriate policies of insurance consistent with those customarily carried by organisations in its industry. Any increase in the cost of the insurance policies of AUCloud or the industry in which it operates could adversely affect AUCloud's business, financial condition and operational results. AUCloud's insurance coverage may also be inadequate to cover losses it sustains. Uninsured loss or a loss in excess of AUCloud's insured limits could adversely affect AUCloud's business, financial condition and operational results.

## GENERAL RISKS

- **AUCloud's share price may fluctuate:** AUCloud is subject to the general market risk that is inherent in all securities traded on a stock exchange. This may result in fluctuations in its share price that are not explained by the fundamental operations and activities of AUCloud. There is no guarantee that the price of AUCloud's shares will increase following the Offer, even if AUCloud's earnings increase. AUCloud's shares may trade at, above or below the Offer price due to a number of factors, including:
  - general market conditions;
  - fluctuations in the local and global market for listed stocks;

- changes to government policy, legislation or regulation;
- inclusion in or removal from particular market indices (including S&P/ASX indices); and
- the nature of the markets in which AUCloud operates.

Other factors that may negatively affect investor sentiment and influence AUCloud specifically or the stock market more generally include acts of terrorism, an outbreak of international hostilities, civil unrest, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other man-made or natural events.

- **Trading in AUCloud's shares may not be liquid:** There can be no guarantee that there will be an active market for AUCloud's shares following completion of the Offer. There may be relatively few potential buyers or sellers of AUCloud's shares on ASX at any given time. This may increase the volatility of the market price of AUCloud's shares. It may also affect the prevailing market price at which shareholders are able to sell their AUCloud shares. This could result in shareholders receiving a market price for their AUCloud shares that is less than the price that they paid.
- **Shareholders may suffer dilution:** AUCloud may issue more shares in the future in order to fund working capital requirements, acquisitions or investments or to reduce its debt. While AUCloud will continue to be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital that it is able to issue within a 12 month period (other than where exceptions apply), any such equity raisings may dilute the interests of shareholders.
- **Taxation changes may occur:** The taxation treatment for shareholders is dependent upon the tax law as currently enacted in Australia. Changes in tax or stamp duty law or changes in the way tax or stamp duty law is expected to be interpreted in Australia may adversely impact AUCloud's returns or the dividends paid by AUCloud to shareholders. An investment in AUCloud shares involves tax considerations that differ for each investor. Investors are encouraged to seek professional tax advice in connection with any investment in AUCloud.

# Key Risk Factors (continued...)

- **Expected future events may not occur:** Certain statements in this presentation constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance and achievements of AUCloud to differ materially from any future results, performance or achievements expressed or implied in such forward-looking statements. Given these uncertainties, prospective investors should not place undue reliance on such forward-looking statements. In addition, under no circumstances should a forward-looking statement be regarded as a representation or warranty by AUCloud or any other person referred to in this presentation that a particular outcome or future event is guaranteed.
- **Impact of climate change:** Climate change presents a potentially material risk to AUCloud. The increasing severity of acute weather events (such as heatwaves, cyclones and storms) and chronic climate impacts may affect AUCloud's property (and associated communities) through physical damage, operating costs, and ability to trade, for example. These acute weather events may be sudden and acute or more gradual in nature. For example, property may be damaged by storms or flooding which requires extensive repairs. Alternatively, supply chains may be disrupted. Transitioning to a lower-carbon economy may entail extensive policy, legal, technology and market changes to address mitigation and adaptation requirements related to climate change. These may require AUCloud to incur costs to address these changes. The transition to a low carbon economy may enable AUCloud to realise opportunities such as reducing its reliance on the electricity grid by generating onsite renewable energy which also protects its business from future energy market and policy uncertainty.
- **Force majeure events may occur:** Events may occur within or outside Australia that could impact upon the global and Australian economies, the operations of AUCloud and the price of AUCloud's shares. These events include but are not limited to acts of terrorism, outbreaks of international hostilities, civil unrest, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other man-made or natural events that can have an adverse effect on AUCloud's ability to conduct its business.
- **Exposure to general economic conditions:** The operating and financial performance of AUCloud is influenced by a variety of general domestic and global economic and business conditions that are outside the control of AUCloud. A prolonged deterioration in general economic conditions may impact the demand for AUCloud's services and may have a material adverse impact on the financial performance, financial position, cash flows, dividends, growth prospects and share price of AUCloud.
- **Accounting standards may change:** The Australian Accounting Standards to which AUCloud adheres are set by the AASB and are consequently outside the control of AUCloud and the Directors. Changes in accounting standards issued by the AASB or changes to the commonly held views on the application of those standards could materially adversely affect the financial performance and position reported in AUCloud's financial statements.
- **Litigation and regulatory inquiries:** AUCloud may be subject to litigation, complaints and other claims or disputes, regulatory inquiries or investigations and other enforcement action initiated by customers, employees, suppliers, regulators or other third parties in the course of its business. Such matters may have a materially adverse effect on AUCloud's financial performance and position. Even if such matters are successfully defended or settled without financial consequences, they may have a material adverse effect on AUCloud's reputation.

# Foreign selling restrictions

This presentation does not constitute an offer of New Shares of the Company in any jurisdiction in which it would be unlawful. In particular, this presentation may not be distributed to any person, and the New Shares may not be offered or sold, in any country outside Australia except to the extent permitted below.

## New Zealand

The New Shares are not being offered to the public within New Zealand other than to existing shareholders of the Company with registered addresses in New Zealand to whom the offer of these securities is being made in reliance on the Financial Markets Conduct (Incidental Offers) Exemption Notice 2021.

This document has been prepared in compliance with Australian law and has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013. This document is not a product disclosure statement under New Zealand law and is not required to, and may not, contain all the information that a product disclosure statement under New Zealand law is required to contain.

## Philippines

**THE SECURITIES BEING OFFERED OR SOLD HAVE NOT BEEN REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION (SEC) UNDER THE PHILIPPINE SECURITIES REGULATION CODE (THE CODE). ANY FUTURE OFFER OR SALE THEREOF IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.**

The New Shares are being offered or sold to existing shareholders of the Company in an exempt transaction under Section 10.1(e) of the Code. The Company has not sought confirmation, and the SEC has not confirmed, whether the Offer qualifies as an exempt transaction under the Code.

## United Kingdom

Neither this document nor any other document relating to the offer of New Shares has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (**FSMA**)) has been published or is intended to be published in respect of the New Shares.

The New Shares may not be offered or sold in the United Kingdom by means of this document or any other document, except in circumstances that do not require the publication of a prospectus under section 86(1) of the FSMA. This document is issued on a confidential basis in the United Kingdom to fewer than 150 persons who are existing shareholders of the Company. This document may not be distributed or reproduced, in whole or in part, nor may its contents be disclosed by recipients, to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received in connection with the issue or sale of the New Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (**FPO**), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together "**relevant persons**"). The investment to which this document relates is available only to relevant persons. Any person who is not a relevant person should not act or rely on this document.

# Glossary

Term	Definition
AASB	Australian Accounting Standards Board
ACSC	Australian Cyber Security Centre
ARPU	Average Revenue Per Customer per annum
ARR	Annual Recurring Revenue
GTM	Go-To-Market
IaaS	Infrastructure as a Service
IaaS Consumption	The revenue recognised based on the aggregated consumption of the IaaS services, excluding implementation, consulting and setup charges or one off non-recurring charges. In the Company's experience it is reasonable to expect IaaS consumption to be repeated in subsequent periods
ICT	Information and Communication Technology
IRAP	Information Security Registered Assessors Program
ISV	Independent Software Vendor
MSP	Managed Service Provider
NEXTDC	NEXTDC Limited
SOCaaS	Security Operations Centre as a Service
SOCI Act	Security of Critical Infrastructure Act 2018 and subsequent amendments (2021; 2022)
TCV	Total Contract Value - 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)

