

ASX Announcement | 28 July 2023

Spacetalk Limited (ASX: SPA)

QUARTERLY ACTIVITIES REPORT AND BUSINESS UPDATE AND APPENDIX 4C FOR THE QUARTER ENDED 30 JUNE 2023

Spacetalk Progresses Strategy Execution Resulting in Strong Revenue Growth During June 2023 Quarter

Strategic reset initial success provides tangible results.

Highlights

- Revenue from continuing operations increased 21% vs prior corresponding period¹ ("pcp") to \$3.4m²
- Annual recurring revenue (ARR) increased 33% vs pcp to \$8.3m and 7% vs Q3.
- Recurring revenue 60% of total revenue and grew 500bps vs pcp.
- 90 stores added to distribution network following deal with a major retailer.
- Adventurer 2 watch successfully launched.
- Key roles, including VP of Engineering and Head of Product hired.
- Overseas operations temporarily wound down.
- Cash in bank at the end of the quarter was \$3.0m

Spacetalk Limited (ASX: SPA) ("Spacetalk" or "the Company") is pleased to provide its Appendix 4C for the quarter ended June 30 (Q4 FY23) along with the following operational update.

¹ Prior corresponding period (pcp) relates to Q4 FY22. FY22 numbers are restated.

² Revenue excludes the discontinued wearables business in the UK, Europe and North America.

Strong growth across key metrics

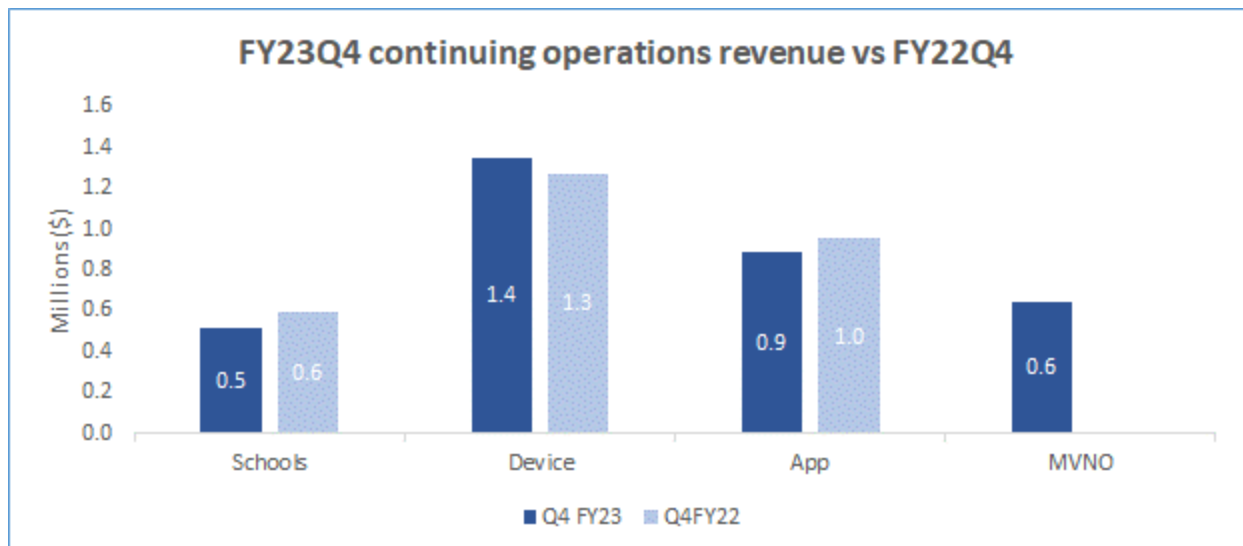
	4Q23	4Q22	change
Revenue from continuing operations (\$m)	3.4	2.8	21% ↑
Gross profit from continuing operations (\$m)	1.8	1.8	1% ↑
Gross profit margin	54%	65%	-11ppt ↓
Operating expenses before one off costs (\$m)	2.6	3.4	-24% ↓
Annual recurring revenue (ARR) (\$m)	8.3	6.3	33% ↑
Normalised cash outflow from operating activities (\$m)	-0.7	-3.2	77% ↑
Subscribers	69,978	59,652	17% ↑
Cash balance (\$m)	3.0	5.3	-43% ↓

Note

Comparative cash is Q3 closing balance.

Commentary

Revenue from continuing operations



Revenue increase of 21% primarily driven by the successful launch and continued growth of the Mobile Virtual Network Operator (MVNO)³ revenue stream. During Q4FY23, MVNO generated \$0.6m in revenue (2022: NIL). This trend is consistent with the strategic shift towards recurring

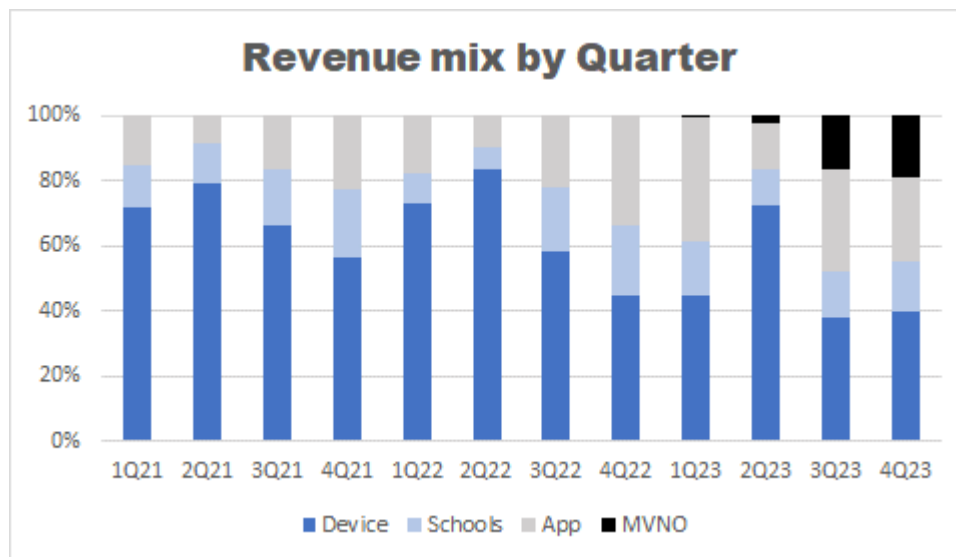
³ Mobile Virtual Network Operator (previously Jumpy revenue)

revenue, which rose to 60% of total revenue during the quarter. MVNO subscriber growth has been robust and consistent since November 2022's launch, totaling 14,720 subscribers added at the end of the quarter.

Device sales volume increased 17% during the quarter, helped partly by FY23 discounting and promotion activities to clear legacy Adventurer 1 inventory to launch new products. Therefore, revenue grew 6% to \$1.4m vs \$1.3m in pcq.

As Spacetalk continues to transition to the higher ARPU⁴ MVNO product, Application subscriber numbers declined 8% to 55,258. The 7% decline in revenue vs pcq is consistent with the decline in subscribers. Schools' revenue decline of \$0.1m (13%) was due to a decline in SMS volume vs pcq.

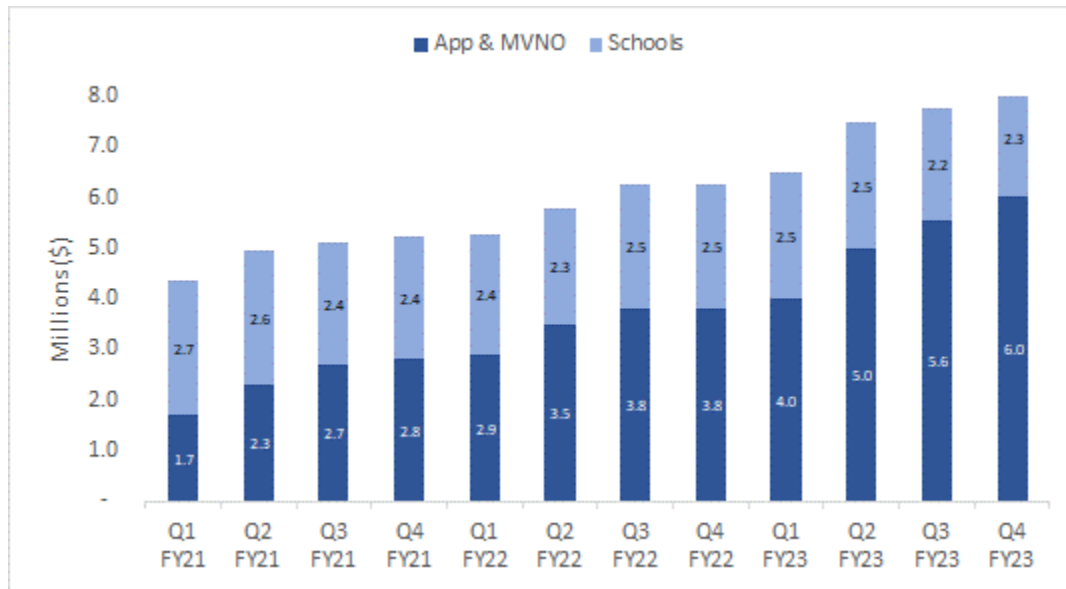
Revenue Mix



- Improved revenue mix with MVNO now 19% of revenue (Q4FY22: NIL) (Q3FY23: 17%)
- Recurring revenue comprised 60% of revenue (Q4FY22: 55%)
- Early success of transforming the business to a subscription-based model evident in the shift in revenue mix while revenue grew 21% vs pcq.

⁴ Average Revenue Per User

Annual Recurring Revenue (ARR)



- ARR increased by 33% compared to pcp and 7% on Q3, driven by strong MVNO revenue growth.
- MVNO revenue now represents 31% of ARR.
- The increase in ARR reflects the strategic shift in focus to a higher yielding subscription model.

Gross profit (GP) and margin

Gross profit of \$1.8m is flat compared with pcp due to:

- Reduction in Device GP of \$0.2m due to discounting and promotional activities for Adventurer 1 impacting average price.
- Schools GP decline of \$0.1m due to lower SMS volumes,
- APP GP decline of \$0.1m due to decrease in revenue; fully offset by
- MVNO GP of \$0.4m, a new revenue stream in FY22

GP margin of 54% is 11ppts lower than pcp, driven by:

- A decline in Device margin due to promotion and sell out discounts to address legacy Adventurer 1 inventory issues. The clearing of inventory in channel and on hand was critical to the successful launch of the Adventurer 2 product and the planned Budget watch roll out in Q2 of FY24
- Decline in Device margins were partially offset by higher MVNO margins.

Operating expenses

Expenses declined by \$0.8m (24%) to \$2.6m in FY23Q4 compared with pcp, primarily driven by:

- \$1.0m (44%) reduction in employment expenses to \$1.3m. This was mainly due to \$0.8m savings in overseas operations.
- \$0.3m (66%) decline in advertising and marketing expenses mainly due to ~\$0.3m spent on retailer support in overseas operations in prior year
- an increase in administration expenses of \$0.5m partially offset the above decreases.

Savings generated by temporarily winding down overseas operations present the Company with an opportunity to redeploy costs to value accretive strategic initiatives in the ANZ region. The ANZ cost base has been resized and a significant capability uplift has been achieved through engaging specialists in key roles to aid strategy execution.

Rapid Execution of Strategy Underway

Significant progress has been made in execution against strategic objectives included within Horizon 1 (first 6 months) of our strategy. Highlights include:

Reset of Retail and eComm Sales

- Favourable renegotiation of terms with ANZ retail channels.
- Reset of NZ Channel to address historical operational issues.
- Increase in eComm sales volume of 85% vs pcp.
- Distribution channels expanded through the execution of a retailer contract with Rebel Sports, adding 90 stores to the network.

Brand Alignment

- Significant progress has been made rebranding:
 - MGM Wireless to become Spacetalk Schools in Q1FY24
 - JumpySIM to become Spacetalk Mobile in Q1FY24

Product Development

- Successful launch of the Adventurer 2 children's watch, and significant progress made towards the development and launch of several other products, including:
 - **Family App** – New device agnostic 'Family App' that will allow any smartphone to be linked to Spacetalk's location services, and provide the opportunity to extend our customer relationships, and recurring revenue, beyond a child's use of Spacetalk watch. Launch is planned for Q2FY24.

- **Messaging App** – New parent and schools messaging app, with the option for parents to opt-in to Spacetalk communication. A ground up rebuild of our existing messaging app product using advanced architecture that enables rapid development of multiple apps using common technology base. Launch is planned for Q2FY24.
- **Budget Watch** – Final design and set up for manufacturing of a new, lower cost, lower price, higher margin 'budget' children's watch. Launch is planned for Q2FY24 in time for peak end of calendar year sales period.
- **Life Monitored Mobile Personal Emergency Response (mPERS)** – Development of back-end systems to connect existing Life watch to 24/7 emergency monitoring provider call centre triage systems. Further updates to firmware to enable advanced mPERS features is ongoing. Launch of new mPERS Life watch capability and 24/7 monitoring provider relationships is planned for Q1FY24.
- **MVNO Product Suite** – Redesign of MVNO Product Suite in partnership with MVNO consultancy, Tiger and Bear, is ongoing. Launch of new MVNO product suite is currently planned for Q2FY24.

Successful Temporary Wind Down of Loss-Making UK, EU, and US Operations

Rationale For Temporary Wind Down

- Operations in the UK, EU & US were significantly loss making, with a cost-to-income ratio on revenue of 110% and on gross margin of 323%
- Cash flow risk due to full channels and unfavourable inventory return agreements.
- The business model and go-to-market approach adopted in the UK and EU was different to the business model in ANZ and was flawed, including:
 - No recurring app or MVNO revenue on the back of hardware sales, and no appetite from channels to enable these revenue streams to be activated.
 - Significant sales rebates to major Mobile Network Operator (MNO) channels, resulting in material margin compression.
 - Lack of market preparation or brand awareness.
- Operations in the US were unsupported locally, with all channels having a very high cost of sale.
- Physical channels sought ~ \$0.4m in market development funds to support marketing and advertising activity.

Approach To Temporary Wind Down

- Successful wind down of UK and EU operations included:

- Providing sell-out incentives to UK and EU channels, resulting in significantly reduced buy back of inventory.
- Shipping stock from the UK warehouse to Australia for sale.
- Use of inventory to settle marketing development fund (MDF) claims.
- Engaging an experienced third party in the UK to manage customer support and warranty claims.
- Maintaining and protecting Spacetalk's reputation and brand.

Outcome Of Temporary Wind Down

- Total cost of UK and EU wind down was ~ \$0.8m, with \$0.3m paid in Q4, creating future cost savings of ~\$1.3m per annum.
- Providing a sell-out incentive to a major retail channel in the US has resulted in zero buy back of inventory, while also protecting Spacetalk's reputation and brand.
- US warranty claims and customer service continue to be managed from Australia.

Capability Uplift

- Increasing capability by hiring subject matter experts to enable successful execution of strategy and growth. Since February 2023 there have been 11 new hires and 12 employee exits. Key hires during Q4 include:
 - Chief Financial Officer
 - VP Engineering
 - Head of Product
 - Two segment aligned Product Marketing Managers
- Capability will be further enhanced in FY24 Q1 with the following roles to be filled:
 - Head of Business Development (Schools & Educators)
 - Head of Business Development (Seniors & Vulnerable Families)
 - Technical Product Manager.

Statements pursuant to ASX Listing Rule 4.7C

The financial and operational analysis above outlines key activities and developments during the quarter. Key cash flows during the quarter are described below.

Cash in hand at 30 June 2023 was \$3.0m (Q3: \$5.3m)

Summary cash flows in Appendix 4C

\$000	FY23Q4	FY22Q4
Cash flows from operating activities before one off costs	-740	-2,325
Non recurring one off restructuring costs	-777	-
Investing cash flows	-739	-913
Financing cash flows	-27	-40
Change in cash and cash equivalents	-2,283	-3,278
Impact of changes in fx rates	46	32
Opening balance	5,263	8,823
Closing balance	3,026	5,577

Cash flows from operating activities (before one off costs) improved compared with prior year due to:

- A 24% lower cost base, driven by costs savings primarily in employees and marketing.
- Payments to related parties and their associates during the quarter amounted to \$142k, and this related to the CEO and Directors remuneration for services provided.
- lower investment in working capital, with a \$0.3m decrease (inflow) in current year vs \$1.7m increase (outflow) in the pcp. Improved working capital management, including optimum inventory quantities will result better cash flow management in future years.
- Q4FY23 cash flows affected by \$0.8m non-recurring one-off costs, including overseas exit cash costs of \$0.3m, redundancies, consultancy, and recruitment costs.

Investment cash flow is predominantly product development costs, and the reduction reflects more effective use of external cost-effective resources.

Spacetalk Chief Executive Officer and Managing Director Simon Crowther, said:

"The last quarter of 2023 saw my team continue to successfully execute our strategic plan. Our clean temporary wind down of loss-making UK, EU, and US operations has resulted in significant cost savings, while selling excess legacy Adventurer 1 inventory generated cash and freed up space for our exciting new products.

But what I am most excited about is MVNO's strong continued growth in users since we launched in November 2022, bringing recurring revenue to 60% of total revenue. I am confident the last quarter of FY23 represents a strong step in the right direction, allowing for an exciting beginning to the new financial year for the new Spacetalk. "

This ASX announcement has been authorised by the Board of Spacetalk Limited (ASX: SPA)

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About Spacetalk Limited (ASX: SPA)

Spacetalk Limited (ASX: SPA) is a software services and smartwatch hardware product developer. As a package, the company's technology platform provides a complete digital communication solution that supports safety and security for families across their life cycles and for employees working in remote settings. The company's unique proprietary ecosystem, which has continued to evolve over time, is today recognised as a leader in family safety and the connected wearables industry.

The Spacetalk technology platform comprises both market-leading hardware and a trusted, client-controlled software platform that provides safety and security to users via the benefits of mobile technology.

The multi-functional Software-as-a-Service Spacetalk App can be customised, giving clients the ability to enable or disable individual features. Parents are empowered to block their child's access to the open internet, social media and inappropriate adult content while simultaneously blocking calls and messages from unknown senders. The app can also track the location of vulnerable family members, including children and seniors requiring constant monitoring.

Spacetalk's best-in-class software platform additionally supports children's development by facilitating engaging, confidence-building experiences that the whole family can participate in and enjoy.

Spacetalk's core hardware, its smartphone-watch, is effectively a child's first mobile phone. It offers all the benefits of a smartphone, operating on a secure, private and parent-controlled ecosystem that can be customised to reflect each family's needs and values.

To learn more, please visit: www.spacetalk.co.

For more information



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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Spacetalk Ltd

ABN

93 091 351 530

Quarter ended ("current quarter")

June 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,446	17,894
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(185)	(3,269)
(c) advertising and marketing	(194)	(1,823)
(d) leased assets	-	-
(e) staff costs	(1,169)	(6,609)
(f) administration and corporate costs	(1,515)	(6,765)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(123)	(716)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material) *	(777)	(1,714)
1.9 Net cash from / (used in) operating activities	(1,517)	(3,022)

* Relates to non-recurring, one off corporate restructuring costs, including redundancies, advisory costs and overseas exit payments.

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant, and equipment	(4)	(7)
(d) investments	-	-
(e) intellectual property	(735)	(1,961)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
	(f) other non-current assets	-	-
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	(739)	(1,968)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	2,681
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	-	(28)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings		(127)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	(27)	(164)
3.10	Net cash from / (used in) financing activities	(27)	2,362

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	5,263	5,577
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,517)	(3,022)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(739)	(1,968)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(27)	2,362
4.5	Effect of movement in exchange rates on cash held	46	77
4.6	Cash and cash equivalents at end of period	3,026	3,026

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	2,995	5,232
5.2	Call deposits	31	31
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)	3,026	5,263

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	142
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<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	5,000	5,000
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	5,000	5,000
7.5	Unused financing facilities available at quarter end		NIL
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.		
Facility is a term loan with 2 tranches from Pure Asset Management with the following terms: <ul style="list-style-type: none"> - secured - First Loan interest rate 9.50% pa - Second Loan interest rate 9.50% pa - maturity dates <ul style="list-style-type: none"> o First Loan (\$3m) 20 March 2025 o Second Loan (\$2m) 1 July 2024 			

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,517)
8.2	Cash and cash equivalents at quarter end (item 4.6)	3,026
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	3,026
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.0
<i>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.</i>		
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:	
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:	

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:

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.

28.07.2023

Date:

Authorised by:By the Board.....
(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.