



24 October 2023

SOCO Corporation Ltd (ASX:SOC)

SOCO to acquire AxSym Technology, and Outlook Update

SOCO Corporation Ltd (ASX:SOC) ("Company" or "SOCO"), a leading information technology consultancy, is pleased to announce that it has entered into a binding agreement for the acquisition of AxSym Technology Pty Ltd ACN 640 959 191 ("AxSym").

Acquisition highlights

- Acquisition is highly complementary, supported by compelling rationale:
 - Delivers significant EPS accretive earnings.
 - Close cultural fit, with entrepreneurial founders with aligned values
 - Federal government client base that doesn't overlap.
 - Cross selling revenue synergies in both Microsoft and ServiceNow ecosystems.
 - Strengthens SOCO's Canberra footprint for the delivery of both projects and augmentation services.
 - Transaction structure aligns interests.
- AxSym's clients include the Department of Foreign Affairs and Trade, Department of Defence, Australian Criminal Intelligence Commission, and New South Wales Rural Fire Service.
- 4.6x EBITDA¹ multiple based on achievement of deferred consideration milestones over FY24 and FY25.
- History of revenue growth (FY23 unaudited \$8.9m) and profitability.

About AxSym

AxSym is a Canberra-based information technology consultancy with a federal government focus, with clients including Defence, Foreign Affairs, and National Security agencies. AxSym also brings success in the New South Wales state government sector, delivering services to the NSW Rural Fire Service.

The AxSym team's expertise across diverse IT architecture domains positions them favourably to offer trusted advice to decision-makers, along with confidence that the advice translates into delivery success.

¹EBITDA is net profit before interest, tax, depreciation, and amortisation.

Strategic rationale

AxSym also brings with them a deep talent pool of Microsoft specialists that complements SOCO's team, as well as a growing practice based on ServiceNow. ServiceNow is a cloud-based platform that delivers digital workflow automation across service management, operations, and business functions. This additional ServiceNow technology offering aligns strongly with SOCO's strategic choices and growth planning as the target markets are very similar. For instance, government and corporate clients with Microsoft solutions often require support for ServiceNow as a service management platform, and vice versa. Moreover, AxSym enhances SOCO's Canberra presence with no client overlap. AxSym have clearly demonstrated an ability to win and successfully deliver projects, growing both revenue and profit.

SOCO CEO, Simon Forth said *"As a people business great cultural fit is a mandatory component of our M&A strategy, and AxSym absolutely delivers. We are delighted to welcome the AxSym team into the SOCO family, and to widen our service offerings in Canberra and across the nation."*

Consideration

The purchase price includes \$4.3m in cash funded from the Company's available cash on hand, and \$3.2m in SOCO ordinary shares (10,714,753 shares to be issued at 29.8 cents per share, based on the 20-day weighted average trading price to 20 October 2023) (Consideration Shares). In addition, there is also the potential for the sellers to receive an earn out payment of up to \$3.4m, payable over a two-year period, if certain profit growth targets are achieved, therefore the maximum purchase price is \$10.9m. SOCO intends to fund the earn out payments at the relevant time from cash on hand.

Next steps

The transaction is expected to be earnings per share accretive in FY24 and complete in November 2023, subject to the satisfaction of various conditions precedent that are usual for an agreement of this nature, including satisfactory completion of due diligence investigations and receipt of change of control consents from AxSym's contract counterparties. The five AxSym shareholders, (and sellers under the transaction): Adam Granquist, Joachim Milsom ("Joe"), Huy Ngo, Nam Ngo and Jules Zanetti, will also enter into voluntary escrow agreements with the Company for the Consideration Shares, with 100% of the shares being escrowed for 12 months, and 50% being escrowed for 24 months. Adam, Joe, Huy and Jules are all excited to join SOCO as senior leaders and continue the strong year-on-year growth.

The purchase price, including upfront and deferred consideration, equates to a 4.6 EBITDA multiple calculated by reference to achieving the deferred consideration milestones.

SOCO CEO, Simon Forth said *“SOCO and AxSym coming together strengthens our position in Canberra, dramatically increases our local footprint and opens additional opportunities to service our growing book of Federal Government clients. Furthermore, AxSym’s success with the NSW Government will serve as an accelerator to SOCO’s existing expansion into the southern states.”*

AxSym will rebrand to SOCO. The team at AxSym are excited to be joining the SOCO family, and the rebranding is an opportunity to align with and amplify SOCO’s growing reputation as a trusted sovereign provider. By leveraging the increased scale and maturity of SOCO’s people, culture, and marketing functions - the AxSym team can realise operational efficiencies, and crucially, fuel the passion and ambition that has driven their success to date.

AxSym Managing Director Adam Granquist said *“The AxSym team are all thrilled to join the SOCO movement. We are excited about the new capabilities and services that we can offer because of the acquisition, and we are very much looking forward to growing our incredibly strong Canberra client base – shoulder to shoulder with our new colleagues as a united team.”*

Outlook

Excluding the AxSym acquisition, the financial year has started slower than the previous year, with delays experienced with several larger clients. This is primarily a timing issue, and the Company still expects revenue for the full year to be marginally higher than the previous year. The second half of each financial year traditionally delivers a seasonally stronger profit result. In FY24, the profit seasonality is expected to be more pronounced and consequently the first half is expected to deliver an Operating EBITDA² below that of the first half of FY23. In all other respects the business has solid momentum and has expanded its sales capability to drive long-term organic growth.

In addition to the acquisition of AxSym, the Company anticipates organic growth and team expansion in the second half of the financial year, and SOCO continues to target new client opportunities particularly in the Sydney, Melbourne, and Perth regions.

²Operating EBITDA is net profit before IPO expense, public company costs, share-based remuneration, interest, tax, depreciation, and amortisation.

SOCO's core operational systems are in the final phase of being enhanced for scale and efficiency. The Company is transitioning to Microsoft Project Operations (part of the Dynamics 365 suite) for resource planning and delivery, better aligning our software systems with the core business processes that drive our value to clients. The platform will also support easier integration of any future synergistic acquisitions as part of SOCO's M&A strategy.

This announcement has been authorised for release by the Board of SOCO Corporation Ltd.

ABOUT SOCO

SOCO (ASX:SOC) is one of Australia's fastest-growing IT consultancies. SOCO's consulting teams solve business problems by applying and modernising IT systems to improve business processes - digitally transformational outcomes. Key to SOCO's success is the 4D methodology (Discover, Design, Deliver, Drive®), designed to place clients at the heart of the business, creating a genuine partnership every step of the way. SOCO's target markets include federal government, local and state government, along with large corporates. As a people business, SOCO seeks to maintain a competitive advantage by creating exceptional employment experiences for our team.

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