



26 October 2023

ASX ANNOUNCEMENT

ACTIVITY REPORT AND APPENDIX 4C FOR THE QUARTER ENDED 30 SEPTEMBER 2023

Global cybersecurity and network management company, FirstWave Cloud Technology Limited (ASX:FCT) (**FirstWave** or **Company**), provides its Activity report and Appendix 4C for the first quarter of FY24 ended 30 September 2023.

Business Update

Saisei acquisition

FirstWave acquired 100% of the assets of Silicon Valley founded network automation software company Saisei Networks Inc. (www.saisei.com). FirstWave issued 40,571,428 new shares to Saisei as payment for the assets of the business. The transaction includes \$200,000 in cash receivables.

Saisei's software is a carrier-grade solution and provides network managers in telecommunications and enterprise (private network) customers with the ability to dynamically apply network controls based on pre-configured rule sets together with machine learning. This delivers a highly-automated solution that increases network capability while reducing operational expenditure.

The transaction is expected to bring a number of significant benefits to FirstWave, including;

- Expanding the company's IP through the acquisition of Saisei's IP and patents;
- Improving and expanding the functionality of the company's NMIS network management offering;
- Bringing over 50 new clients and adding approximately \$AUD1 million to FirstWave's annual revenue, 75% of which is derived from North America and Latin America;
- Offsetting transaction costs and increasing the company's cash reserves in total by approximately \$200,000;
- Delivering 6 new software engineers focussed exclusively on enhancing the company's IP; and
- Expanding the company's technical management.

John Harper, Saisei CTO, joined FirstWave to support a successful merger of intellectual property and solutions post-acquisition, and the business moving forward.

Review of Investment Priorities

With increasing opportunity for its network monitoring platform, the Company undertook a detailed review of its investment priorities during the quarter. This resulted in:

- Repurposing its investment to where the Company sees its short to mid-term opportunities;
- Making 11 positions redundant, mainly in the Company's Australian-based CyberCision development team; and
- Delivering annual savings of approximately \$1.5 million without impacting its existing CyberCision customers or its North American operations.

Management Restructure

The company also undertook a management restructure in line with its strategic objectives toward the end of the quarter following the acquisition of Saisei. The major elements were:

- Appointing Iain Bartram to the position of Chief Operating Officer, adding responsibility for customer support and software development to his existing role as Chief Financial Officer and Company Secretary;
- Focusing the company's CEO, Danny Maher, on sales and marketing, and the company's strategic goals;
- Extending the sales responsibilities of the Company's Chief Revenue Officer (CRO), Dino Davanzo, to include the company's marketing and product functions globally;

- Appointment of Guy Brunsdon (following senior roles at Telstra, Cisco, VMware and Citrix Systems in Silicon Valley, Seattle, Cambridge, and Australia) as General Manager of Products, reporting to the CRO and supported by the CEO to drive the direction of the company's technology; and
- After leading FirstWave's software development activities since the Company's formation, the company's current Chief Technology Officer (CTO), Simon Ryan, will depart the business in December 2023.

Sales & Marketing Update

The Board and management are confident that acquiring Saisei will enhance FirstWave's already strong pipeline of opportunities and add to the significant transformation already achieved since the acquisition of Network Management Software company Opmantek Ltd in January 2022.

The previously disclosed significant transaction with a large, North American telecommunications company remains active and has progressed to procurement. FirstWave is working through the company's procurement processes and has agreed the governing terms of engagement. The closing date of the transaction continues to remain uncertain and has already been subject to significant slippage. The Company will advise shareholders when and if this situation changes.

The company is working on several other exciting opportunities in USA, Latin America and Australia.

The company's CyberCision™ cybersecurity platform remains an integral part of FirstWave's business and will continue to provide growth opportunities. The company's long-term relationship with Telstra and leveraging of the CyberCision platform in Sydney is continuing, including developing a sovereign email security platform compliant with the Australian Cyber Security Centre's Information Security Manual ('ISM').

Financial Highlights

- Cash position at the quarter end was \$2.95m, a decrease of \$2.66m compared to the previous quarter;
- Revenue was \$2.85m, down 8.1% QoQ mainly due to once-off non-recurring revenues being \$0.23m lower than the previous quarter;
- Annualised Recurring Revenue (ARR)* of \$10m, up 7.2% QoQ;
- Comparative gross profit in Q1 of \$2.2m, down 10.2% QoQ after exclusion of COGS adjustments relating to prior periods made in both quarters;
- The cash component of Operational Expenses was \$3.39m, down 3.7% QoQ; and
- Capitalisation of development costs of \$0.72m consistent with the previous quarter.

Cash Flow Highlights

Net cash used in the quarter was \$2.65m including:

- \$3.45m cash receipts from customers.
- \$1.79m cash payments for product and operating costs.
- \$0.28m cash payments for advertising and marketing costs.
- \$2.67m cash payments for staff costs.
- \$0.54m cash payments for administration and corporate costs.
- \$0.78m used in investing activities which is mainly capitalized development personnel costs.
- \$0.20m cash receipt from the Saisei acquisition.

The most significant element of the breakdown above and leading to the larger than normal quarterly cash usage was the \$1.79m cash payments for product and operating costs. This item included \$0.97m in annual licencing costs and \$0.15m in catch-up payments for items that related to prior periods.

Also, cash payments to staff included \$0.19m in one-off payments relating to the redundancies announced in the quarter.

Taking the above points and other material timing differences into account e.g. Annual R&D grant income that is targeted for receipt in Q2, an estimation of normalised cash burn of \$498k per month has been calculated for Q1. This figure is arrived at after including average monthly non-recurring revenues of \$94k which is based on the

previous 12 months actuals and excludes non-recurring sales from the addition of Saisei's secure traffic management "STM" product.

As detailed in Item 6.1 of the accompanying Appendix 4C, the Company paid \$79k in relation to Directors' fees and associated superannuation.

The Company has scheduled an update on FY24 Q1 performance via Teleconference at 9.30am (AEDT) Thursday 26 October 2023. The presentation for this update will be uploaded to the ASX website prior to the teleconference.

** ARR is the recurring revenue of the last month of the quarter x 12*

** Cash component of Operational expenses excludes share based payments and depreciation & amortisation expenses.*

All numbers in this quarterly cash flow report and accompanying commentary for the quarter ended 30 September 2023 are unaudited.

Appendix 4C Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

FirstWave Cloud Technology Limited [FCT:ASX]

ABN

35 144 733 595

Quarter ended ("current quarter")

30 September 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	3,448	3,448
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(1,794)	(1,794)
(c) advertising and marketing	(282)	(282)
(d) leased assets	-	-
(e) staff costs	(2,667)	(2,667)
(f) administration and corporate costs	(540)	(540)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	43	43
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other	(247)	(247)
1.9 Net cash from / (used in) operating activities	(2,039)	(2,039)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(5)	(5)
(d) investments	-	-
(e) intellectual property	(776)	(776)
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
	(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 – cash received from the acquired entity	200	200
2.6	Net cash from / (used in) investing activities	(581)	(581)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Repayment of lease liabilities	(33)	(33)
3.10	Net cash from / (used in) financing activities	(33)	(33)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	5,607	5,607
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,039)	(2,039)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(581)	(581)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(33)	(33)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,954	2,954

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

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	2,954	5,607
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,954	5,607

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

(79)

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

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.

7.1 Loan facilities

300

-

7.2 Credit standby arrangements

-

-

7.3 Other (please specify)

-

-

7.4 Total financing facilities

300

-

7.5 Unused financing facilities available at quarter end

300

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.

FCT has an asset leasing facility for \$300,000 with NAB which is secured against the assets being purchased. The facility is available on a revolving basis with repayment terms ranging from 1 to 3 years from the draw-down date. FCT does not currently and has not previously used this facility.

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	(2,039)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	2,954
8.3	Unused finance facilities available at quarter end (Item 7.5)	300
8.4	Total available funding (Item 8.2 + Item 8.3)	3,254
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	1.6
Note: If the entity has reported positive net operating cash flows in item 1.9, answer 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:

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: No – it will be better. The cash outflows in this quarter were abnormal in that they included approximately \$1m of annual payments of which only \$0.25m related to activities in the quarter. The quarter also included \$0.15m in catch-up payments for a supplier who had not invoiced in the previous quarters, and \$0.19m in one-off payments relating to the redundancies announced in the quarter. When the above items are taken into consideration and the annual R&D grant is also factored in, the net operating cashflows on an annualised basis would be approximately \$1.1m less than the reported \$2.039m and hence the quarter's funding calculation would show 4.6 rather than 1.6

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: Not at this stage, but if the company needs to raise capital it is comfortable it will be able to do so. The board is closely monitoring the company's pipeline and on sales results and will make a determination based on those results on how the business should be funded.

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: Yes. Based on delivering on its sales targets and noting the response in question 1 above. It is noted that in Q2 (which is the end of the financial year in the US and LATAM) the business has approximately 50% of the annual renewals for the NMIS product and hence there is a significant seasonality to the company's cash balances. It is also noted that the company has limited fixed costs and hence has the option to reduce costs should the sales or renewals numbers be below expectations. All of the above and the pending receipt of the company's R&D grant leads management to expect the company will be able to continue its operations while maintaining a close eye on pipeline and sales results so alternative action can be taken quickly if required.

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: 26 October 2023

Authorised by: the Board
(Name of body or officer authorising release – By the Board)

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.