

FY19 RESULTS

20 August 2019

Darren Stanley, CEO
Jenny Martin, CFO



citadel group

MANAGING COMPLEXITY

Results in line with guidance provided in May, with a strong platform for future growth



Financial results

Revenue \$99.2m
Guidance \$97m – 104m

EBITDA \$23.3m
Guidance \$22m – 24m

NPAT \$10.9m



Final dividend

6.0cps fully franked. Total FY19 dividends 10.8cps

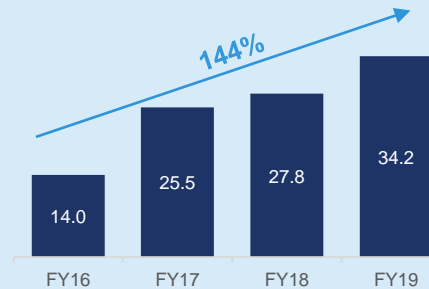


Strong balance sheet

Cash \$14.0m
Debt \$12.0m



Software/SaaS growth



Continued R&D investment

14% of Software/SaaS revenue



Strategic outlook

- Continued focus on recurring revenue model
- Supported by growing long term managed services contracts with new and existing clients
- Weighted pipeline* of \$137m, majority in software/SaaS
- Significant software/SaaS opportunities across business including Citadel-IX and eHealth
- All operating segments forecasting growth in FY20

*Weighted pipeline represents the estimated Total Contract Value (TCV) of active sales opportunities, weighted by the estimated probability of winning the contract

Executive summary

Continued evolution of the Citadel 2.0 strategy – increasing our addressable market and reducing client concentration risks



International opportunities

Building a significant pipeline of opportunities across our health and Citadel-IX offerings



Inorganic growth expanding capabilities

Successful completion of Gruden and Noventus acquisitions expanding capabilities in strategic verticals including Government and Defence and National Security



Continued contract wins

Significant contract wins in traditional services as well as in Software/SaaS space secure future revenue streams



Citadel 2.0 products gaining traction

Revenue from Citadel-IX has increased 157% from FY18 reflecting the investment in our new business model



Increase in SaaS business

Software/Software-as-a-Service (SaaS) revenue now represents \$34.2m (35%) of segment revenue – up from \$27.8m (26%) in FY18, building on our strong existing managed services business

We continue to focus on enterprise information security in key verticals where Citadel has an advantage

Focus around core purpose which is to keep people and information safe

Maintain and grow existing profitable managed services business whilst we invest in Software/SaaS

- Significantly increase our total addressable market (TAM) and reduce client concentration risk, but it will take time
- Software/SaaS now 35% of segment revenue
- R&D investment 14% of Software/SaaS revenue
- Over 60% of total weighted pipeline now software/SaaS with 20% international

1

Investing in building a new and scalable business model

- Investment in software development capability and solutions
- Investment in internal security operations capability to maintain customer data security
- Significant investment (\$1.9m) in core internal platforms (new ERP) to allow the business to scale
- Focus on product roadmap development to retain market leading software position

2




Take products and services internationally through direct and channel sales

- Exclusive partnerships being developed with global software and health companies to take our products into new markets
- Investing in sales capability in support of the 2.0 strategy
- Utilise the strength of our Australian IP and knowledge to facilitate international expansion

3

Executive summary

Citadel has continued to win significant contracts, acquire panels to enable the business to tender for exclusive contracts, and invest in unique IP for the medium to long term

	 Knowledge	 Health	 Technology
Key contract wins	<ul style="list-style-type: none"> Renewal of defence managed service contract Citadel-IX contract wins with Australia's largest council and with two Royal Commissions – now 12 Citadel-IX contracts 	<ul style="list-style-type: none"> Five-year CHARM contract at St Vincent's Hospital NSW Implemented CHARM at John Hunter Children's Hospital, Slade Pharmacies, Prince of Wales Private Hospital Now 28% of the Australian medical oncology eHealth market 	<ul style="list-style-type: none"> Extension of +\$25m total contract value with Monash University to December 2021 Ten-year \$33m contract for new Royal Adelaide Hospital Secured Melbourne University as our third G8 University
Acquisitions	<ul style="list-style-type: none"> Gruden offers procurement-as-a-service focussed on Government Noventus provides systems integration capability – we are now on all three towers of the Defence ICTPA Panel 	<ul style="list-style-type: none"> Integration and evolution of APP (2018) and CHARM (2017) 	<ul style="list-style-type: none"> n/a
Investments	<ul style="list-style-type: none"> Sales capability Security Software engineering Attained ISO 27001 information security certification 	<ul style="list-style-type: none"> Continued R&D investment across all health platforms including rollout of new CHARM Web SaaS offering Sales focus on UK LIS opportunities ISO 27001 in progress 	<ul style="list-style-type: none"> Grow niche specialisation capability in tertiary education, now servicing three G8 universities Development of SaaS enabled help desk support product AV Assist

Long standing customer relationships

Leveraging out trusted status, Citadel has formed significant long term relationships with blue chip companies across multiple verticals

Knowledge



Health





Technology




MONASH University



 We have been serving our top 10 customers for **>150** years on an aggregated basis

 Relationships continue to **evolve** and **develop**

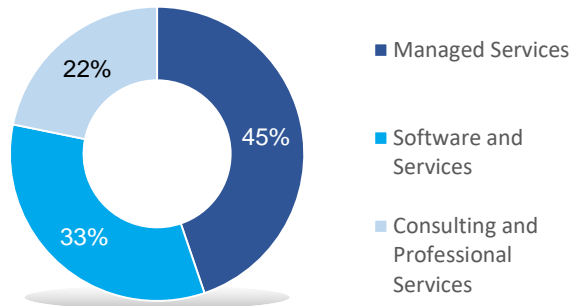
 **Strong history of renewal** through exceeding client's requirements

Citadel's key segments

FY19 Revenue *

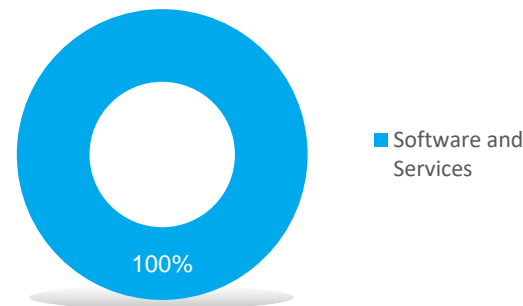
Knowledge

\$43.6m



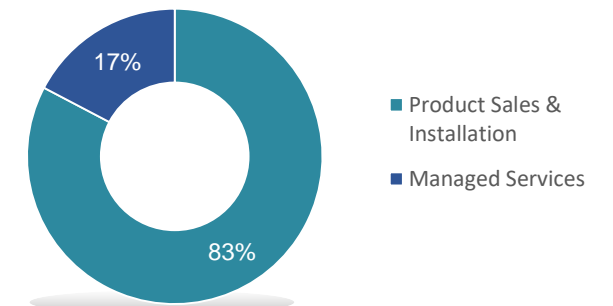
Health

\$19.6m



Technology

\$35.0m



Product offering

Product offering	Knowledge	Health	Technology
Software/SaaS	<ul style="list-style-type: none"> ▪ Citadel-IX ▪ Kapish productivity suite ▪ vResponder ▪ Government tender platforms 	<ul style="list-style-type: none"> ▪ Evolution / AUSLAB ▪ CHARM oncology ▪ Anaesthetic Private Practice (APP) ▪ e-Blood ▪ Health Enterprise Service Management 	<ul style="list-style-type: none"> ▪ AV Assist (in development)
Managed services	<ul style="list-style-type: none"> ▪ Document records management ▪ 24/7 support 	<ul style="list-style-type: none"> ▪ n/a 	<ul style="list-style-type: none"> ▪ Fully dedicated on-premises and off site 24/7 support
Product sales and installation	<ul style="list-style-type: none"> ▪ n/a 	<ul style="list-style-type: none"> ▪ n/a 	<ul style="list-style-type: none"> ▪ Audio visual, video conferencing, unified communication
Consulting and professional services	<ul style="list-style-type: none"> ▪ Secure information management ▪ Contract labour 	<ul style="list-style-type: none"> ▪ n/a 	<ul style="list-style-type: none"> ▪ n/a

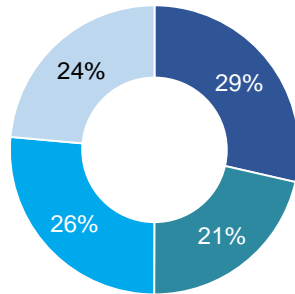
* Excludes \$1m of revenue not directly related to a segment

Progress against Citadel 2.0

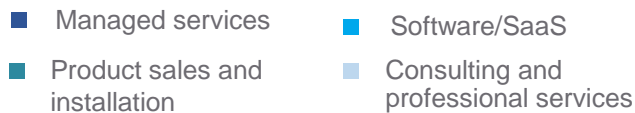
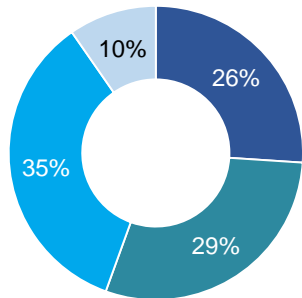
Higher quality Software/SaaS earnings to become a significant proportion of Citadel 2.0

Revenue by service

FY18

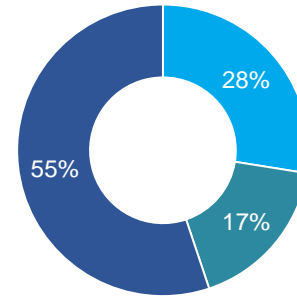


FY19

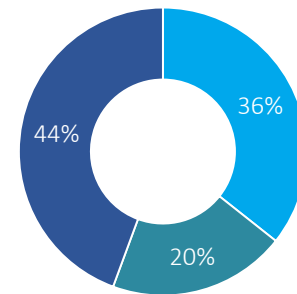


Revenue by segment

FY18



FY19



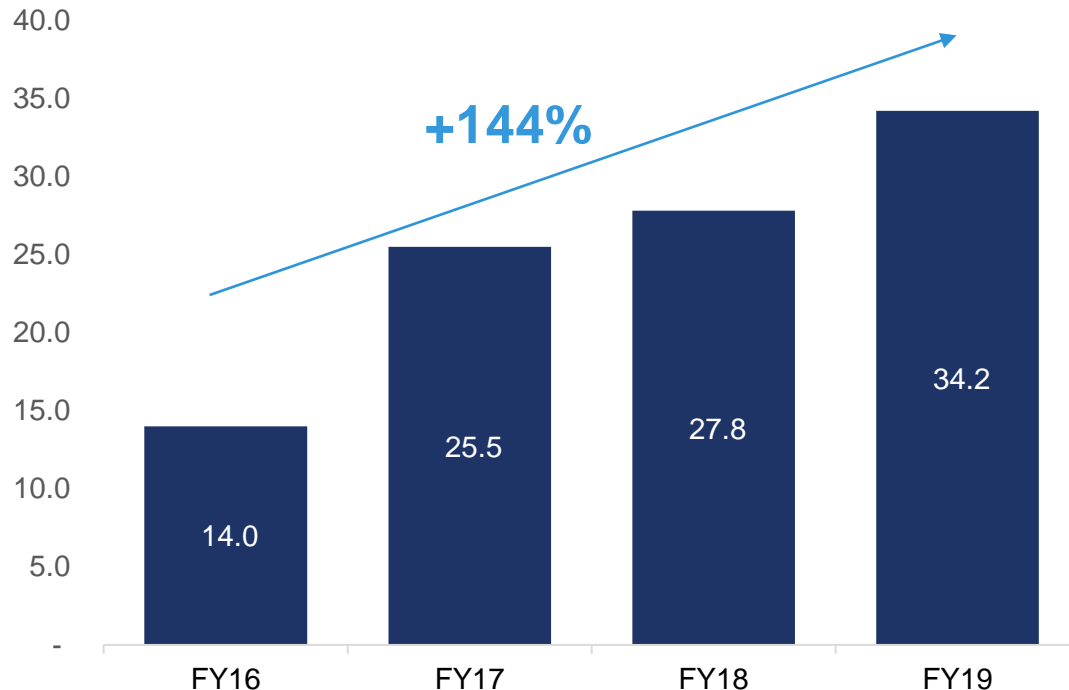
Citadel 2.0

- Continue to invest in the development and distribution of products that have large addressable markets
- Expansion of diversified recurring business to add to the existing core business, rather than replace it
- International expansion opportunities leveraging Citadel's strong Australian IP and leading products
- Expansion into new markets via exclusive channel partnerships

Continued growth in Software/SaaS

Software/SaaS growth supported by new products building on the strong contribution from our existing profitable managed services business

Software/SaaS revenue from continuing operations (\$m)



Software/SaaS revenue includes upfront perpetual licence fees, monthly SaaS revenue, annual maintenance or managed service revenue attached to a service contract

- Strong revenue growth from Software/SaaS business following investments made to develop and enhance software and platform capabilities
 - Citadel-IX gaining momentum, up 157% from FY18
 - Rolling out new SaaS products such as goTRIM and CHARM Web
 - Continued investment in core enterprise health systems (Evolution/Auslab) and Kapish products
 - Redevelopment of Gruden e-tendering platform to .net
- Citadel-IX now 12 contracts and over 27,000 users – targeting 200,000 by end FY20
- New market opportunity addressable by Citadel-IX Share (refer to Product roadmap example in Annexure) and AV Assist to be launched in FY20

Financial performance

Reflects increased focus on scalable software solutions and product contracts

\$m	FY19	FY18*	Change
Total Revenue	99.2	106.5	(6.9%)
Gross Profit	45.0	55.5	(18.9%)
<i>Gross Profit Margin</i>	<i>45.4%</i>	<i>52.1%</i>	
EBITDA	23.3	34.1	(31.7%)
<i>EBITDA Margin</i>	<i>23.5%</i>	<i>32.1%</i>	
Depreciation & Amortisation	8.0	7.4	8.1%
EBIT	15.3	26.7	(42.7%)
Finance Costs	1.0	1.4	(28.6%)
NPBT	14.3	25.3	(43.5%)
Tax Expense	3.4	5.9	(42.4%)
NPAT from Continuing Operations	10.9	19.4	(43.8%)
NPAT from Discontinued Operations	0.0	(1.5)	n/a

*Restated as a result of adoption of AASB15 *Revenue from Contracts with Customers*

Revenue \$99.2 million

- Software/SaaS (+23.0%) YOY
- Health (+7.1%) and Technology (+20.7%) segments up on prior year, Knowledge (-25.0%)
- FY19 underperformance attributed to:
 - Customer-controlled project extensions, which were expected to commence during H2 FY19 were delayed into H1 FY20, due in part to the impact and timing of the Federal Government election
 - CGL not experiencing the same Q4 increase in FY19 in customer spend that has occurred in prior years

Gross margin of 45.4%

- Lower due to impact of delayed customer-controlled extensions and lower Q4 spend from Government contracts, combined with changing mix of revenue
- Citadel-IX offering growing, but initially at 30-40% gross margin. Expected to scale over time

EBITDA \$23.3 million

- SG&A largely flat at \$21.5m (FY18 \$21.4m), despite significant investment in developing software engineering team, sales capability to support SaaS growth initiatives and security information experts

Balance sheet

Strong balance sheet to continue supporting business investment and growth initiatives

\$m	30 Jun 19	30 Jun 18*
Cash	14.0	24.9
Trade & Other Receivables	21.5	15.2
Income Accrual	14.9	17.9
Plant & Equipment	2.1	2.1
Intangible Assets	84.6	79.7
Other Assets	6.5	6.9
Total Assets	143.6	146.7
Debt	12.0	17.8
Trade & Other Payables	18.6	21.0
Other Liabilities	26.7	21.6
Total Liabilities	57.3	60.4
Shareholders Equity	86.3	86.3

- Cash position remains strong at \$14.0m
- Trade & Other Receivables up \$6.3m and Income Accrual down \$3.0m as payment milestones reached
 - Income accrual expected to continue to reduce over FY20
- Intangible assets increased due to
 - Gruden and Noventus acquisitions
 - R&D investment
 - New ERP system
- Debt continues to reduce – down \$5.8m
- Other liabilities includes increase in Deferred Tax Assets \$2.6m and other payables \$3.4m

*Restated as a result of adoption of AASB15 *Revenue from Contracts with Customers*

Cash balance used to invest back in the business through acquisitions and R&D

\$m	FY19	FY18
Opening cash	23.9	29.8
Cash from operations	14.7	20.4
Investment in plant and equipment	(0.6)	(0.9)
Investment in intangibles	(5.6)	(2.8)
Acquisitions of subsidiaries, net of cash	(2.5)	(20.2)
(Repayment)/Advance of loans	(5.3)	7.9
Dividends paid	(10.5)	(10.5)
Proceeds from share issue	0.0	1.4
Discontinued Ops	(0.1)	(1.2)
Closing cash balance	14.0	23.9

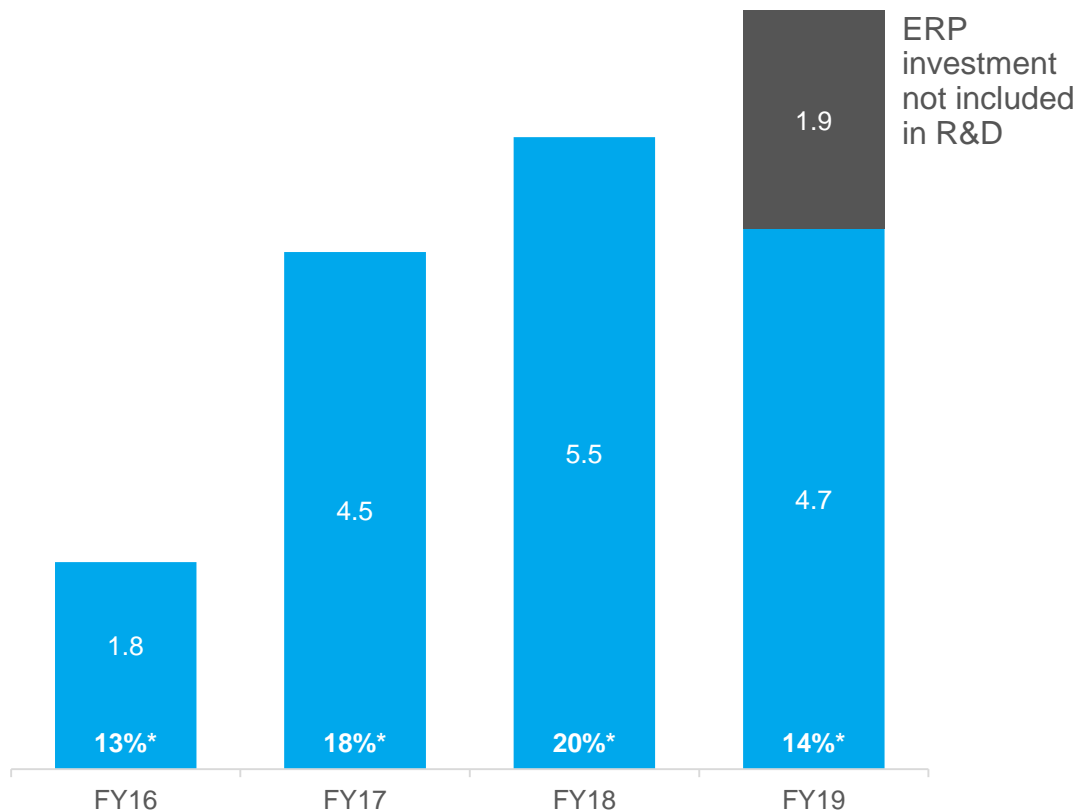
- Cash from operations down \$5.7m
 - Impacted by net increase in receivables/income accrual balance (\$3.3m) and reduction in accounts payable (\$2.4m)
- Increased investment in intangibles (R&D)
- Acquisitions in FY19 funded from free cash flow
 - Acquisition of Gruden (\$1.1m net of cash acquired) and part payment for Noventus (\$1.4m net of cash acquired)
 - FY18 included (\$13.6m) final deferred payments for PJA Solutions and Kapish acquisitions, net cash consideration for CHARM of (\$4.6m), and cash consideration for APP (\$2.0m)
- Debt continues to reduce

* FY18 closing cash balance includes \$1.0m of short term bank facilities which is taken into account for cash flow purposes, but not for balance sheet, resulting in a balance sheet amount of \$24.9m

Investments to support Software/SaaS growth

Current spend supporting future margin growth

R&D Investment (Opex and Capex) (\$m)



* Percentage spend of Software/SaaS revenue

- Investments made to develop secure cloud-based software solutions have led to a direct increase in SaaS revenue from new client wins and cross-selling opportunities
- Citadel has transformed to a highly scalable business with increasing recurring revenues
- Selection of key investments made to scale growth:
 - CHARM platform redeveloped to a fully hosted solution to enable rapid expansion of customer base
 - Significant investment in improved security of the Citadel-IX platform, achieving ISO 27001 certification in H1 FY19
 - Multiple Kapish products released to market and in development, including SaaS enabled goTRIM and Citadel-IX Share
 - Multiple vResponder product enhancements to meet current and future client requirements, including AV Assist variant
 - Redevelopment of Gruden e-tendering platform to .net
- Investments continue to be made in business critical software, big data/knowledge management and digital solutions across product suite
- Significant investment in new ERP to enable Citadel to scale into the future

Strategic priorities and objectives

Citadel's pedigree provides opportunity – our IP and systems are scalable



Positive outlook for FY20 and beyond

Strategic focus on recurring revenue will continue and underpin long term earnings growth



Targeting a return to revenue and EBITDA growth in FY20, supported by:

- Low double digit organic revenue growth
- Margins broadly consistent with FY19 (pre Noventus)
- Full year contribution from Noventus (circa \$18m revenue, \$2m EBITDA)



We will continue to build a recurring revenue model that places less dependence on lumpy project based opportunities and diversify our revenue streams to reduce reliance on single clients/contracts



Our balance sheet continues to support investment in our core capability, R&D investment and strategic acquisitions



Growth opportunities across the Knowledge, Health and Technology segments

All segments forecasting organic revenue growth in FY20



Strong international opportunities expected in next 12-24 months

Appendix



citadel group
MANAGING COMPLEXITY

Citadel's evolution

Citadel has evolved to be a leader in secure, scalable enterprise information management solutions across attractive end markets

- Formed in 2007, delivering specialist advisory training and technology services to federal government departments
- Expanded into the private sector and into state and local governments, and has continued to grow organically and diversify solution and software offerings, focussing on **technology managed services**
- Acquisition of ServicePoint in 2008 built out **communication and collaboration technology** capability
- Listed on Australian Stock Exchange (ASX) 2014
- Health software** specialisation commenced in 2015 with the acquisition of PJA Solutions, then with CHARM acquisition in 2017 and APP in 2018
- Kapish **secure records management software** acquired in 2016, now driving the development of the Citadel-IX SaaS offering
- Now a pure play software and technology company successfully transitioning under Citadel 2.0 strategy to new scalable recurring revenue model**

Focus on enterprise information security in key industry verticals



Tertiary Education



eHealth



Defence & National Security



Government

240+ employees

5 national offices (Canberra, Brisbane, Melbourne, Sydney and Adelaide)

Increasingly diversified product offering



Citadel Group – commenced with Jakeman Business Solutions/Frontier Group merger to form Citadel Group



ASX Listing – Citadel listed on the Australian Stock Exchange



Kapish
KAPISH – **acquired** expertise in everything to do with HP TRIM / MicroFocus Control Manager



Anaesthetic Private Practice
APP – **acquired** an online anaesthetic billing software and practice management software designed for anaesthetists



Noventus – **acquired** a multi-disciplinary project management, logistics and engineering advisory services company, a leading provider of capability improvements to government, defence, telecommunications, and rail clients



2007



2014



2016



2018



2019



2008



2015



2017



2018



ServicePoint – **acquired** specialist provider of secure and non-secure video conferencing systems and related management services



PJAS – **acquired** specialist health systems and managed services provider



Charm – **acquired** Australia's leading supplier of specialist Oncology e-health systems



Gruden – **acquired** to deliver large scale and complex bespoke digital business platforms and managed services

Citadel's senior leadership team

Executive leadership



Darren Stanley
CEO



Jennifer Martin
CFO and Company
Secretary

Health



Stephen Lynch
GM Health

Technology



Mike Ricketts
GM Technology

Knowledge



Ryan Harris
GM Capability &
Delivery



Rob Hartley
Defence & National
Security Industry Lead

Corporate / Shared Services



Bret Kuhl
GM Solutions



Charles Pittar
GM International



Jen Miller
Head of Product



Stewart Hollingdrake
Executive Sales
Manager



Spencer Chipperfield
General Counsel &
Company Secretary

The next generation Citadel-IX...Citadel-IX Share

Citadel-IX Share unifies secure enterprise information management and modern collaboration experiences to deliver a product which brings secure records management, compliance, sharing, linking, search and insights together, delivery a simplified enterprise information management experience for businesses of every size regardless of the underlying platform:

The Citadel-IX Share roadmap includes:

- Sophisticated AI-driven information autotclassification (e.g data sensitivity) and content analysis (image processing, entity extraction & sentiment analysis etc) leveraging Microsoft's Cognitive Services (AI).
- Standalone or eDRMS integrated information classifications schemas based on Microsoft Azure Information Protection enabling users to protect documents, email and content with role-based encryption.
- Rich information search & discovery powered by AI that enriches all types of information to easily identify and explore content quickly and at scale.
- Easy secure sharing of information between internal and external entities while maintaining strict security controls, encryption and governance, ensuring that the information remains protected no matter where it is stored or who it is shared with.
- Integrated with Office 365 security and role-based information encryption for sensitive information.
- Automated Content enrichment services to further augment the content entering the system.
- Advanced information linking and tracking capabilities to visualise information relationships to gain insights into how information is used throughout the organisation or community.
- Intuitive user experience to maintain user productivity whilst at the same time ensuring strict compliance with information governance standards.
- Fully integrated with Microsoft Teams and available for purchase through Microsoft Office 365 AppSource Store.
- Expected go live 2Q FY20

Product descriptions



Knowledge

Kapish – user-friendly software-as-a-service production suite that sits over Micro Focus Content Manager allowing for efficient management of documentation warehouses

Citadel-IX – is a secure cloud-based real-time data information storage and access platform

vResponder – is a citizen-centric digital platform, mobile and web application, designed to keep people safe and assist responders to deal with incidents

Government Platforms – the provision of government e-procurement and grants management platforms

Managed Services – management of electronic document records management systems

Project and Contracting – the provision of specialised project and contracting services in medium and large scale secure information management networks. Due to the size and complexity of projects, these contracts span between 1 and 5 years

Specialist government defence contracting services – the provision of appropriate security-cleared consultants to the Department of Defence. Due to the size and complexity of projects, these contracts may span up to 7 years



Health

Evolution/AUSLAB - highly scalable and configurable enterprise class laboratory information system

CHARM - oncology information management solution

Anaesthetic Private Practice (APP) - cloud-based software-as-a-service practice management and billing solution

e-Blood - blood banking system that enhances the operation of the transfusion laboratory

Health Enterprise Service Management (HESM) – a solution that provides digital transformation through harnessing the scale and flexibility of the ServiceNOW enterprise cloud platform



Technology

Visual Collaborations and Communications – delivering end-to-end secure integrated audio, visual and streaming hardware and software solutions. Rated up to top secret

National Secure Video Network Operations Centre (VNOC) – the provision of sophisticated and highly secure on-client-premises secure network management services

Technical support – the provision of Level 3 technician maintenance and support

Audio Visual support - a service-as-a-solution application designed to make getting technical support for communication and collaboration (AV/VC) systems easy, effective, quick and stress free

Strategic partners



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