

Mach7 Technologies Limited

ACN 007 817 192

and controlled entities (Mach7 Technologies Group)

Appendix 4D and Half Year Report For the half year ended 31 December 2020

Provided to the ASX in accordance with listing rule 4.2A

Mach7 Technologies Limited
ASX Appendix 4D – Half Year Report
 FOR THE HALF YEAR ENDED 31 DECEMBER 2020

Results for announcement to the market

- 1 Current reporting period is 1 July 2020 to 31 December 2020 (H1 2021)
 Previous corresponding period is 1 July 2019 to 31 December 2019 (H1 2020)

			% Change from previous corresponding period		Current reporting period \$'000
2.1	Revenues from ordinary activities	down	22%	to	7,098
2.2	Loss from ordinary activities after tax attributable to members	up	1163%	to	7,174
2.3	Loss for the period attributable to members.	up	1163%	to	7,174
2.4	Dividends				
	Interim dividend		-		-
	Final dividend		-		-

Net Tangible Asset Backing

		31 December 2020	30 June 2020
3	Net tangible asset backing per ordinary share	7 cents	22 cents

Entities over which control has been gained or lost during the period

- 4 The Company acquired (and gained control over) Client Outlook Inc. on 13 July 2020.
 The acquisition of Client Outlook Inc. contributed \$3,471k of losses from ordinary activities to the Group during the current period, which includes \$2,221k of amortisation charges net of associated income tax benefit as a result of recognising intangible assets acquired. Client Outlook Inc. generated a loss from ordinary activities after tax of \$477k for whole of the prior corresponding period.

Comments by directors

Please refer to the “Operating and Financial Review” in the directors’ report for a detailed explanation and analysis of the Group’s performance for the six months ended 31 December 2020.

Review opinion

This report is based on accounts which have been independently reviewed by the Company’s external auditors. A copy of the directors’ report and financial statements, together with the auditors’ review report, is attached.

Mach7 Technologies Limited

Director's Report

AS AT 31 DECEMBER 2020

Your directors submit their report for the half year ended 31 December 2020 ("H1 2021"). The previous corresponding period (PCP) is 31 December 2019 ("H1 2020").

Directors

The following persons were Directors or Company Secretary of Mach7 Technologies Limited (Company) during the whole of the six-month period ended 31 December 2020 and up to the date of this report, unless otherwise stated:

Director

David Chambers	Chairman
Eliot Seigel	Non-Executive Director
Robert Bazzani	Non-Executive Director
Philippe Houssiau	Non-Executive Director (appointed 1 January 2021)
Mike Lampron	Managing Director and Chief Executive Officer
Jennifer Pilcher	Company Secretary

Principal activities

The principal activity of the Company is the development and commercialisation of medical imaging data solutions for healthcare enterprises.

Operating and financial review

The operating and financial review section of the directors' report is outlined in the following sections:

- Financial position
- Review of operations

Financial position

At 31 December 2020, the Group reported net current assets of \$13.7 million, which includes cash on hand of \$14.4 million and deferred revenue of \$5.8 million. Deferred revenue will not result in a cash outflow (and hence does not affect liquidity of the Group), but rather will be recognised as revenue in the profit and loss in future periods. During the current reporting period, the Group completed the acquisition of Client Outlook Inc. on 13th July 2020. The acquisition was an all-cash transaction, with the Group outlaying \$42.2 million in total (net of cash received and debt repaid), all in this half year. This was funded via existing cash reserves and a capital raise. Refer Note 17 for more information. The Client Outlook Group has been consolidated into the Mach7 Group from 14th July 2020.

Review of operations

Revenue from continuing operations

Revenue recognised for the current reporting period was \$7.1 million (H1 2020: \$9.1 million), with the Client Outlook Group contributing \$2.6 million this half (H1 2020: nil). Despite this, Group revenue has fallen by \$2.0 million (22%) compared to the previous corresponding period ("PCP") largely due to the PCP including software revenue from the Advocate Aurora Health license which occurred in July 2019. On a positive note, this half, the Group has reported \$10.9 million of sales orders (total contract value), most of which occurred in the second quarter and have not yet been recognised in revenue. Therefore, the fall in revenue this half is largely due to timing of sales orders and the Directors expect this to be made up in the second half of the financial year.

The table below provides a breakdown of revenue recognised by product/service (table 1):

Mach7 Technologies Limited

Director's Report

AS AT 31 DECEMBER 2020

Revenue from continuing operations	Mach7 Group H1 2021	Mach7 Group H1 2020	
	6 months to 31 December 2020	6 months to 31 December 2019	% Change
	\$	\$	
Software licence fees	1,226,631	4,989,630	(75%)
Professional service fees	771,888	1,371,831	(44%)
Annual maintenance fees	3,389,711	2,585,065	31%
Subscription, Pay-per-use	1,709,513	128,619	1229%
Revenue from continuing operations	7,097,743	9,075,145	(22%)

Expenses from operations

Operating expenditure (excluding interest expense, share-based payments expense, unrealised foreign exchange losses, one-off integration costs, and depreciation & amortisation) for the current reporting period was \$8.8 million (H12020: \$6.6 million), an increase of \$2.2 million (34%). The Client Outlook Group contributed \$3.2 million to the Group's operating expenditure this half, and a further \$0.5 million of integration related costs are included which will not repeat. After allowing for these two items (\$3.7 million). Offsetting this increase, are savings in expenses of \$1.5 million due to integration synergies being realised, including savings as a result of the Group is no longer incurring reseller fees payable to Client Outlook. There has also been a significant reduction on travel and marketing due to COVID-19 which has seen borders remain closed and tradeshow go virtual. The table below presents the operating expenses from operations (table 2):

Operating expenses	Mach7 Group H1 2021	Mach7 Group H1 2020	
	6 months to 31 December 2020	6 months to 31 December 2019	% Change
	\$	\$	
Employee benefits expenses	7,024,183	4,488,637	56%
Corporate and professional fees	735,205	261,027	182%
Marketing expenses	60,435	314,671	(81%)
Travel and related expenses	17,246	245,021	(93%)
Administration, insurance and other	645,201	355,854	81%
Distributor expenses and license fees	349,800	910,827	(62%)
Expenses from operations*	8,832,070	6,576,037	34%

*excluding interest expense, unrealised foreign exchange losses, share-based payments expense, depreciation & amortisation

Profitability

The Group has reported an EBITDA (on an adjusted basis) loss of \$1.2 million for the half year (H1 2020: Profit 2.5 million). The Client Outlook Group contributed \$0.6 million to this loss. The fall in EBITDA (adjusted) is due to the timing of sales orders this half year which has meant much of the revenue from these orders will fall in the second half of the year, together with the rise in expenditure as discussed above. This is set out in the table below:

Mach7 Technologies Limited

Director's Report

AS AT 31 DECEMBER 2020

	Mach7 Group H1 2021	Mach7 Group H1 2020	
	6 months to 31 December 2020	6 months to 31 December 2019	% Change
	\$	\$	
Revenue from continuing operations	7,097,743	9,075,145	(22%)
Operating expenditure (excluding integration costs below)	(8,300,123)	(6,576,037)	26%
Other income/expenses (net)	31,405	23,786	32%
EBITDA Adjusted*	(1,170,975)	2,522,894	(146%)
Unrealised foreign exchange loss	(977,416)	(7,696)	12601%
One-off acquisition / integration costs	(531,947)	-	-
Share-based payments expense (non-cash)	(554,951)	(257,365)	116%
Interest expense (finance leases)	(26,492)	(34,223)	(23%)
Depreciation and amortisation charges (non-cash)	(5,094,842)	(1,930,801)	164%
Income tax benefit (non-cash)	1,182,637	381,990	210%
Loss for the half-year	(7,173,986)	674,799	(1163%)

**Earnings Before Interest, Tax, Depreciation, Amortisation (EBITDA) adjusted for unrealised foreign exchange, one-off integration costs and non-cash item share-based payments expense.*

In addition to EBITDA Adjusted, this half year includes a large unrealised exchange loss (\$0.9 million) as result of the strengthening in the A\$ compared to US\$ and CA\$, and SG\$ to US\$, which has meant the translation of certain assets denominated in foreign currencies have fallen in value compared to the PCP. This half year includes \$0.5 million of one-off integration costs, which will not be repeated in the second half. Share-based payments has also risen by \$0.3 million due to an allocation of options to the executive team joining the Group from Client Outlook. This half year includes \$3.0 million of amortisation expenditure for the amortisation of intangible assets acquired as part of the Client Outlook acquisition. All of these items have meant the Group has reported a loss for the half-year of \$7.2 million (H1 2020: Profit \$0.7 million).

Significant events occurring after balance date

There were no significant events that occurred after 31 December 2020.

Outlook

Following on from last year's commitment to further strengthen Mach7's partnership with a world class enterprise and diagnostic viewer company, Mach7 has completed the transformational acquisition of Client Outlook Inc. in the first half of this financial year. Management's efforts have been largely dedicated to the integration of that business during this half year.

Following the acquisition, Mach7 has grown in both brand recognition and installation base customers. This growth should provide for a network effect that increases sale opportunities. Given Mach7's enhanced product offerings and unique value proposition as the only enterprise imaging platform provider, the Director's expect to achieve research analyst forecasted results, and a position in the market as a thought leader in the enterprise imaging industry.

Significant changes in the state of affairs

Apart from the acquisition of Client Outlook during the period, there were no significant changes in the state of affairs of the Group during the financial half-year.

Mach7 Technologies Limited

Director's Report

AS AT 31 DECEMBER 2020

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'David Chambers', with a small dot at the end.

David Chambers
Chairman
18 February 2021
Melbourne

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Mach7 Technologies Limited ("the Company") and its controlled entities ("the Group") for the half year ended 31 December 2020, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.



RSM AUSTRALIA PARTNERS



R B MIANO
Partner

Dated: 18 February 2021
Melbourne, Victoria

Mach7 Technologies Limited

Statement of Financial Position

AS AT 31 DECEMBER 2020

CONSOLIDATED			
	Note	31 Dec 2020	30 Jun 2020
		\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	6	14,426,840	48,874,210
Trade and other receivables	7	3,472,822	1,636,895
Customer contract assets	8	3,183,570	2,549,378
Other current assets		462,960	362,349
Total current assets		21,546,192	53,422,832
Non-current assets			
Plant and equipment		488,280	181,285
Right-of-use assets		1,121,307	306,959
Customer performance bond deposit		681,427	764,732
Deferred tax asset		524,547	-
Intangible assets	9	51,810,210	6,944,043
Total non-current assets		54,625,771	8,197,019
Total assets		76,171,963	61,619,851
LIABILITIES			
Current liabilities			
Trade and other payables		1,820,244	3,616,500
Customer contract liabilities	10	5,802,412	2,777,482
Interest bearing liabilities	11	243,829	133,399
Total current liabilities		7,866,485	6,527,381
Non-current liabilities			
Lease liabilities		907,903	187,080
Deferred tax liability	12	11,265,144	1,438,662
Total non-current liabilities		12,173,047	1,625,742
Total liabilities		20,039,532	8,153,123
Net assets		56,132,431	53,466,728
EQUITY			
Contributed equity		112,848,652	101,791,997
Reserves		2,430,390	3,647,356
Accumulated losses		(59,146,611)	(51,972,625)
Total Equity		56,132,431	53,466,728

The above statement of financial position should be read in conjunction with the accompanying notes.

Mach7 Technologies Limited

Statement of Profit and Loss and Other Comprehensive Income

FOR THE HALF YEAR ENDED 31 DECEMBER 2020

		CONSOLIDATED	
	Note	31 Dec 2020	31 Dec 2019
		\$	\$
Revenue from continuing operations	4	7,097,743	9,075,145
Other income		207,161	40,537
Expenses			
Employee benefits & staff related expenses		(7,579,134)	(4,746,002)
Distributor and license fees		(349,800)	(910,827)
General administration expenses		(645,201)	(355,854)
Marketing expenses		(60,435)	(314,671)
Professional fees and corporate expenses		(735,205)	(261,027)
Travel and related expenses		(17,246)	(245,021)
Other expenses		(5,791)	(146)
Finance costs		(26,492)	(34,223)
Foreign exchange losses		(1,147,381)	(24,301)
Depreciation and amortisation		(5,094,842)	(1,930,801)
Profit / (Loss) from continuing operations before income tax		(8,356,623)	292,809
Income tax benefit		1,182,637	381,990
Profit / (Loss) for the year		(7,173,986)	674,799
Other comprehensive income			
Other comprehensive (loss) / income – foreign currency translation		(1,691,070)	(35,860)
Total comprehensive profit / (loss) for the year, net of tax, attributable to equity holders of the parent		(8,865,056)	638,939
Earnings per share (cents per share)			
– Basic earnings/(loss) per share		(3.1 cents)	0.4 cents
– Diluted earnings/(loss) per share		(3.1 cents)	0.4 cents
Dividends per share (cents)		–	–

The above statement of profit and loss and other comprehensive income should be read in conjunction with the accompanying notes.

Mach7 Technologies Limited

Statement of Changes in Equity

FOR THE HALF YEAR ENDED 31 DECEMBER 2020

Consolidated	Share Capital	Share Based Payments Reserve	Foreign Exchange Translation Reserve	Accumulated losses	Total Equity
	\$	\$	\$	\$	\$
At 1 July 2019	58,845,390	2,949,030	394,704	(51,823,902)	10,365,222
Profit for the half-year	-	-	-	674,799	674,799
Other comprehensive income/(loss) for the year - foreign currency translation	-	-	(35,860)	-	(35,860)
Total comprehensive income for the half-year	-	-	(35,860)	674,799	638,939
Issue of share capital	20,000,000	-	-	-	20,000,000
Capital raising costs	(1,273,709)	-	-	-	(1,273,709)
Issues of shares upon exercise of options	837,531	-	-	-	837,531
Share based payments	-	257,365	-	-	257,365
Foreign exchange	-	(6,346)	-	-	(6,346)
At 31 December 2019	78,409,212	3,200,049	358,844	(51,149,103)	30,819,002
At 1 July 2020	101,791,997	3,483,810	163,546	(51,972,625)	53,466,728
Loss for the half-year	-	-	-	(7,173,986)	(7,173,986)
Other comprehensive income/(loss) for the year - foreign currency translation	-	-	(1,691,070)	-	(1,691,070)
Total comprehensive income for the half-year	-	-	(1,691,070)	(7,173,986)	(8,865,056)
Issue of share capital	11,420,497	-	-	-	11,420,497
Capital raising costs	(518,850)	-	-	-	(518,850)
Issues of shares upon exercise of options	58,344	-	-	-	58,344
Share based payments	96,664	458,287	-	-	554,951
Foreign exchange	-	15,817	-	-	15,817
At 31 December 2020	112,848,652	3,957,914	(1,527,524)	(59,146,611)	56,132,431

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Mach7 Technologies Limited
Statement of Cash Flows
 FOR THE HALF YEAR ENDED 31 DECEMBER 2020

	CONSOLIDATED		
	Note	31 Dec 2020	31 Dec 2019
		\$	\$
Cash flows from operating activities			
Receipts from customers		8,004,619	8,295,525
Payments to suppliers and employees		(10,729,138)	(5,959,098)
Interest received		67,368	15,611
Interest paid		(26,491)	(42,286)
Other receipts		565,101	-
Net cash provided by / (used in) operating activities		(2,118,541)	2,309,752
Cash flows from investing activities			
Payments for businesses acquired (net of cash acquired)		(42,232,017)	-
Payment for plant and equipment		(85,497)	(50,882)
Net cash flows used in investing activities		(42,317,514)	(50,882)
Cash flows from financing activities			
Proceeds from issues of shares, options etc		11,478,841	20,837,531
(Repayments of) / Proceeds from borrowings		-	(628,337)
Finance lease repayments		(27,763)	(60,823)
Payments for capital raising costs		(499,766)	(1,363,709)
Net cash flows provided by financing activities		10,951,312	18,784,662
Net increase / (decrease) in cash and cash equivalents		(33,484,743)	21,043,532
Net foreign exchange difference relating to cash		(962,627)	(27,574)
Cash and cash equivalents at beginning of period		48,874,210	2,267,448
Cash and cash equivalents at end of period	6	14,426,840	23,283,406

The above statement of cash flows should be read in conjunction with the accompanying notes.

Mach7 Technologies Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2020

1. CORPORATE INFORMATION

The financial report of Mach7 Technologies Limited (the “Company” or the “Parent”) for the half year ended 31 December 2020 was authorised for issue in accordance with a resolution of the directors on 18 February 2021.

Mach7 Technologies Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX:M7T). The nature of the operations and principal activities of Mach7 Technologies Limited and its consolidated entities (the “Group”) are described in the Directors’ Report.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general-purpose financial report for the interim half-year reporting period ended 31 December 2020, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134 'Interim Financial Reporting' as appropriate for for-profit entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The financial report has been prepared on a historical cost basis and is presented in Australian dollars unless otherwise stated.

These general-purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

New or Amended Accounting Standards and Interpretations Adopted

The Group has adopted all the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Mach7 Technologies Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2020

3. SEGMENT INFORMATION

(a) Description of segments and principal activities

The Group's core business is the commercialisation and sale of medical imaging software, predominantly throughout the United States, Asia-pacific, and the Middle East region. The Mach7 Board of Directors and Executive manage the business from both a product and geographic perspective, and have determined there are two reportable product segments, namely the Enterprise Imaging Data Platform (the Mach7 legacy Vendor Neutral Archive and Workflow technology) and the Enterprise Imaging Viewer (the eUnity product recently acquired via the acquisition of Client Outlook Inc. in July 2020).

(b) Segment EBITDA

Segment EBITDA (earnings before interest, tax, depreciation and amortisation) excludes the effects of significant items of income and expenditure which may have an impact on the quality of earnings such as restructuring costs, legal expenses, and impairments where the impairment is the result of an isolated, non-recurring event. It also excludes the effects of equity-settled share-based payments and unrealised gains or losses on financial instruments. Interest income and corporate (head-office) costs are not allocated to segments as they are managed centrally and are for the benefit of the Group as a whole.

	CONSOLIDATED	
	31 Dec 2020 (6 months)	31 Dec 2019 (6 months)
	\$	\$
Segment EBITDA		
Enterprise Imaging Data Platform	487,818	2,745,065
Enterprise Imaging Viewer ("eUnity")	(1,351,227)	90,078
Other segments (corporate)	(307,566)	(312,102)
	(1,170,975)	2,523,041
Reconciliation to net loss after tax		
Segment EBITDA	(1,170,975)	2,523,041
Share based payments expense	(554,951)	(257,366)
Unrealised foreign exchange losses	(977,416)	(7,696)
Depreciation and amortisation expense	(5,094,842)	(1,930,801)
One-off restructuring and business integration costs	(531,947)	-
Finance & interest costs	(26,492)	(34,369)
Income tax benefit	1,182,637	381,990
Net profit / (loss) after tax for the Group	(7,173,986)	674,799

(c) Segment assets and liabilities

The Board and Executive manage the Group's assets and liabilities as a whole, i.e. on a consolidated basis. Therefore, there is no segment analysis of assets and liabilities reported in this financial report.

Mach7 Technologies Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2020

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

(a) Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services both over time and at a point in time in the following major product lines and geographical regions:

	CONSOLIDATED		
	Enterprise Imaging Data Platform	Enterprise Imaging Viewer ("eUnity")	TOTAL
	\$	\$	\$
For the half year ended 31 December 2020			
Total revenues from external customers (segment revenue)	4,361,893	2,735,850	7,097,743
Revenue recognised at a point in time	712,607	514,023	1,226,630
Revenue recognised over time	3,649,286	2,221,827	5,871,113
	4,361,893	2,735,850	7,097,743
Geographical segment revenues			
United States	3,366,255	2,523,228	5,889,483
Middle East	559,386	-	559,386
Asia/Pacific	516,929	99,197	616,126
Europe and other regions	18,129	14,619	32,748
Total revenues from external customers	4,460,699	2,637,044	7,097,743
For the half year ended 31 December 2019			
Total Segment Revenue	8,546,791	528,354	9,075,145
Revenue recognised at a point in time	4,461,276	528,354	4,989,630
Revenue recognised over time	4,085,515	-	4,085,515
	8,546,791	528,354	9,075,145
Geographical segment revenues			
United States	6,939,960	-	6,939,960
Middle East	577,061	-	577,061
Asia/Pacific	1,010,415	528,354	1,538,769
Europe and other regions	19,355	-	19,355
Total revenues from external customers	8,546,791	528,354	9,075,145

Mach7 Technologies Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2020

5. EARNINGS PER SHARE

	31 Dec 2020	31 Dec 2019
Earnings/(Loss) per share ("EPS") – basic (cents)	(3.1 cents)	0.4 cents
Earnings/(Loss) per share ("EPS") – diluted (cents)	(3.1 cents)	0.4 cents

Basic earnings per share ("EPS") is calculated by dividing the net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. The income and share data used in the calculations of basic and diluted EPS is as follows:

	31 Dec 2020	31 Dec 2019
	\$	\$
Net profit/(loss) used in calculating basic and diluted EPS	(7,173,986)	674,799
	Number of Shares	
Weighted average number of ordinary shares used in calculating basic EPS	234,229,787	150,390,872
Adjustments for calculation of diluted EPS	–	–
Weighted average number of ordinary shares used in calculating diluted EPS	234,229,787	150,390,872

6. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	31 Dec 2020	30 Jun 2020
	\$	\$
Cash at bank and on hand	6,183,886	29,553,978
Cash on deposit (< 3-month terms)	8,242,954	19,320,232
	14,426,840	48,874,210

7. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	31 Dec 2020	30 Jun 2020
	\$	\$
Trade receivables	3,899,140	1,791,286
Less allowances for expected credit loss	(718,184)	(245,007)
Other receivables	233,115	3,997
GST receivable	54,071	40,334
Interest receivable	4,680	46,285
	3,472,822	1,636,895

8. CUSTOMER CONTRACT ASSETS

	CONSOLIDATED	
	31 Dec 2020	30 Jun 2020
	\$	\$
Accrued revenue	3,183,570	2,549,378

Mach7 Technologies Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2020

9. INTANGIBLE ASSETS

	Patents	Customer Contracts	Brand Names	Software Intellectual Property	Goodwill	TOTAL
CONSOLIDATED	\$	\$	\$	\$	\$	\$
30 June 2020						
Cost	811,832	8,824,764	1,557,974	14,465,116	-	25,659,686
Accumulated amortisation	(432,139)	(7,642,114)	(1,034,695)	(9,606,695)	-	(18,715,643)
Net carrying value	379,693	1,182,650	523,279	4,858,421	-	6,944,043
31 December 2020						
Cost	792,673	16,376,200	4,668,588	48,392,596	5,064,523	75,294,580
Accumulated amortisation	(477,562)	(9,132,912)	(1,129,837)	(12,744,059)	-	(23,484,370)
Net carrying value	315,111	7,243,288	3,538,751	35,648,537	5,064,523	51,810,210
Movement in carrying value						
Balance 1 July 2020	379,693	1,182,651	523,279	4,858,420	-	6,944,043
Additions	-	7,845,453	3,231,726	35,248,453	5,261,712	51,587,344
Amortisation expense	(54,550)	(1,506,224)	(95,142)	(3,186,869)	-	(4,842,785)
Foreign exchange	(10,032)	(278,592)	(121,112)	(1,271,467)	(197,189)	(1,878,392)
Closing Balance	315,111	7,243,288	3,538,751	35,648,537	5,064,523	51,810,210

10. CUSTOMER CONTRACT LIABILITIES

	CONSOLIDATED	
	31 Dec 2020	30 Jun 2020
	\$	\$
Annual support and maintenance fees received in advance	4,349,240	2,280,960
Professional service fees received in advance	692,046	496,522
Subscription fees received in advance	731,751	-
Software license fees received in advance	29,375	-
	5,802,412	2,777,482

Terms and conditions relating to the above financial instruments:

The Group typically invoices its customers for its services and subscription fees in advance of the services being delivered, or in advance of the license period in the case of subscriptions. On a rare occasion, the Group will receive payment for software before it has been installed and recognised.

11. INTEREST-BEARING LIABILITIES

	CONSOLIDATED	
	31 Dec 2020	30 Jun 2020
	\$	\$
Current portion of lease liability	243,829	133,399
Non-current portion of lease liability	907,903	187,080

Mach7 Technologies Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2020

12. DEFERRED TAX LIABILITY

	CONSOLIDATED	
	31 Dec 2020	30 Jun 2020
	\$	\$
Deferred tax liabilities arising on business combination	11,265,144	1,438,662
Movement in the current period:	Six months	12 months
Balance at beginning of the period	1,438,662	2,202,642
Deferred tax liability recognised on acquisition of Client Outlook	11,419,885	-
Income tax benefit recognised	(1,182,637)	(763,980)
Foreign exchange differences	(410,766)	-
Balance the end of the period	11,265,144	1,438,662

13. FAIR VALUE MEASUREMENT

The carrying amounts of trade and other receivables, trade and other payables, and customer contract liabilities approximate their fair values at reporting date due to their short-term nature.

14. RELATED PARTIES

During the half-year, there were no related party balances or transactions.

15. CONTINGENT LIABILITIES

There are no contingent liabilities for the period ended 31 December 2020.

16. SUBSEQUENT EVENTS

The Company is not aware of any subsequent events that have occurred since 31 December 2020 that may materially affect the financial information in this report.

Mach7 Technologies Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2020

17. BUSINESS COMBINATIONS

Summary of acquisition

On 13 July 2020, the Company acquired all the issued share capital of Client Outlook Inc. ("Client Outlook"), a business specialising in enterprise viewing software for the healthcare industry. Prior to the acquisition, the Company was a reseller for Client Outlook's software globally.

The Company has paid (in cash) \$41,856,005 to the vendors as consideration as outlined in the table below.

The preliminary amounts recorded as a result of the business combination are shown in the table below. The Company has 12 months from the date of acquisition to finalise these amounts. There were no acquisitions in the prior period.

	Preliminary Values
	At 13 July 2020
	\$
Purchase consideration	
Cash consideration paid/payable to vendors	41,856,005
Fair value of net intangible assets acquired¹	
Software intellectual property	35,248,453
Customer contracts	7,845,453
Brand names	3,231,726
Goodwill	5,261,712
Deferred tax liabilities	(11,419,885)
Intangible assets acquired, net of deferred tax liability	40,167,459
Fair value of net tangible assets acquired	
Cash and cash equivalents	1,102,554
Trade and other receivables	4,065,207
Deposits and prepayments	104,652
Fixed assets	362,241
Future income tax benefit	544,970
Trade payables	(1,703,678)
Deferred revenue	(1,533,527)
Bank loans	(1,247,402)
Other liabilities	(6,471)
Net tangible assets acquired	1,688,547
Net assets acquired (fair value)	41,856,005

¹ The Company is currently finalising the purchase price allocation of intangible assets, net of any deferred tax liabilities. The values allocated at 31 December 2020 are preliminary.

Mach7 Technologies Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2020

17. BUSINESS COMBINATIONS (continued)

Goodwill

Goodwill is attributed to the assembled work force in place, key management personnel, access to new territories and markets, preservation of key reseller technology, and regulatory approvals.

Acquired receivables

The net fair value of acquired trade receivables is \$3,265,523. The gross contractual amount for trade receivables due is \$3,805,511, with a loss allowance of \$539,988.

Revenue and profit contribution

The acquired business contributed revenues of \$2,764,268 and a net operating loss of \$1,249,844 to the group for the period from 14 July to 31 December 2020. In addition, the Group recognised an amortization charge of \$3,021,311 and an income tax benefit of \$800,647 related to the acquisition of Client Outlook intangible assets, taking the total loss contribution to \$3,470,507. If the acquisition had occurred on 1 July 2020, consolidated pro-forma revenue and loss for the half year ended 31 December 2020 would have increased by \$225,504 and \$1,206,584 respectively.

Purchase consideration – cash outflow

	A\$
Purchase consideration paid to vendors	41,856,005
Debt and debt-like items repaid on behalf of vendors	1,511,951
Cash acquired	(1,102,555)
FX gain on working capital payment	(33,384)
Net outflow of cash – investing activities	<u>42,232,017</u>

In addition to the purchase consideration, the Company has incurred \$825,085 of acquisition related expenses. Of this amount, \$59,946 has been recognised in the statement of profit and loss statement during the current period.

DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'David Chambers', with a stylized flourish at the end.

David Chambers
Chairman
18 February 2021
Melbourne

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INDEPENDENT AUDITOR'S REVIEW REPORT**TO THE MEMBERS OF****Mach7 Technologies Limited****Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Mach7 Technologies Limited which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that dates, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Group comprising of Mach7 Technologies Limited ("the Company") and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Group are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2020 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Mach7 Technologies Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Mach7 Technologies Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Mach7 Technologies Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



RSM AUSTRALIA PARTNERS



R B MIANO

Partner

Dated: 18 February 2021
Melbourne, Victoria