Spirit Technology Solutions Ltd (ASX:ST1)

FY22 H1 Results | Feb 2022

Sol Lukatsky | Managing Director

Paul Miller | CFO

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Record Sales Revenue growth of 54% driven by product and geographic diversification

Solid H1 performance: FY22 H1 sales revenue of $65.9M, up 54% YoY, and positive underlying EBITDA[2] of $4.2M achieved during lockdowns and seasonally slower first quarter. (Underlying EBITDA excludes $2.5M of profit from consumer asset sale).

Bank facility renewal & increase: Spirit has received formal credit approval from CBA to extend the existing facilities by a further three years to 1 July 2025. The facility has also been permanently increased to $32.0M (from $25.0M).

Strong balance sheet: As of 31 December 2021, Spirit had $17.4M of cash and debt through its bank facility.

Record revenue sales growth of 54%: Product and geographic diversification: Cyber security services accounted for 24% of revenue in H1 FY22, up from 5% YoY. Voice services accounted for 23% of revenue in H1 FY22, up from 7% YoY.

Resilient business model: Increasing proportion of recurring/contracted revenue to 52% of total revenue in H1 FY22, up from 48% of total revenue in H1 FY21

H1 FY22 Results Overview

	H1 FY22	H1 FY21	YoY%
Sales Revenue	$65.9M	$42.8M	54%
Revenue & Other Income	$69.6M	$44.0M	58%
EBITDA[1]	$5.5M	$3.4M	62%
Underlying EBITDA[2]	$4.2M	$4.4M	(5)%
Net Profit After Tax (NPAT)	$3K	$508K	(99)%
Cash	$10.4M	$12.9M	–

1. EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for depreciation, amortisation, interest and tax. EBITDA ***includes*** $2.5M of profit from consumer asset sale.
2. Underlying EBITDA adjusts EBITDA to exclude business acquisition, divestment & integration costs, net fair value gain/(loss) on remeasurement of contingent consideration on business combinations and share-based payments. Underlying EBITDA ***excludes*** $2.5M of profit from consumer asset sale.

Cross-selling added services on digital infrastructure

One-stop-shop for Digital Workplaces

Internet Connections

- Business Fibre
- NBN Enterprise
- Fixed Wireless
- Private Network
- Managed Router

Communications

- Mobile
- LivePBX
- LiveCall
- Webex/Cisco
- MS Teams

Cyber Security

- SD-WAN
- Custom SD-WAN
- Firewall
- Endpoint Security
- Advanced Security Services

Managed Services

- Managed Print
- DR & BCP
- IT Support
- Managed IT
- Managed Wi-Fi
- Professional Service

Cloud Solutions

- Hybrid Cloud
- Private Cloud
- Public Cloud
- LiveOffice
- LiveOffice Desktop
- LiveOffice Exchange

Contract Wins H1 FY22

Record sales in November (TCV: $12.2M) and December (TCV: $13.6M) will underpin revenue growth in 2H FY22 and beyond. Spirit's push into mid-market and corporate continues to show large deal size wins (selection shown)

Banking & Financial Services

Two new contracts secured to provide industry leading cloud-based cyber threat detection platforms

TCV $3.3M

Services

New contract for a sophisticated network segmentation solution

TCV $2.6M

Healthcare

After becoming Varonis' first certified delivery partner in Australia, Spirit won the largest Varonis deal in the southern hemisphere to date

TCV $2.1M

Mining

Large regional network deal to provide high speed Internet to multiple mining sites.

TCV $1.5M

Accelerating demand. . . Fragmented solutions

The digital requirements of modern businesses have accelerated

- Distributed workforce
- High bandwidth/fast speed requirement
- Migrating to cloud-based digital tools
- Conduct all activities (e.g. sales/support) online
- Integrate and manage many device types

A significant gap exists for Spirit to be a one-stop-shop for digital workplace solutions

...but there is no easy-to-deploy end-to-end solution

- Major telcos are not equipped to help SMB's & Corporates transition to this new work environment
- Traditional ISPs own 'road' but not the valued added services
- Business owners have to go to multiple service providers to create a solution
- Each service provider doesn't own any issues that arise in the solution

Asset Strategy Update

- **Consumer business:** divestment returned $5.1M in capital.
- **M&A:** sector consolidation continuing at pace for assets with scale.
- **Return of capital:** The sale of the fixed wireless network would return significant capital back for both organic and acquisition growth initiatives (currently in exclusive DD phase).
- **Future acquisition strategy:** Acquisition targets have been identified across B2B Telco and Cloud.
- **Integration milestones continue to plan:** Nexgen next to be integrated across Billing, CRM & ERP.

Spirit 2.0

Structural change in the workplace has accelerated.
Spirit is currently undertaking a substantial internal transformation project, Spirit 2.0.

Mission statement:

'To Be Australia's leading provider of Modern and Secure Digital Workplaces'

1. Spirit to align around three core business units : Nexgen (SMB), Spirit (Mid Market), Intalock (Corporate).
2. Investment in digital platforms across Sales, Product & Technology.
3. Focus on product 'cross sell' across the portfolio to maximise operating model.
4. Leverage the product suite to take significant national market share in the 'mid-market.'
5. Aligning our growth strategy to ensure our organic and acquisitive ambitions are complimentary and targeted.
6. Maximise buying/procurement synergies.

Scale & Growth at record

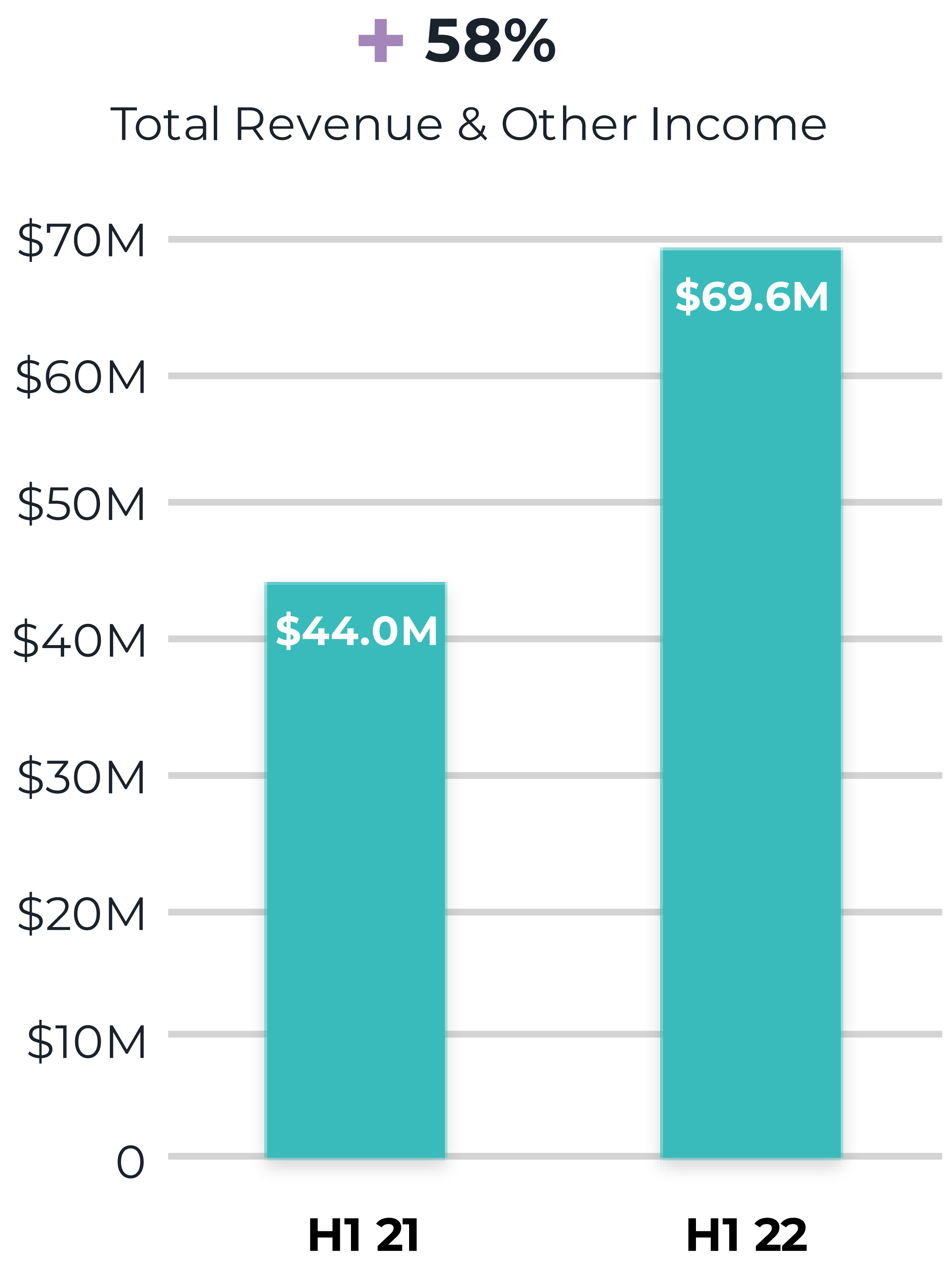
Up 58% YoY

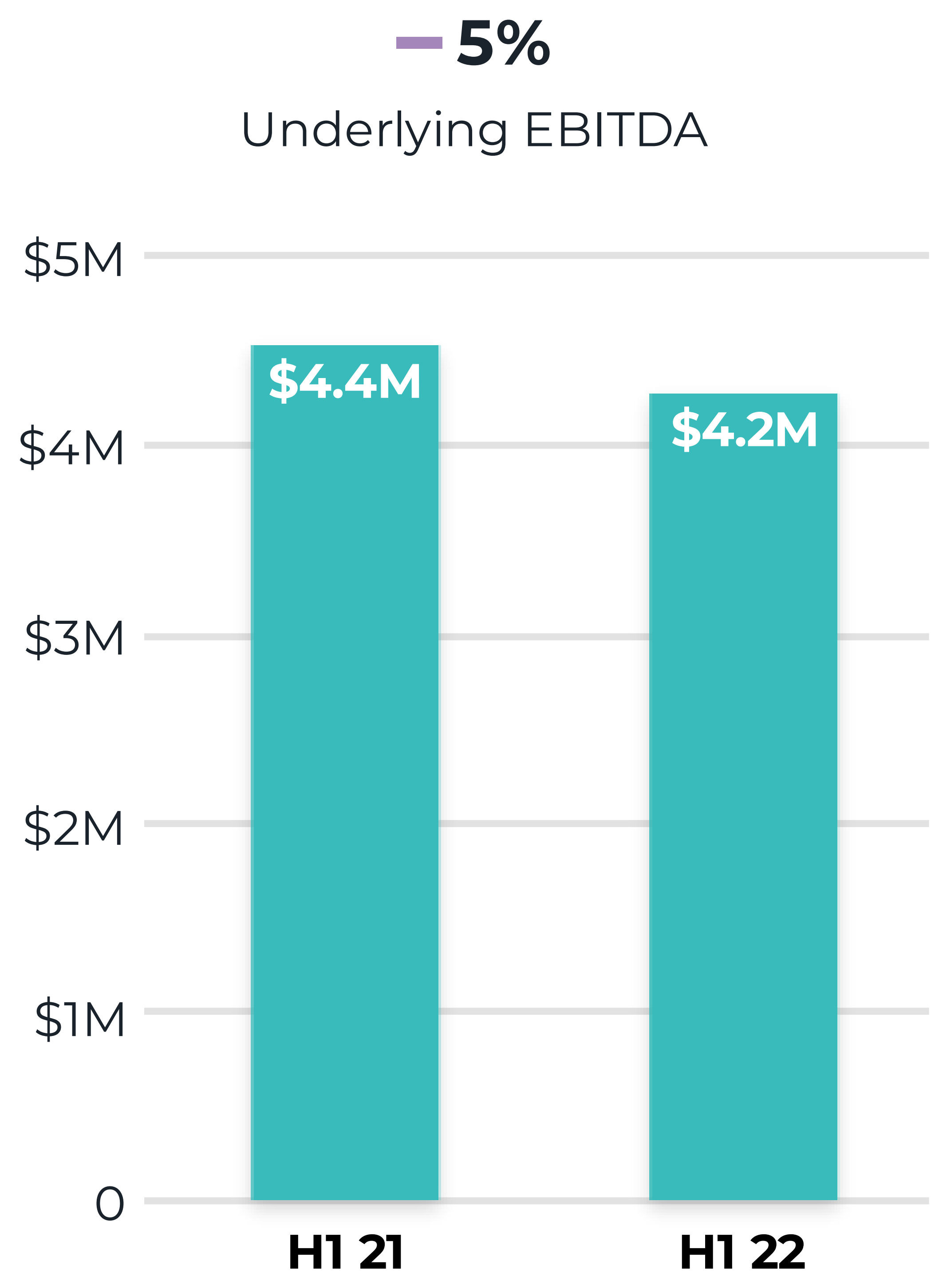
Total revenue and other income for H1 FY22 of **$69.6M**, **up 58%** YoY, with sales revenue of **$65.9M, up 54% YoY**.

Strong organic sales growth with Total Contract Value (TCV): November **($12.2M**) and December **($13.6M).**

Underlying EBITDA[1] of **$4.2M** (down 5% YoY) which excludes $2.5M profit from sale of Consumer assets.

Capital available: As of 31 December 2021, Spirit had **$17.4M of cash** and debt through its bank facility.





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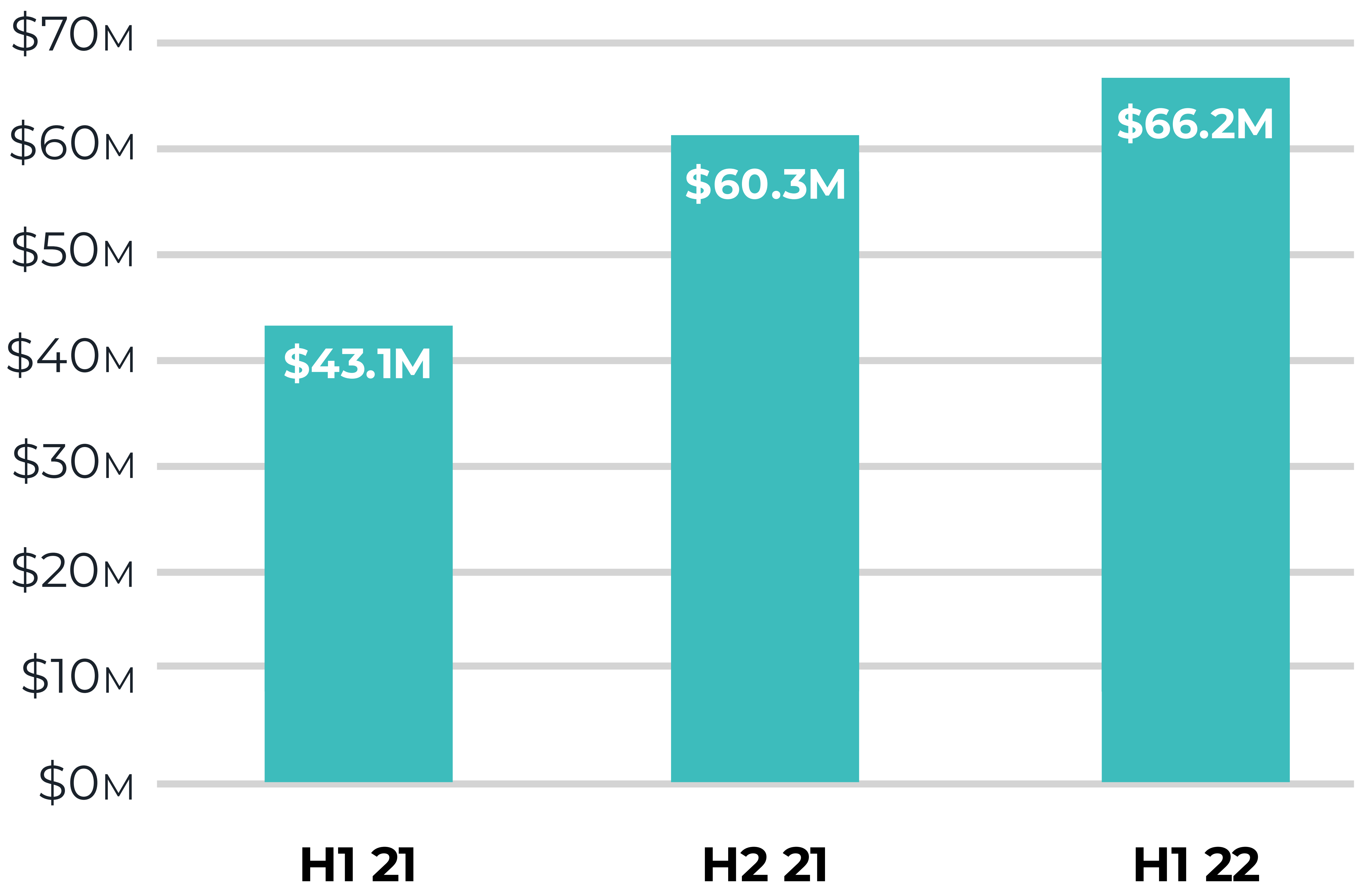
Up 54% YoY

H1 FY22 Recurring and S&P Revenue Growth to $66.2M

- Revenue[1] for the half at **$66.2M**, up **54% YoY** and up 10% on H2 FY21.
- **Relative to H2 FY21:**
  - Security services up 45% (all organic growth)
  - Voice services up 35% (acquisition contributions)
  - Internet & Data services up 21% (acquisition contributions)
  - Managed IT services down 12% due to hold back on Solution's & Project due to lockdowns



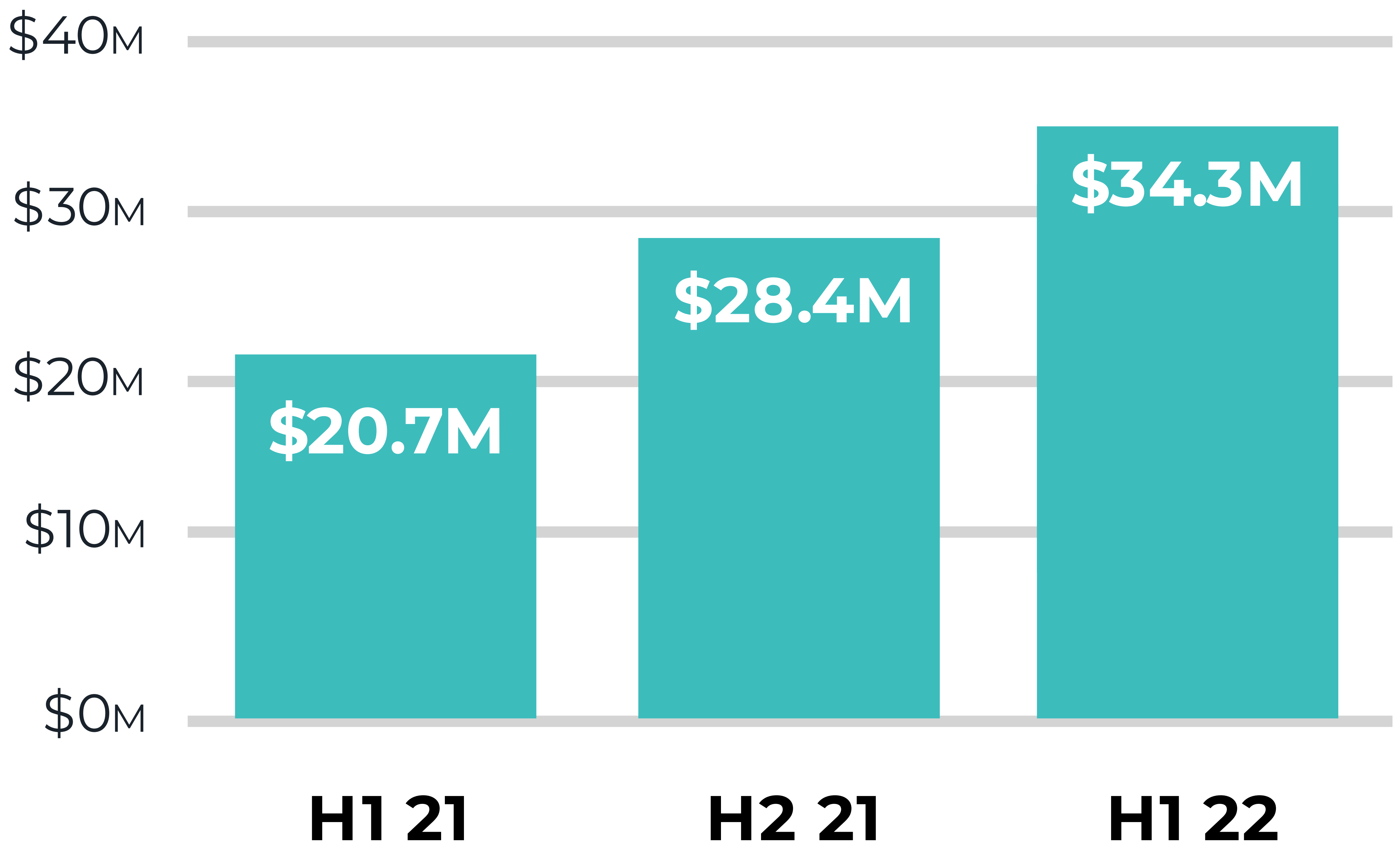
1. Revenue refers to Recurring and Solutions & Projects revenue. Project revenue includes government grant infrastructure revenue.

Recurring Revenue

Up 66% YoY

H1 FY22 Recurring Revenue Growth to $34.3M

- Total recurring revenue for the half at **$34.3M, up 66% YoY and 21% on H2 21.**
- Mix of acquisition and organic growth – Organic driven by Cyber Security multi year locked in purchase orders with key enterprise customers.



Key Financial Summary

	H1 FY22	H1 FY21	YoY	YoY %
Recurring & S&P Revenue[1]	$66.2M	$43.1M	$23.1M	54%
Cost of sales	($32.9M)	($22.7M)	($10.2M)	45%
Gross Profit	**$33.3M**	**$20.4M**	**$12.9M**	**63%**
Gross Profit %	50%	47%		
Other income	$3.4M	$0.9M	$2.5M	278%
Operating Expenses	($31.2M)	($17.9M)	($13.3M)	74%
EBITDA[2]	$5.5M	$3.4M	$2.1M	62%
EBITDA[2]%	8%	8%		
Underlying EBITDA[3]	**$4.2M**	**$4.4M**	**($0.2M)**	**(5%)**
Underlying EBITDA[3] %	6%	10%		
Finance Costs	($0.6M)	($0.3M)	($0.3M)	
Depreciation & amortisation expenses	($4.5M)	($2.8M)	($1.7M)	
Income tax (expense) / benefit	($0.4M)	$0.2M	($0.6M)	
Net Profit After Tax (NPAT)	**$3K**	**$508K**	**($505K)**	**(99)%**

REVENUE & OTHER INCOME	H1 FY22	H1 FY21	YoY	YoY %
Sales Revenue	$65.9M	$42.8M	$23.1M	54%
Government Infrastructure Grants	$0.3M	$0.3M	-	0%
Recurring & S&P Revenue	**$66.2M**	**$43.1M**	**$23.1M**	**54%**
Other income	$3.4M	$0.9M	$2.5M	278%
Total revenue & other income	**$69.6M**	**$44.0M**	**$25.6M**	**58%**

UNDERLYING EBITDA[3]	H1 FY22	H1 FY21	YoY	YoY %
EBITDA	$5.5M	$3.4M	$2.1M	62%
Business acquisition & divestment costs	$0.8M	$0.8M	-	
Profit on divestment of consumer	($2.5M)	-	($2.5M)	
Share based payments	$0.4M	$0.3M	$0.1M	
Underlying EBITDA	**$4.2M**	**$4.4M**	**($0.2M)**	**(5%)**
Underlying EBITDA %	6%	10%		

1. Recurring & S&P Revenue refers to Recurring and Solutions & Projects revenue. Project revenue includes government grant infrastructure revenue. 2. EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for depreciation, amortisation, interest and tax. EBITDA ***includes*** $2.5M of profit from consumer asset sale. 3. Underlying EBITDA adjusts EBITDA to exclude business acquisition, divestment & integration costs, net fair value gain/(loss) on remeasurement of contingent consideration on business combinations and share-based payments. Underlying EBITDA ***excludes*** $2.5M of profit from consumer asset sale.

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