

ASX Announcement

29th April 2022

Damstra Technology

(ASX: DTC)

Q3 FY22 Quarterly Report and Appendix 4C

Damstra Holdings Limited (ASX:DTC) (**Damstra** or the **Company**), a leading Australia-based global provider of integrated workplace management solutions, provides an update on the Company's operations for the third quarter of FY22 ended 31 March 2022 (**Quarter** or **Q3**).

Key Operating Highlights

- Quarterly revenue (unaudited) of \$8.0m¹, second highest quarterly revenue in Damstra's history
- Consecutive quarters of quarter-on-quarter growth, with Q3 up 13% on Q2 and 27% on Q1
- YTD revenue of \$21.3m, up 18% vs prior corresponding period (PCP)²
- Net client retention at 108%² and revenue contribution from new clients of \$1.9m in the past 12 months
- Improving cash flow³ trend in March with \$0.5m outflow
- Appointed as technology partner for Victoria's largest road project, the \$15.8bn North East Link project, with total revenue estimated at \$4.9m over the six-year life of the project
- FY22 revenue guidance band tightened to \$30m - \$32m and EBITDA margin guidance of 2-5% with 5-10% in 2H FY22 unchanged

Commenting on the results, Chief Executive Officer, Christian Damstra, said:

"Our business has now delivered two consecutive quarters of revenue growth driven by an extremely strong performance by our two largest verticals, construction and mining. We are confident this strong momentum will continue for the rest of the financial year. On the cash flow front, the Company has made significant strides and it was pleasing to see improvement in our March operating and investing cash flow, with a reduced cash outflow of \$0.5m. We see this as a key financial metric, and one which we believe we have achieved a significant and sustainable improvement versus any month this financial year."

Quarterly performance

Damstra delivered revenue of \$8.0m in the quarter, its second successive quarter of revenue growth following the rebasing of the business, with Q3 up 13% on the second quarter and up 27% on Q1. This was driven by growth across much of the client base, particularly in the Company's two largest verticals, construction and mining, which contributed to the continued improvement in net client retention. Also contributing was the revenue contribution from new clients.

Total YTD revenue of \$21.3m is a record Q3 YTD result. Excluding Newmont, Q3 YTD revenue is up 18% on a PCP basis.

Of the revenue contribution from new clients, Damstra's smaller clients made a strong contribution, with new client growth of 20 in Q3 and over 90 in last 12 months (excluding clients acquired via acquisitions).

¹ Unaudited and includes proportional share of equity accounted joint venture

² Excludes Newmont

³ Defined as operating + investing cash flow excluding acquisitions

On a like for like basis, client churn of workforce management clients was consistent with Q2, but the inclusion of Vault customers that were previously excluded due to insufficient historical data increased the overall churn to 2.2%. This reflects the different product offering and customers associated with the acquired Vault business.

Annual recurring revenue (ARR) for the quarter is \$28.7m, up from \$27.8m at the end of December, an increase of 13% annualised.

Key Financial and Operating Metrics

Metric	Q3 FY22	Q2 FY22	Q3 FY21 (PCP)	Variance (to Last Quarter)	Variance (to PCP)
Clients	836	763	670	73	166
Net Client retention %	108%	105%	100%	3%	8%
Client churn	2.2%	0.6%	<0.5%	1.6%	>1.7%

(note: above metrics exclude Newmont. Clients includes TIKS in Q3, Client churn includes Vault customers in Q3)

Cash flow and Costs

Cash flow, defined as operating cash flow and investing cashflow, excluding acquisitions, was an outflow of \$4.7m for the quarter. This was adversely impacted by one-off cash outflows of ~\$1m as well as the timing of certain cash receipts and cash payments around the December and March quarter ends.

Cash flow is improving, with a cash outflow of only \$0.5m in March benefiting from increased revenue and reduced costs achieved by the implementation of a cost optimisation program. In Q4, average monthly cash flow is expected to be similar to the \$0.5m outflow achieved in March.

Total savings identified by the cost optimisation program have now increased to \$5m p.a., which is expected to be fully run rated by the end Q2 FY23. The cost savings have been focused on non-revenue generating areas of the business, including infrastructure optimisation, hosting costs, software optimisation, office rationalisation and client self-configuration.

Debt Facility

In February 2022, an agreement was reached with Partners for Growth VI, L.P., the Company's financier, to restructure elements of the debt facility including revising financial covenants in Damstra's favour and cancelling a second \$5.0m tranche of the facility which is no longer required following the equity raising in December 2021. As a result, the total facility size reduced from \$20.0m to \$15.0m. As of 31 March 2021, \$10.0m of this facility had been drawn, with \$5.0m undrawn. Since the restructure, all financial covenants have been complied with.

Cash on hand as of 31 March 2022 was \$11.9m, with a further \$5m in funds currently undrawn.

Client Activity

During the quarter, underlying positive trends in the business continued, with monthly registrations (new licences) in March the highest level since tracking began at the beginning of FY21. Improved conditions in Damstra's two largest verticals of construction and mining have driven accelerated growth, with COVID restrictions having been lifted and a favourable macroeconomic environment driving increased activity in both sectors. These two verticals account for ~60% of Damstra overall revenue.

The construction vertical continues to perform exceptionally well, with positive trends seen in Q2 continuing in Q3 with annualised growth over 30%. This was driven by new projects and increased site activity as COVID restrictions ease.

The mining vertical, which was flat during the COVID period as site operations were restricted, with FIFO workers removed in many locations and planned shutdowns postponed, saw a change in momentum in Q2 which has continued in Q3.

In March, Damstra was appointed technology partner on Victoria's largest road project, the \$15.8bn North East Link project, to be delivered by the Spark Consortium. Total revenue for Damstra is estimated at over \$4.9m (unaudited) over the six-year life of the project. Damstra will provide mobilisation systems via its Enterprise Protection Platform to approximately 15,000 users on the project, utilising the workforce management, Damstra Learning and digital forms modules. The Spark Consortium comprises CIMIC Group companies CPB Contractors, Ventia and Pacific Partnerships, Italy's WeBuild, South Korea's GS Engineering and Construction, China Construction Oceania, Capella Capital, John Laing Investments and DIF.

Our construction vertical is performing strongly. Listed below are select projects that are in mobilisation and ramp up phase across Australia which demonstrates the breadth and range of activity that Damstra is involved in:

- Sydney Metro - Western Sydney Airport Station Boxes and Tunnelling Works. The new metro railway runs from St Marys through to the Western Sydney International Airport and the Western Sydney Aerotropolis;
- Warringah Freeway Upgrade. The freeway upgrade is key to a city-shaping network of roads that will reduce congestion in Sydney, as population and transport demand grows;
- Structural, mechanical, piping, electrical and instrumentation package for the port debottlenecking project at Nelson Point, Port Hedland in the Pilbara region of Western Australia;
- Deliver duplication works on the Main South Road and the Victor Harbor Road in South Australia. Works are funded by the Federal and South Australian Governments and will reduce traffic congestion, improve road safety and connectivity, and support economic growth in the Southern Fleurieu region.

The construction market in ANZ is robust and Damstra continues to engage with current and prospective clients in ANZ and internationally to leverage its growing reputation for deploying broad technology solutions at scale.

North America

Damstra has finalised contractual discussions with a Global Mining client, and we are presently finalising implementation plans. Once the contractual arrangements are executed, we will update the market in accordance with our continuous disclosure obligations.

Executive Changes

Further to the announcement released on 26 November 2021, Damstra advises that as of 28th of February Chris Scholtz formally stepped down from his role as Chief Financial Officer and Andrew Ford has taken over all CFO duties.

Outlook

Previous FY22 guidance⁴ was for revenue of \$30m - \$34m and EBITDA margin of 2-5%, with 5-10% in 2H FY22.

With Q3 results now finalised and having firmer visibility on Q4 revenue, revenue guidance has been tightened to \$30m - \$32m. EBITDA margin guidance remains unchanged.

Damstra provides this guidance on the basis that market conditions do not materially change, such as no re-emergence of COVID restrictions and resulting disruption to client and market activity.

Authorised for release to ASX by the Board of Damstra Holdings.

⁴ As disclosed 28 Feb 2022 H1 FY22 Results Presentation

Ends

Enquiries

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About Damstra

Damstra is a global leader in enterprise protection software. Its Enterprise Protection Platform (EPP) integrates an extensive range of modules and products that allows organisations to mitigate and reduce unforeseen and unnecessary business risks around people, workplaces, assets, and information.

Integral to the Damstra EPP, Damstra's Workforce Management, Learning Management and Connected Worker solutions combine to ensure Protected People. In creating workplaces that are Safe, Damstra's Access Control, Digital Forms and Safety Solutions are utilised. Assets are connected into operations, through integrated Asset Management enabling Asset mobilisation and offerings in RFID and IOT. And lastly Accessible Information, Reporting BI tools and Predictive Analytics are critical to ensuring customers are making the right decisions with the right information.

For more information, please visit <https://www.damstratechnology.com> or visit our LinkedIn page <https://www.linkedin.com/company/damstra-technology>

Forward-Looking Statements

This ASX release includes certain forward-looking statements that are based on information and assumptions known to date and are subject to various risks and uncertainties. Forward-looking statements are based on:

- assumptions regarding the Company's financial position, business strategies, plans and objectives of management for future operations and development and the environment in which the Company will operate; and
- current views, expectations, and beliefs as at the date they are expressed, and which are subject to various risks and uncertainties.

Actual results, performance or achievements could be significantly different from those expressed in, or implied by, these forward-looking statements. Such forward-looking statements are not guaranteeing of future performance and involve known and unknown risks, uncertainties, and other factors, many of which are beyond the control of Damstra. These factors may cause actual results to differ materially from those expressed in the statements contained in this announcement.

The Company disclaims any responsibility for the accuracy or completeness of any forward-looking statement. The Company disclaims any responsibility to update or revise any forward-looking statements to reflect any change in the Company's financial condition, status or affairs or any change in the events, conditions, or circumstances on which a statement is based, except as required by law. The projections or forecasts included in this announcement have not been audited, examined, or otherwise reviewed by the independent auditors of the Company.

You must not place undue reliance on these forward-looking statements.

***Unless otherwise specified, all amounts are provided in AUD and an unaudited basis and pro forma basis.**

Appendix 4C

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

Name of entity

Damstra Holdings Limited [DTC.ASX]

ABN

74 610 571 607

Quarter ended ("current quarter")

31 March 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	5,891	20,620
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(2,674)	(7,927)
(c) advertising and marketing	(120)	(313)
(d) leased assets		
(e) staff costs	(3,276)	(9,837)
(f) administration and corporate costs	(2,725)	(7,697)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Government grants and tax incentives	-	186
1.8 Other (Stamp duty)	-	(25)
1.9 Net cash from / (used in) operating activities	(2,904)	(4,993)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities		
(b) businesses	-	(2,241)
(c) property, plant, and equipment	(320)	(807)
(d) investments		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
	(e) intellectual property	(1,480)	(4,398)
	(f) other non-current assets	(1)	3
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(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 (contingent consideration relating to prior year acquisition)		
2.6	Net cash from / (used in) investing activities	(1,801)	(7,443)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	20,020
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	(320)	(1,408)
3.5	Proceeds from borrowings	7,000	9,000
3.6	Repayment of borrowings	(8,186)	(11,297)
3.7	Transaction costs related to loans and borrowings	-	(60)
3.8	Dividends paid		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
3.9	Other (provide details if material) <ul style="list-style-type: none"> • Leased assets – equipment • Leased assets – offices • Interest received • Interest and other costs of finance paid 	<ul style="list-style-type: none"> - (210) 10 (413) 	<ul style="list-style-type: none"> - (506) 26 (1,275)
3.10	Net cash from / (used in) financing activities	(2,119)	14,500

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	18,722	9,834
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,904)	(4,993)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,801)	(7,443)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(2,119)	14,500
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	11,898	11,898

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	11,898	18,722
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	11,898	18,722

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	319
6.2	Aggregate amount of payments to related parties and their associates included in item 2	

6.1 above is comprised of director fees and expenses paid to 6 directors for the period 1 January – 31 March 2022

7.	Financing facilities <i>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.</i>	Total facility amounts at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	15,000	10,000
7.2	Credit standby arrangements		
7.3	Other (please specify)		
	- Merchant prepayment	-	-
	- Insurance funding	-	-
	- Asset finance	-	-
	- Bank guarantees	391	391
7.4	Total financing facilities	15,391	10,391

7.5	Unused financing facilities available at quarter end	5,000
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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.

- \$15m Revolving Loan Note Facility with interest only repayments ("Loan Facility")

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	(2,904)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	11,898
8.3	Unused finance facilities available at quarter end (Item 7.5)	5,000
8.4	Total available funding (Item 8.2 + Item 8.3)	16,898
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	6

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: N/A

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: N/A

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: N/A

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.

On behalf of the Board

Sign here:



(Director)

Date: 29 April 2022

Print name: Johannes Risseeuw

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 – e.g., 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.