Spirit Technology Solutions Ltd (ASX: ST1)

FY22 Results | Aug 2022

Julian Challingsworth | MD and CEO

Paul Miller | CFO

Revenue and other income up 33% to $138.7M in FY22, underlying EBITDA down 37% to $7.3M, one-off impairment of $48.4M to non-current assets

Consolidated Financials
Period Ending June 30

$ in 000's	2022	2021	Change	
Customer revenue (Note 1)	135,338	102,786	32,552	32% (Note 1)
Other income	3,394	1,683	1,711	
Revenue and other income	**138,732**	**104,469**	**34,263**	33%
EBITDA (Note 2)	(46,216)	8,619	(54,835)	
Impairment of non-current assets ('non cash')	48,374	-	48,374	
Other underlying adjustments (Note 3)	4,377	2,268	2,109	
Share-based payments	721	620	101	
Underlying EBITDA (Note 2)	**7,256**	**11,507**	**(4,251)**	(37%)
Underlying EBITDA margin as % of revenue & other income	*5.2%*	*11%*	*(5.8)ppts*	
(Loss)/profit after income tax benefit/(expense)	**(53,166)**	**1,157**	**(54,323)**	

Material impact driven largely by the Managed Services (IT&T) operating segment and corporate investment, further information on following pages

Note (1) Customer revenue includes acquisition-related growth: 2022 revenue includes 12 months revenue from Nexgen, Intalock, and three Managed Service Providers (Altitude IT, Reliance IT and Beachhead Group), whereas 2021 includes 3 months of Nexgen, 7 months of Intalock revenue and 10 months of revenue from the Managed Service Providers.

Note (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. Underlying EBITDA is EBITDA adjusted to exclude acquisition, divestment & integration costs, net fair value loss on remeasurement of contingent consideration on business combinations, restructuring costs, impairment of non-current assets and share-based payments. Underlying EBITDA for the year ended 30 June 2022 also excludes gain/(loss) on divestment of consumer and fixed wireless assets. The Directors consider that these measures are useful in gaining an understanding of the performance of the entity, consistent with internal reporting.

Note (3) Other one-off underlying adjustments of ($4,377k) comprise net fair value loss on contingent consideration on business combinations ($2,747k), acquisition, divestment and integration costs of ($2,040k), restructuring costs of ($1,413k), net of profit on divestments of $1,823k.

Our Collaboration & Communications business is high performing, Cyber Security is in growth mode, Managed Services (IT&T) is being restructured

Our Segments

	Collaboration and Communication	Cyber Security	Managed Services (IT&T)
Capability	Award-winning integrated collaboration, voice and video solutions, with data and office technology for small business	Specialist cyber managed services and industry leading solutions delivered to corporate and enterprise customers through a 24/7 Security Operations Centre and professional service teams	Managed IT and professional services including end-user, public cloud, infrastructure and networking, data and voice solutions to SMB and mid-market
Market	Steady demand continues in hybrid work environment	Strong growth, target customer base increasing spend on security	Continued growth in demand for IT&T solutions including managed and cloud migration services
Business	Steady organic growth. **Strong profitability continues with underlying profit before tax margin 24.5% in FY22** (Note 1)	**Strong organic growth** continues. “Cyber at the core” delivers improved resiliency outcomes for customers **Underlying profit before tax margin 6.2% in FY22** (Note 1)	Business in restructure following divestment of consumer and fixed wireless assets. **Refined target customer focus, and right-sizing of cost base to return to profit**

New MD to deliver Investor Day update in Quarter 2 FY23

Note (1) Refer next slide for underlying profit before tax definition

Introducing segment P&Ls: Collaboration & Communications, Cyber Security and Managed Services (IT&T)

Segment Reporting FY22

$ in 000's	Collaboration & Communication	Cyber Security	Managed Services (IT&T)	Corporate (and eliminations)	Total
Revenue	**34,982**	**31,397**	**69,615**	(656)	**135,338**
Underlying EBITDA (Note 1, 2)	**9,885**	**2,432**	**(2,154)**	**(2,907)**	**7,256**
Depreciation and amortisation expense	(1,238)	(447)	(4,776)	-	(6,461)
Finance costs	(61)	(26)	(103)	(980)	(1,170)
Underlying net (loss)/profit before tax (Note 2)	**8,586**	**1,959**	**(7,033)**	**(3,887)**	**(375)**
Underlying net (loss)/profit before tax as % of revenue	*24.5%*	*6.2%*	*(10.1%)*	-	*(0.3%)*
Impairment of non-current assets ('non cash')	-	-	(48,374)	-	(48,374)
Acquisition, divestment, restructuring costs	-	-	(275)	(3,178)	(3,453)
Profit on divestments	-	-	1,823	-	1,823
Other underlying segment adjustments (Note 3)	(1,194)	-	-	(2,747)	(3,941)
Share based payments	-	-	-	(721)	(721)
(Loss)/profit before income tax	**7,392**	**1,959**	**(53,859)**	**(10,533)**	**(55,041)**
Income tax benefit					1,875
(Loss) after income tax benefit					**(53,166)**

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Note (2) Underlying EBITDA and (loss) / profit before tax segment results include recharges for a range of costs (such as insurance, IT systems and group cyber programmes) that the segments may not have incurred on a standalone basis.

Note (3) Other underlying segment adjustments include ($2,747k) net fair value loss on remeasurement of contingent consideration on business combinations and ($1,194k) amortisation of customer relationships ('non cash').

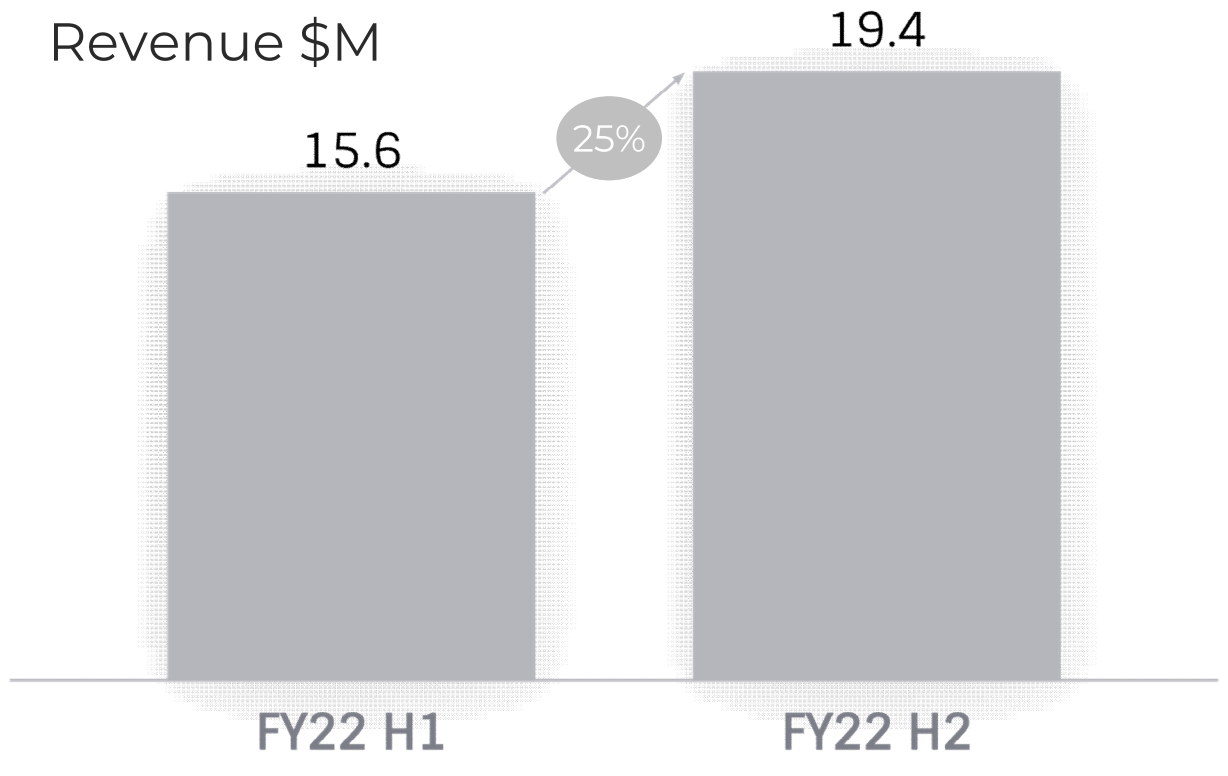
Despite some strong segment performance, FY22 has been a challenging year, particularly in Managed Services (IT&T)

Business segment performance insights

Collaboration and Communication

- Footprint growth e.g. Victorian sales expansion 143% YoY growth
- Solid customer book building, with ~5,800 business customer accounts and average contract tenure of >4years
- Ongoing product set evolution with Cisco Webex collaboration and backing of a global vendor

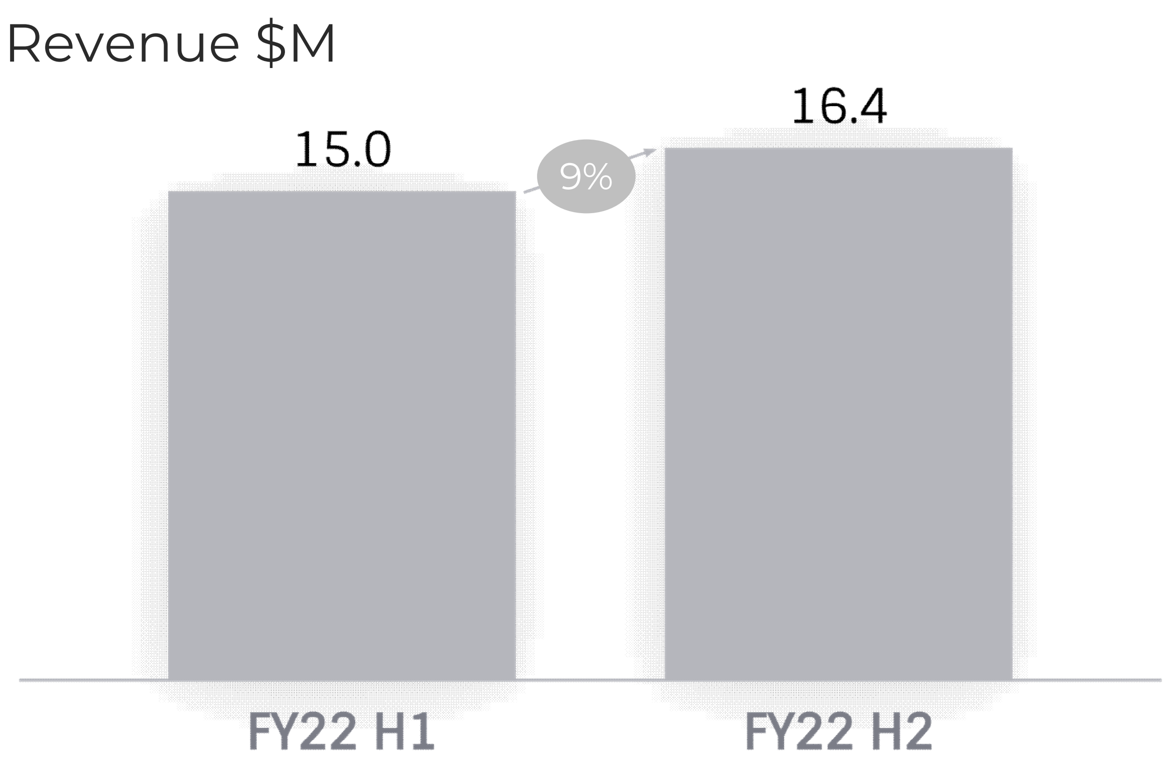
- State lockdowns in H1 constrained revenue growth to $15.6M in H1, (however strong recovery in H2, up 25%)



Cyber Security

- Ongoing high demand for cyber services YoY growth of 34% (excl control periods)
- Onshore Security Operations Centre established
- Continued recognition for excellence via partner accreditation and customer wins.

- Tight labour market for cyber talent impacted growth rate trajectory



Managed Services (IT&T)

- Divestment of non core assets (Consumer and Fixed Wireless) returning net $18.5M in capital to balance sheet
- Simplification progress e.g. 42 systems down to 6, 10 brands down to 2, ongoing product and partner optimisation
- Improved customer profitability insights

- Complexity and breadth of product sets, customer sizes, vendors and systems straining delivery and support to maintain customer experience
- Underperformance from some products acquired via VPD resulting in churn plus sales and operational effort to remediate.
- Supply chain delays coupled with inflationary pressure on equipment and labour reducing contracted margins
- Sales team rebuild & churn impacting deal flow build and customer experience, revenue down 4% H1→H2

We expect to see consistent performance from Collaboration and Comms plus Cyber, and for Managed Services (IT&T) to return to profit

FY23 Outlook

	Collaboration and Communication		Cyber Security		Managed Services (IT&T)	
FY23	Revenue Range:	$37M - $39M	Revenue Range:	$35M - $ 37M	Revenue Range:	$50M - $55M
					Total Revenue Range	**$122M - $131M**

Targeting group EBITDA (Note 1) prior to restructure and one-off costs of $8.5 to 9.5M

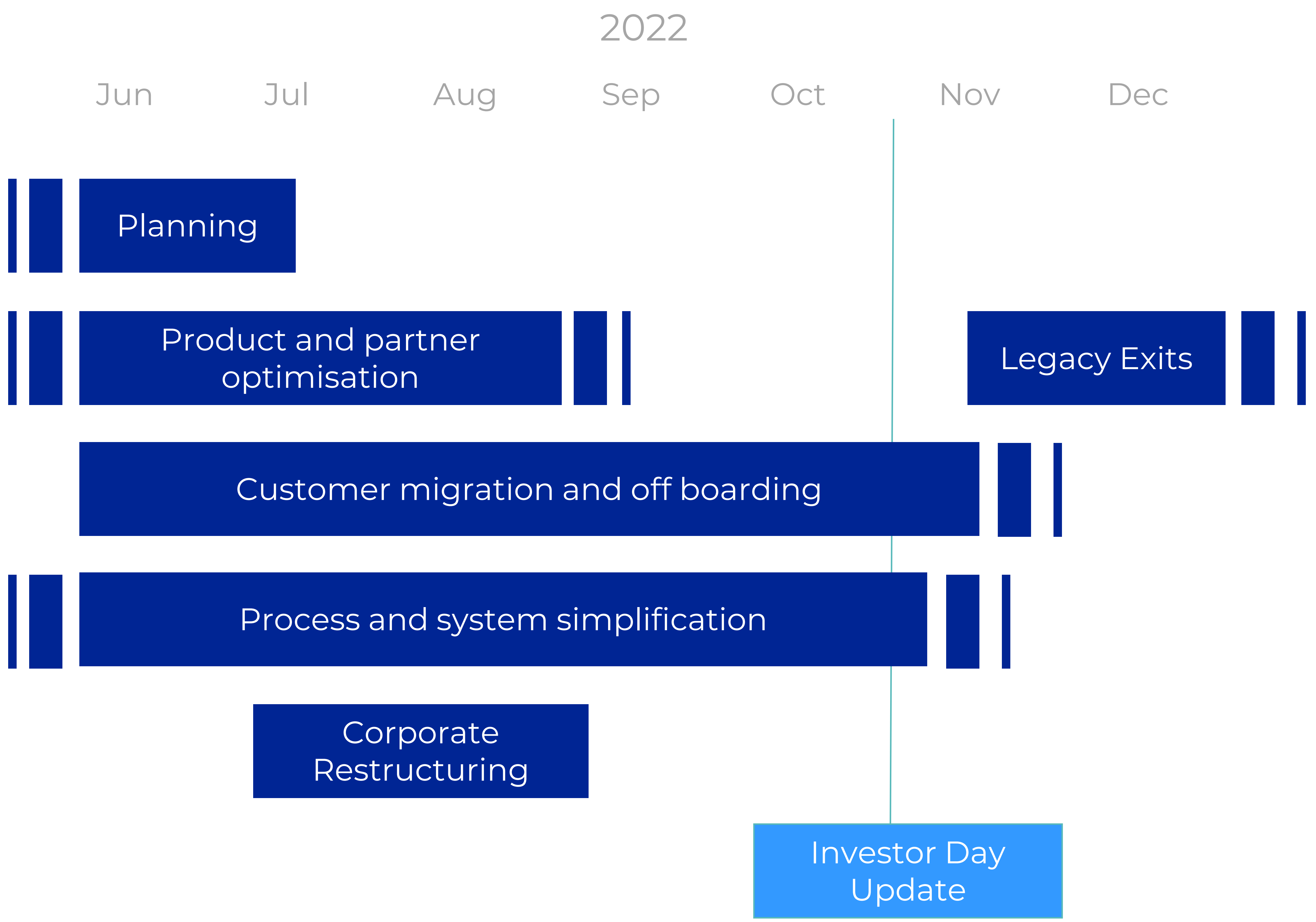
Note (1) EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for depreciation, amortisation, interest and tax. Target Group EBITDA is EBITDA adjusted to exclude acquisition, divestment & integration costs, net fair value loss on remeasurement of contingent consideration on business combinations, restructuring costs, other one-off costs and share-based payments. Reference should be made to the Directors Report 2022 – Prospects for future financial years and Business Risks that addresses forward risks and uncertainties that should be taken into account in relation to forward looking statements.

We are restructuring with a focus on returning Managed Services (IT&T) to profitability and 'right-sizing' corporate functions

FY22 underlying adjustments

	$ in 000's	Notes
Restructuring costs	(1,413)	of which (1,138) allocated to reducing corporate costs
Acquisition and Divestments		
Profit on divestment of consumer & FWA	1,823	Divestment moves business from Capex to Opex model – further update in October
Acquisition, divestment and integration costs	(2,040)	Includes previous acquisitions
Net fair value loss on contingent consideration on business combinations	(2,747)	Net fair value remeasurement
Amortisation of customer relationships	(1,194)	('non cash')
Write-downs, amortisation ('non cash')		
Non-current asset impairment	(48,374)	write-down of IT&T acquisitions goodwill and other assets ('non-cash')

Restructuring Program



FY22 has been a pivotal year for Spirit, we continue to innovate with our partners and deliver value to our customers

Spirit announcements

Guardian

Connect

Workspace

Meet

Oct 2021

Spirit to divest consumer assets
for $5.1M

Spirit completes divestment of consumer assets

Jan 2022

Largest Varonis deal in southern hemisphere
Secures largest Varonis deal in southern hemisphere to date

Customer expansion with mid market and corporate wins
(Healthcare, Banking and Financial Services, Mining)

May

Agrees to sell fixed wireless assets
Spirit agrees to sell fixed wireless assets for up to $21M

Sol Lukatsky steps down, Julian Haber interim MD

Jun

Spirit completes divestment of fixed wireless assets for up to $21M

Implementation update
Spirit Strategy - Implementation update

Jul

New MD and CEO
Appointment of Julian Challingsworth

Cisco deal
Spirit subsidiary announces Cisco deal

Gold Microsoft Partner

Veeam Gold ProPartner

Aruba Gold Partner

Sophos Platinum Partner

Datto Blue Diamond

Note: Example partners shown, not exhaustive.

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