

Spirit Technology Solutions Ltd (ASX: STI)

FY22 AGM | NOV 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)	
<i>Underlying EBITDA margin as % of revenue & other income</i>	<i>5.2%</i>	<i>11%</i>	<i>(5.8)ppts</i>	
(Loss)/profit after income tax benefit/(expense)	(53,166)	1,157	(54,323)	↓ (37%)

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.

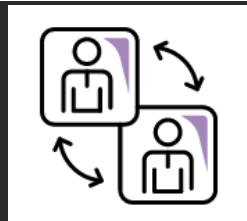
Note (2) EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for depreciation, amortisation, interest and tax. Underlying EBITDA is EBITDA adjusted to exclude acquisition, divestment & integration costs, net fair 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

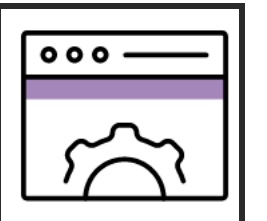
Collaboration and Communication



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)

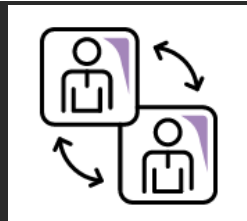
Business in restructure following divestment of consumer and fixed wireless assets. **Refined target customer focus, and right-sizing of cost base to return to profit**

Managed Services (IT&T) restructure is progressing which will improve profitability across the group

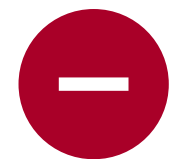
Despite some strong segment performance, FY22 has been a challenging year, particularly in Managed Services (IT&T)

Business segment performance insights

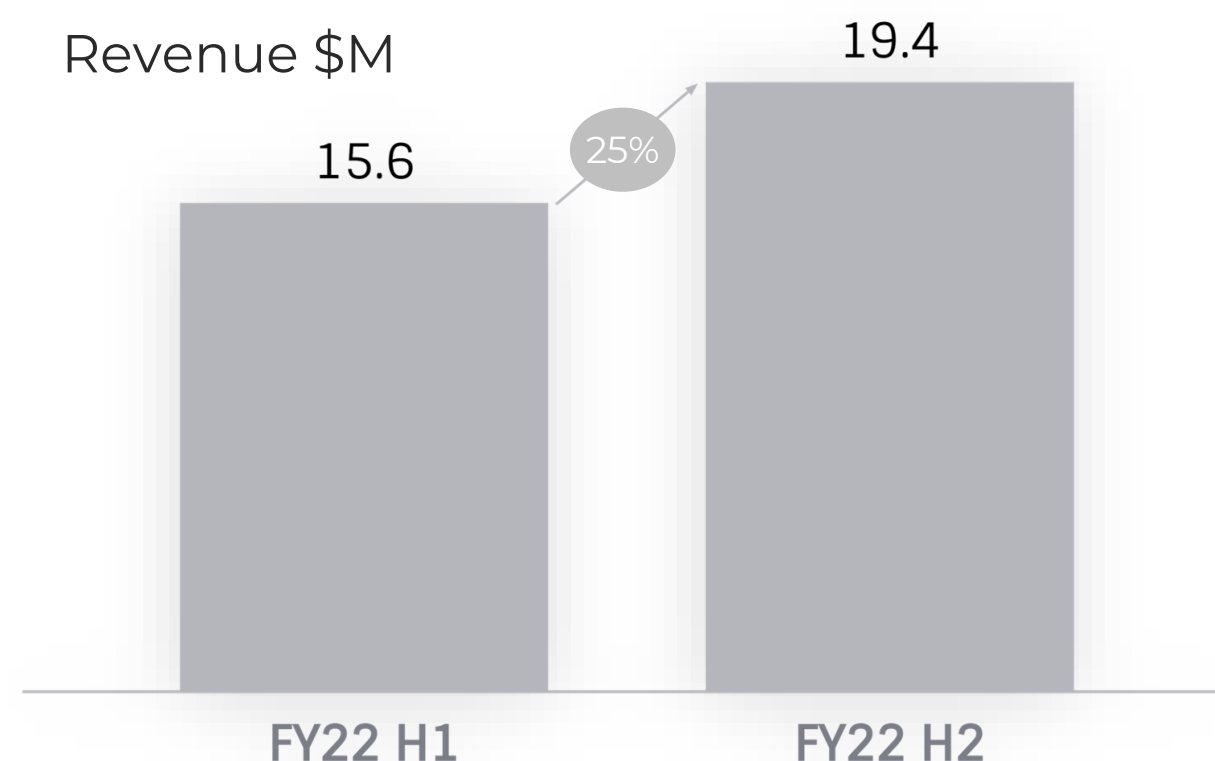
Collaboration and Communication



- + 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%)

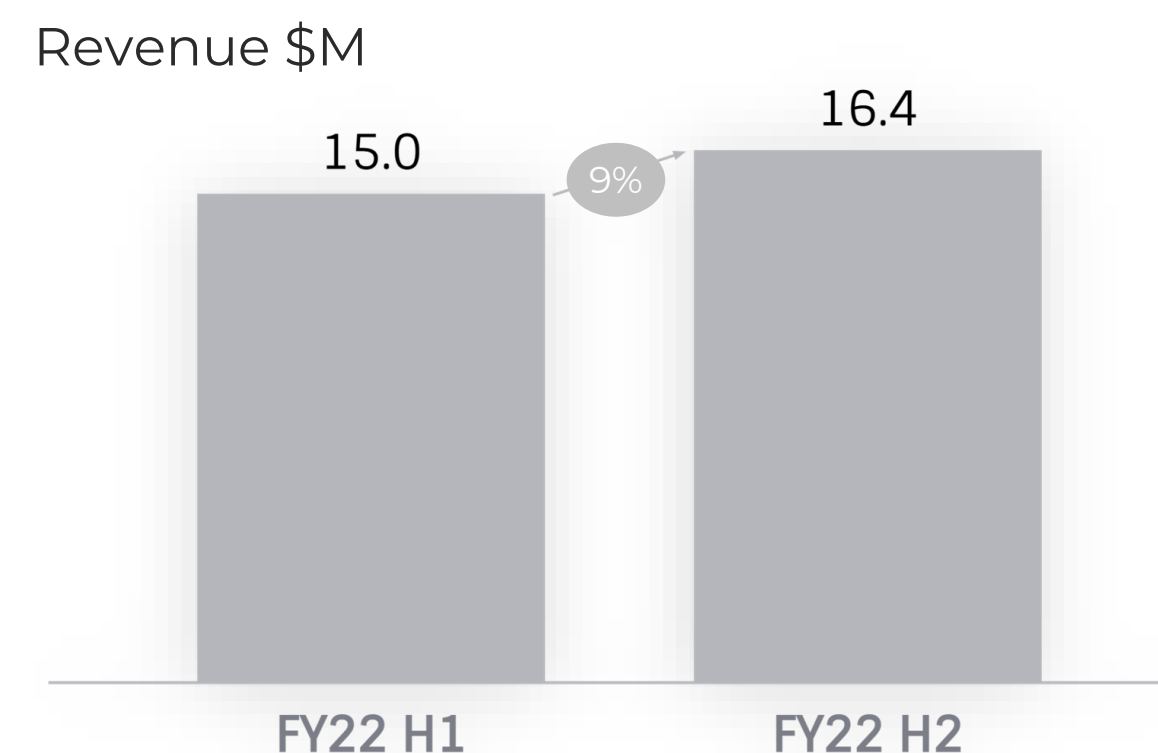


Cyber Security

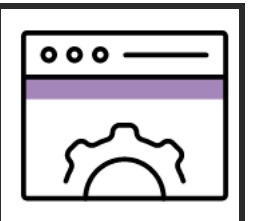


- + Ongoing high demand for cyber services
- + Onshore Security Operations Centre established
- + Continued recognition for excellence via partner accreditation and customer wins.

- 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

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)
<i>Underlying net (loss)/profit before tax as % of revenue</i>	<i>24.5%</i>	<i>6.2%</i>	<i>(10.1%)</i>	<i>-</i>	<i>(0.3%)</i>
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)

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. 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.

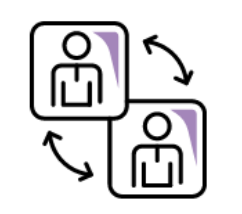
Note (2) Underlying EBITDA and profit before tax segment results include recharges for a range of costs (such as insurance, IT systems and group cyber programmes) that the segments may not have incurred on a standalone basis.

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').

The Group has traded inline with expectation in the first 4 months to October 2022 and confirms guidance provided on August 22 this year, the target EBITDA run rate for exiting FY23 is >10%

FY23 Outlook


Collaboration and Communication

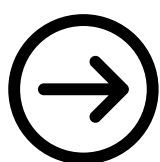


Cyber Security



Managed Services (IT&T)





FY23

➡ Actual Revenue 4 months: \$15M

● Revenue Range: \$37M - \$39M

➡ Actual Revenue 4 months: \$9M

● Revenue Range: \$35M - \$ 37M

➡ Actual Revenue 4 months: \$20M

● Revenue Range: \$53M - \$55M

● Total Revenue Range: \$125M - \$131M

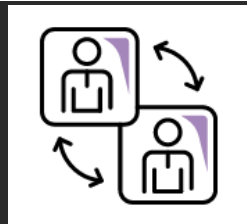
← ➡ Targeting group EBITDA ^(Note 1) prior to restructure and one-off costs of \$8.5 to 9.5M

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.

Despite some strong segment performance, FY23 remains a challenging year, though the business plan will focus on building the foundation for strong profitable growth

Business segment performance insights for the current year

Collaboration and Communication



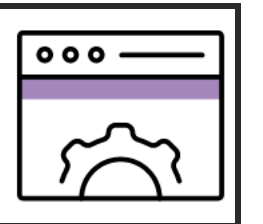
- Awarded CISCO Partner of the year for APJC
- Solid customer book building, with ~5,800 business customer accounts and average contract tenure of >4years
- Regional expansion into Melbourne has become profitable within 5 months of establishment and continues to grow

Cyber Security



- Ongoing high demand for cyber services
- Continuing to win significant contracts across Australia with enterprise and government customers
- Continued recognition for excellence via partner accreditation and customer wins.

Managed Services (IT&T)



- Rightsized IT services headcount to map to revenue and align with future product roadmap
- Simplification program e.g. 42 systems down to 6, 10 brands down to 2, ongoing product and partner optimisation
- Offboarded 100s of unprofitable non-strategic accounts

Business segment key focus for the remainder of FY23

- Evaluation of new geographics to sustain organic growth
- Identification of new market offers and solutions to sell into customer base, with a focus on cyber security
- Focus on plan and growth execution

- Expand market offers into Managed Service (IT&T) customer base with targeted solutions
- Expand geographic footprint into Melbourne
- Expand Microsoft aligned cyber security capabilities

- Transfer of non-strategic customers and associated costs to 3rd party to accelerate the return to profitability, expected in the near term
- Focus on Modern Workplace growth where we have developed a significant pipeline of opportunities with > \$20m TCV
- Continue to simplify back office technologies and business processes with AI solutions lowering cost to serve
- Launch new product solutions into customer base focused on secure digital transformation

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