9 February 2023

Spirit returns to profitability, setting the foundation for significant growth in FY24

Spirit Technology Solutions ("Spirit" ASX:STI), a leading provider of secure digital transformation and modern work environments, is pleased to report its preliminary unaudited financial results for the six months ended 31 December 2022 ("H1 FY23")[1].

Highlights[1]

Group

Revenue	Underlying EBITDA[2]	Underlying NPBT[3]	Full Year Underlying EBITDA[2]	Capital Available
$67.3M On budget	**$4.0M** On budget	**$1.9M** On budget	**$8.5-9.5M** Confirming full year guidance	**$15.6M** Cash on hand + debt facilities

Division

Collaboration & Communications	Cyber Security	Managed Services (IT&T)
Record H1 with: • Revenue of $22.6M up 45% YoY • Underlying NPBT[3] of $5.7M up 61% YoY	• Q1 resource challenges and investment in new resources impacted H1 EBITDA[2] • Significant investment in SOC automation drives sustainable EBITDA growth in FY24	• Restructure program underpins a return to profitability and an ambition of 6 -9% EBITDA[2] in FY24 • Network asset sale targeted to improve profitability by $1.5M - $1.8M annualised

H1 FY23 segment results highlight the ongoing high performance and growth of our Collaboration & Communications business and the restructured improvement of the Managed Services (IT&T) business.

H1 FY23 Results ($'000) (Unaudited[1])	Collaboration & Communication	Cyber Security	Managed Services (IT&T)	Corporate	Group
Sales Revenue	22,578	14,846	30,057	(199)	**67,282**
Underlying EBITDA[2]	6,382	259	(1,275)	(1,389)	**3,977**
Underlying Net Profit Before Tax[3]	5,706	41	(1,917)	(1,934)	**1,896**

H1 FY22[4] Results ($'000)	Collaboration & Communication	Cyber Security	Managed Services (IT&T)	Corporate	Group
Sales Revenue	15,565	15,029	35,556	(264)	**65,886**
Underlying EBITDA[2]	4,236	1,170	117	(1,299)	**4,224**
Underlying Net Profit Before Tax[3]	3,544	937	(2,990)	(1,747)	**(256)**

Business Division

Collaboration & Communication

Result[1] H1 FY23	Revenue	Revenue Growth	Underlying EBITDA[2]	Underlying NPBT[3]	uNPBT[3] Growth
	$22.6M	Up 45% (YoY)	$6.4M	$5.7M	Up 61% (YoY)

This segment achieved a record half-year sales revenue of $22.6M (up 45% YoY) with an underlying EBITDA[2] of $6.4m and uNPBT[3] for H1 FY23 of $5.7M.

- Organic growth in FY24 through opening new territories and new geographies in Australia to enable sustained growth.
- 6,000 existing customers provide greater cross sell opportunities for cyber security and managed service solutions.
- New managed services offer launched in March 2023 to existing customer base
- Contingent acquisition payments (earn-outs) are being finalised.
    - Shares to be issued estimated to be in the range of 68M - 70M shares with issue date targeted for 31 March 2023, based on an estimated VWAP of 6.5c
    - $6.5M to paid in cash 3rd April 2023.
    - A further cash component estimated to be in the range of $6.7M - $7.3M is to be paid over a 24-month period, out of future operating cash flows and existing bank facilities.

The strong performance of Nexgen has resulted in a higher sustainable EBITDA and consequently higher earnout payment than originally anticipated. Importantly, this now concludes all contingent acquisition payments across the Company.

Mr. Elie Ayoub, Nexgen founder, will be invited to join the Board position following completion to support the ongoing growth and product integration across the Company.

Cyber Security

Result[1] H1 FY23	Revenue	Revenue Growth	Underlying EBITDA[2]	Underlying NPBT[3]	uNPBT[3] Growth
	$14.8M	Down 1% (YoY)	$259k	$41k	Down 96% (YoY)

This segment suffered from management disruption in Q1 FY23 as a consequence of Julian Haber (former division CEO) taking on the dual role of interim Group CEO during the transition period to find a permanent Group Managing Director.

Significant ongoing investment to improve capability and margin.

- New resources being onboarded to support growing pipeline of managed SOC customers.
- Initiatives to develop new solutions to drive improved customer experience including the development of AI tools (Chat GBT and PIA) to automate cyber incident response capabilities.
- Development of new Microsoft Core will extend the capabilities of the SOC to support Microsoft Security opportunities, which is a significant growth area.

That investment in automation and efficiency enhancements is expected to underpin forward profitability. A new cyber product will be released to Managed Services customers in March 2023 which is expected to drive new sales. The Board is confident this segment will return to its required performance levels in H2 FY23.

Managed Services (IT&T)

Result[1] H1 FY23	Revenue	Revenue Growth	Underlying EBITDA[2]	Underlying NPBT[3]	uNPBT[3] Growth
	$30.1M	Down 15% (YoY)	$(1.3)M	$(1.9)M	Up 36% (YoY)

The business performance represents the divestment and customer profitability focus programs delivering a performance uplift.

- Transfer of network assets improves forward annualised profitability by $1.5M - $1.8M.
- Unprofitable customers offboarded and as a result revenue is down but profitability up, a trend that will continue into FY24.
- Product portfolio streamlined to focus on delivering profitable products into growth segments.
- Staff number reduction due to streamlined customer and product portfolio.
- Managed service ambition to delivery 6-9% EBITDA FY24.
- Significant revenue growth opportunity heading in to FY24.

The segment has progressed its strategic focus on the Spirit Microsoft Core, which will accelerate its progress in deploying Microsoft Modern Workplace, Microsoft cloud and security solutions at scale with improving margins and expects ongoing earnings uplifts from aligning to such a high growth, market leading suite of products and technologies.

Outlook

Spirit confirms its original guidance and is targeting a Total Revenue range of **$125M - $131M** and Group Underlying EBITDA[2] of **$8.5 to $9.5M** in FY23.

The Company will return to normal profitability levels in FY24 as the benefits of the restructuring project in Managed Services and the investment in automation and scale delivers profit improvements across the group.

The Company's growth strategy is centred around working with leading global technology partners and developing unique intellectual property (IP) that supports accelerated project delivery timeframes and builds capabilities that deliver measurable outcomes for customers digital transformation programs, while improving margins for the Company.

Statutory Net Profit/(Loss) Before Tax ("NPBT")

NPBT for H1 FY23 is estimated to be in the range of $(8.2M) – ($8.6M) loss (unaudited[1]). This loss is primarily driven by the profit & loss impact on the remeasurement of contingent consideration on Nexgen (cash & equity mix as previously outlined) & Intalock acquisitions which arose from earn out performance payments (~$8.2M - $8.6M). Other significant items included one off expenses related to business divestments (~$0.5M), business restructuring costs (~$0.5M), one-off losses on divestment of non-core assets (~$0.1M), amortisation associated with the impact of customer relationships ($0.6M) and share-based payments (~$0.4M).

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[1] Financial numbers presented for H1 FY23 are unaudited.

[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 also excludes one-off gains/losses on divestment of non-core assets.

[3] Underlying Net Profit Before Tax (uNPBT), adjusts Statutory Net Profit Before Tax to exclude business acquisition, divestment & integration costs, net fair value loss on remeasurement of contingent consideration on business combinations, business restructuring costs and share-based payments. Underlying NPBT also excludes one-off gains/losses on divestment of non-core assets and amortisation associated with the impact of customer relationships.

The last 18 months has been focused on transitioning the Company away from capital intensive infrastructure to an integrated technology provider focused on providing our target customers with integrated solutions with a focus on service and solution delivery. The consumer broadband business was divested in October 2021, Fixed Wireless broadband business in June 2022 and selected data centre and network assets in December 2022. These divestments have reshaped the profit and loss of the Company (and specifically that of the Managed Services IT&T segment) in so far as a combination of a reduction in revenue (with divested customers), lowering of gross margins (associated with moving to wholesale arrangements), reduction of operating costs and a reduction of depreciation & amortisation with the transfer of capital assets. To gain a more useful comparison of performance across half year periods Underlying Profit & Loss before income tax[3] is considered a better indicator.

[4] Six (6) month period from 1 July 2021 to 31 December 2021 ("H1 FY22").

[5] Six (6) month period from 1 January 2022 to 30 June 2022 ("H2 FY22").

This announcement is authorised for release to the market by the Board of Directors of Spirit Technology Solutions Ltd.

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