**ASX Announcement**
24th August 2023

**Damstra Technology**
(ASX: DTC)

# Damstra announces FY23 results. $9m cost reduction delivered; Balance sheet repaired; Positive cash flow in Q4, Strong foundations set for FY24.

Damstra Holdings Limited (ASX:DTC) (**Damstra** or the **Company**) today reports its full year earnings for the year ended 30 June 2023 (**FY23**).

FY23 was a transformative year for Damstra. The FY23 financial statements reflect the scale of this transformation. In FY22 Damstra's free cashflow was negative ($12.8m). In FY23, it was negative ($3.3m), a turnaround of ($9.5m); however, most importantly, Damstra generated positive free cashflow of $0.5m in Q4 FY23, exceeding guidance.

Gross Profit increased by 19.7% to $23.1m at a gross margin of 77.5% (FY22: 65.9%).

The business is now profitable, with EBITDA of $7.2m, $6.8m higher than FY22's $0.5m. EBITDA margin was 24.6%, up 22.9 percentage points (pp) on FY22. The strong increase in EBITDA reflects the operating leverage generated by delivering $9.0m in annualised savings from our cost reduction program. The EBITDA % margin exceeded guidance.

Revenue, including the equity-accounted joint venture, was $29.8m, up 2% on FY22, meeting revenue guidance. While FY23 revenue growth was low, it was accomplished while the company undertook a fundamental restructuring of the business. Revenue in North America was $2.4m, an increase of 247%.

Positive revenue momentum in terms of FY24 is now occurring. July 2023 results (unaudited) are positive, with revenue up 7% on a pcp basis, and the business also had positive operating cashflow for the month.

Damstra has bought to an account a noncash impairment on intangible assets of $39.8m. The carrying value of Damstra's intangible assets was $100m prior to the recognition of this impairment charge.

**FY23 Results**

The table below sets out Damstra's key financial metrics, including Q4 FY23 as the foundation for FY24.

| Year Ended 30 June | FY22 | FY23 | YoY % | Q4 FY23 |
|---|---|---|---|---|
| Total operating revenue ($m) | $29.3 | **$29.8** | 1.8% | $7.4 |
| Gross profit ($m) | $19.3 | **$23.1** | 19.7% | $5.8 |
| *Gross margin (%)* | *65.9%* | ***77.5%*** | *11.6pp* | *78.9%* |
| Pro forma EBITDA[1] ($m) | $0.5 | **$7.2** | 1393.0% | $2.7 |
| *Pro forma EBITDA margin (%)* | *1.7%* | ***24.6%*** | *22.9pp* | *37.4%* |
| Operating Cash Flow ($m) | ($3.5) | **$7.1** | nm | $3.0 |
| Free Cash Flow[2] ($m) | ($12.8) | **($3.3)** | nm | $0.5 |
| Free Cash Flow Margin (%) | (43.7%) | **(11.2%)** | 32.5pp | 6.8% |
| Total Costs[3] as % of Revenue (%) | 115.4% | **95.9%** | (19.5pp) | 84.3% |
| Product R&D Costs[4] as % of Revenue (%) | 46.3% | **38.6%** | (7.7pp) | 38.6% |
| Net Loss After Tax ($m) | ($67.2) | **($55.8)** | nm | ($44.9) |
| Q4 Client Churn (%) | 2.0% | **1.8%** | (0.2pp) | 1.8% |

1. Pro forma EBITDA refers to Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') adjusted for non-cash share-based payments, acquisition costs and other costs and impairment expenses.
2. Free cash flow is defined as cash flows from operating activities less cash flows used for investing and financing activities, excluding cash used for acquisitions and repayment of debt.
3. Total costs include cost of sales, operating expenses and capitalised research and development costs.
4. Product R&D costs include costs expensed and capitalised.

Commenting on the financial results for FY23, Chief Executive Officer, Christian Damstra, said:

*"FY23 has been a transformational year for the company, in delivering the cost out strategy, repairing the balance sheet, growing our international business and continuing to win market share in key sectors in our Australian business. The progress of unifying all our products into our Enterprise Protection Platform is underpinning the growth of our business in winning new customers and expanding our product offering to our existing customers. It has taken years to arrive at this point, and now we have never been better positioned in simplifying yet maximising our product offering for our customers.*

*We have recognised an impairment charge in our FY23 statements, accounted for all costs associated with extending our financing facility, and maintained conservative amortisation of software policies. Costs incurred as part of the cost out programme have also been reflected in the accounts. Our balance sheet as at the end of FY23 sets us up for FY24 as we drive towards delivering not only positive free cashflow but profitability on a post-tax basis as we contemplate paying down debt.*

*We are now in a strong position from which to accelerate growth while continuing to generate positive cashflow. We have had recent contract successes and have a significant pipeline of opportunities in front of us. The cashflow profile delivered in Q4 is now sustainable, underpinned by current revenue, sales pipeline, improving gross margins, and a reducing cost base".*

**Financial Highlights**

Damstra achieved the material milestone of generating $0.5m of positive free cash flow in Q4 FY23.

Operating cashflow for FY23 was $7.1m, which was a $10.6m improvement on FY22, where operating cashflow was negative ($3.5m). In every quarter during FY23, Damstra achieved positive operating cash flow.

Free cashflow margin (free cash flow divided by operating revenue) was negative (11%) for FY23, improving by 33 pp on FY22, which was negative (44%). However, demonstrating the transformation through the financial year, in Q4 FY23, Damstra achieved a positive free cash flow margin of 7%.

The business is profitable, recording EBITDA of $7.2m, $6.8m higher than FY22's $0.5m. EBITDA margin was 24.6%, up 22.9 percentage points (pp) on FY22. The strong increase in EBITDA reflects the operating leverage generated by exceeding our cost reduction target. The EBITDA % margin exceeded guidance.

Revenue, including the equity-accounted joint venture, was $29.8m, up 2% on FY22, meeting revenue guidance. While FY23 revenue growth was low, it was accomplished while the company undertook a fundamental restructuring of the business. There is positive business momentum as we start FY24, with revenue performance in July 2023 (results unaudited) up 7% on a pcp basis, and the business continued generating strong positive operating cashflow. The continued growth in our international business, namely in North America, is a particular highlight as evidenced by our patience approach and now successful take-up of our Enterprise Protection Platform (EPP) globally. The EPP platform now operates in 25 countries.

Gross Margin improved significantly by 12 pp on FY22 to 78%. This turnaround was achieved through the cost optimisation program which reduced costs of goods (COG's), changes in revenue mix, and the impact of price increases.

During FY23, our cost reduction program delivered ~$9m of annualised savings. The impact of these cost savings had been progressively reflected in the results during the financial year but with full impact in Q4 FY23. The cost of realising these savings has also been reflected in the financial statements.

Total costs as % of revenue ended the year at 96%, which was a 20pp improvement on FY22. To fully demonstrate the impact of the cost reduction program, in Q4 FY23, costs as % of revenue had fallen to 84%.

We recently announced that as part of our cost discipline for FY24, we have implemented a further program with annualised cost savings of $3m. The majority of which has been achieved. The impact of these savings will be fully seen in 2nd half of FY24. A one-off restructuring charge of ~$0.45m was taken in August to deliver these savings.

Strategically, this initiative will further underpin the sustainable free cash flow generation of the business. At an aggregate level, these further cost savings on an annualised basis are a ~10% reduction on the FY23 cost base.

FY23 Product R&D costs reduced by 15% and are now tracking at 39% of revenue, down from 46% in FY22. In our calculations of costs as % revenue, we include all R&D costs, both expensed and capitalised.

We plan for FY24 R&D costs to continue to reduce as a percentage of revenue due to increases in revenue, the retirement of legacy systems and the implementation of our FY24 cost project. Notwithstanding this, product development remains critical to our business. EPP is now focused on providing Clients solutions rather than integrated, single sign-on, products and modules.

From a product perspective, this solution's focus represents a significant expansion of the EPP's capabilities to enable the outcomes our clients are seeking rather than concentrating on selling individual modules. This strategic shift has wider positive implications for Damstra's business strategy, it is a driver of cross-selling to our existing enterprise clients, facilitating sales to sub-contractors of our major customers in addition to providing the foundation for winning new customers. Additionally, solution-based marketing, sales strategies, and account management have been reconfigured to deliver on the solution-based client approach for the EPP.

**Impairment charge in FY23 accounts**

Damstra has bought to an account a non cash impairment on intangible assets of $39.8m. The carrying value of Damstra's intangible assets was $105m prior to the recognition of this impairment charge.

As part of the FY23 turnaround plan, we assessed the carrying value of the intangible assets, applying conservative assumptions to reflect the changed global capital market environment.

The changing assumptions that had the most impact were the post-tax weighted average cost of capital increasing from 11% to 14.74% (32% increase), but also the disappointing revenue performance of the Solo product from the Vault acquisition. It should be noted that the outcomes of our impairment model include continued positive revenue growth, margin expansion and increasing cash generation.

In addition to the impairment, Damstra refinanced and extended the existing debt facility with PFG, their support for this extension reflected their confidence in the turnaround of Damstra's financial performance. All costs associated with this refinancing have also been recognised in the financial statements. Finally, amortisation costs in FY23 reflected conservative amortisation of software policies, with all 'functionality' including software acquired through acquisitions, now being built into Damstra's Enterprise Protection Platform.

*A reconciliation between loss before tax and pro forma EBITDA is provided below.*

| | 30 Jun 2023 $'000 | 30 Jun 2022 $'000 |
|---|---|---|
| *Loss before tax based on statutory accounts* | (55,805) | (62,414) |
| Impairment of goodwill and other assets | 39,800 | 42,336 |
| Share-based payments | 2,147 | 1,551 |
| Acquisition and other costs | - | 455 |
| Restructuring costs | 82 | 350 |
| Depreciation and amortisation expenses | 16,213 | 16,281 |
| Net finance costs | 4,805 | 1,925 |
| *Pro forma EBITDA* | 7,242 | 484 |

**Client Highlights**

In FY23, we achieved significant growth in North America with revenues of $2.4m resulting from major signings of numerous agreements with Barrick Gold and Capstone Copper, covering operating mines sites in North America, Africa and the Caribbean.

To put the Barrick relationship in context, Damstra has now signed contracts with a total contract value (**TCV**) of USD $1.8m. The expected contract rollouts in FY24 will result in North America becoming cash flow positive.

The moderate growth in FY23 was impacted by client specific project timing, which has now stabilised as we see clients looking beyond the current economic headwinds. The loss of the material client Newmont in FY22 has now fully churned out of the results.

The churn of our smaller "tail" clients has now stabilised, with Q4 FY23 churn at 1.8%.

Our sales pipeline started to convert in H2 FY23 as we signed a number of customers to our EPP platform. The impact of these recent client successes will be seen in FY24 revenue, as we implement these new agreements and move to increased recurring revenue. Our recent success has, in a large part, been driven by the continuing evolution of our EPP platform, which many of our clients see as a platform for delivering capability and productivity solutions across their operations.

Some of our recent client successes include:

- Signing a three year agreement covering Barrick mine sites in Africa, Phase 3 of the global rollout;
- Signing of a three year (plus 3 one year options) EPP upgrade agreement with Coronado Global Resources Inc. Coronado will upgrade from our legacy platform to our new Enterprise Protection Platform (EPP);
- Continuing the expansion of our facilities management vertical. Our clients include global tier 1 facility management operations such as CBRE, Cushman Wakefield and BGIS;
- Continuing strong performance of our civil construction vertical, with the progressive implementation of larger long dated civil construction projects; and
- Signing agreements with Foxleigh Mine and Stanwell Corporation. Both clients will implement EPP for their employees and contractor management.

As announced in our Q4 FY23 results, we have a large pipeline of opportunities, recent developments are below:

- Agreed to terms for a 2 year contract extension with one of our largest and long standing clients, Glencore. Pricing has been agreed which commenced in July FY24, the incremental ARR is ~$0.3m;
- Australian mining client, finalising a 3 year agreement with an estimated TCV of $1.1m. Implementation to commence in Q2 FY24;
- New international mining client with operations in Queensland and New South Wales, where we have gone through a competitive tender process and are presently in final contractual negotiations;
- Major Australian construction company, the tender process is now complete, and we have been advised we are the preferred party with pricing agreed. We are presently in contract negotiations and implementation planning phase. The estimated size of the contract is within our Top 5 clients; and
- Global Facilities Management company moving to execute a Global SaaS agreement, which will supersede the Australian agreement.

As the above developments progress and once contracts are executed, we will advise the market accordingly.

**Outlook**

Damstra sees the business now as cash generative, underpinned by current revenue, recent contract success, our sales pipeline, and a cost base reduced by a further $3m. We are therefore targeting an operating expense to revenue ratio in the low 80% range, which will improve our free cash and EBITDA outcomes compared to FY23.

**Damstra FY23 Results webinar**

Damstra Holdings Limited (ASX:DTC) (**Damstra** or the **Company**), will host an investor call at **9:30am AEST on Thursday 24 AUGUST 2023** to provide a briefing on the Company's results for the financial year ended 30 June 2023.

An accompanying presentation will be made available via the ASX announcement platform prior to the call.

To register for the webinar, please use the following link:

https://cdandco.zoom.us/webinar/register/WN_cG0Rpv4iQqyNi8oSlq_JXg

The Company's full year financial results materials and an archive of the webcast will be available via the Company's website at: https://www.damstratechnology.com/investors

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

**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.