

7 February 2024

# Spirit significantly expands cyber security offering through acquisition of InfoTrust and trading update

## Highlights:

- The fully funded acquisition of InfoTrust, a fast-growing and profitable cyber security business for a total consideration of \$34.6M
- InfoTrust forecast to deliver \$4.4M unaudited EBITDA<sup>2</sup> in FY24<sup>3</sup>, with Spirit to access Security Operations Centre synergies of circa \$1.4M on an annualised basis
- Acquisition expands Spirit's geographic presence across Australia
- Scales Spirit's Cyber Security division to become the largest business unit in the Company and one of the larger cyber security businesses in Australia
- Opportunity to increase margins of Spirit's existing Cyber Security division by implementing InfoTrust's delivery approach
- Adds significant growth and scale with InfoTrust having achieved an historic revenue CAGR 39%<sup>7</sup>
- Synergies of \$1.4M+ expected to be achieved in FY25<sup>4</sup> in the integration of InfoTrust and Spirit's Cyber Security division
- Cash raised to be funded by a Placement to 263 Finance Pty Ltd a significant shareholder (subject to shareholder approval) and an associate of Non-Executive Director Shan Kanji

Spirit Technology Solutions ("Spirit" ASX:ST1), a leading provider of secure digital transformation and modern work environments announces it has significantly expanded its cyber security offering via the acquisition of Sydney-based cyber security company, InfoTrust Pty Ltd (InfoTrust) for a total consideration of \$34.6 million (**Acquisition**).

## About InfoTrust

InfoTrust provides a range of cyber security services including strategy, solution design, implementation, and support via its CISO Services Retainer, which allows customers to leverage an entire cyber security team.

The Company has grown rapidly since establishment in 2014 and now services a range of leading corporates.

InfoTrust is headed by co-founder and Chief Executive Officer Simon McKay, a well-regarded cyber security market expert with over 10 years' experience in the sector, including roles with leading multinational software company, Symantec (now Gen Digital Inc.).

InfoTrust's co-founders Simon McKay and Dane Meah will join Spirit's Board following completion of the Acquisition.

Headquartered in Sydney, InfoTrust also has offices in Melbourne, Brisbane and Manila.

## Strategic Rationale

<b>Highly complementary to Spirit's cyber offering</b>	<ul style="list-style-type: none"> <li>✓ Expands Spirit's geographic presence with a deeper footprint in Sydney and Melbourne, complementing Spirit's well-established presence in Brisbane.</li> <li>✓ Strengthens relationships with key cyber security vendor partners.</li> <li>✓ Minimal customer overlap with Spirit's existing Cyber Security division.</li> </ul>
<b>Revenue and margin accretion opportunities</b>	<ul style="list-style-type: none"> <li>✓ Synergies of \$1.4M expected to be achieved in FY25<sup>4</sup>.</li> <li>✓ Ability to serve InfoTrust's customers through Spirit's state-of-the-art Security Operations Centre (SOC).</li> <li>✓ Opportunity to increase margins of Spirit's existing Cyber Security division by implementing InfoTrust's delivery approach.</li> <li>✓ Cross-sell opportunities from Spirit's other segments to InfoTrust's customer base.</li> </ul>
<b>Strengthened Board and Management team</b>	<ul style="list-style-type: none"> <li>✓ InfoTrust's co-founder and CEO (Simon McKay) to join Spirit's Board as an Executive Director.</li> <li>✓ Dane Meah, InfoTrust co-founder and CEO of key vendor partner, MyCISO to join Spirit's Board.</li> </ul>
<b>Spirit to become a cyber security business of scale</b>	<ul style="list-style-type: none"> <li>✓ Scales Spirit's Cyber Security division to become the largest revenue contributor in the Company (and one of the larger cyber businesses in Australia), providing a foundation to make security services the core of the Company's products and solutions.</li> <li>✓ Combined Cyber Security group revenue will be \$65M making Spirit a major player in the cyber security market.</li> <li>✓ Supported by strong structural tailwinds with rapidly growing demand as cyber security needs continue to evolve and become increasingly complex.</li> </ul>

## Details of the Acquisition

- 100% of the equity of InfoSurety Holdings Pty Ltd acquired.
- Total consideration of \$34.6 million, comprising:
  - \$14.0 million in cash on completion;
  - \$14.0 million in Spirit shares at 4.6c per share, totaling 304.3 million shares (**Scrip Consideration**); and
  - \$6.6 million in deferred consideration to be paid in cash as follows (**Deferred Consideration**):
    - Tranche 1 of \$1.5 million on the six-month anniversary of the completion date
    - Tranche 2 of \$1.5 million on the 12-month anniversary of the completion date
    - Tranche 3 of \$3.6 million on the 18-month anniversary of the completion date

The Scrip Consideration is subject to voluntary escrow, with 5% of the Scrip Consideration being released after each of 3, 6 and 9 months following completion of the Acquisition and the remainder being released 12 months after completion.

- The Acquisition and associated costs are to be funded by:
  - A Placement, to 263 Finance Pty Ltd, a significant shareholder and an associate of Non-Executive Director Shan Kanji to raise \$16 million at 5.0c per share (being 320 million shares);
  - 304.3 million Spirit shares issued to InfoTrust shareholders with an implied value of \$14.0 million; and
  - \$6.6 million in Deferred Consideration, to be satisfied using combined group earnings and/or existing cash.

The issue of the Scrip Consideration and the Shares under the Placement are subject to shareholder approval which will be sought at an EGM expected to be held in late March/early April 2024. The notice of meeting for the EGM will be accompanied by an Independent Expert's report in respect of the issue of the shares to 263 Finance Pty Ltd.

Spirit Managing Director and CEO Julian Challingsworth said: "We are thrilled to be expanding our presence in the growing cyber security market and to be strengthening our position in the major markets of Sydney and Melbourne via this acquisition. Increasing both our cyber security and geographic spread was a logical next step for Spirit and InfoTrust provides us with a highly complementary product and services suite to our existing offering. The deal gives us ownership of a leading Australian cyber-security firm, a company that has strong sales growth and profitability, a well-regarded CEO and a diverse suite of well-established and loyal clients. It delivers on our strategy of growth via acquisition and our overall goal of becoming one of Australia's leading providers of modern and secure digital workplaces."

Spirit was jointly advised by Unified Capital Partners (UCP) and Ord Minnett on the Placement.

All Shares to be issued under the Placement will rank equally with the Company's existing quoted shares on issue.

### **Preliminary unaudited financial results for the six months ended 31 December 2023 (H1 FY24)**

Spirit also reports its preliminary unaudited financial results for the six months ended 31 December 2023 (H1 FY24<sup>1</sup>).

Preliminary unaudited Group revenue for H1 FY24<sup>1</sup> was \$57.03 million (H1 FY23: \$67.29 million) while preliminary unaudited Group Underlying EBITDA<sup>2</sup> was \$160,000 (H1 FY23: \$3.98 million).

The statutory loss for the Group for H1 FY24<sup>1</sup> was \$5.20 million, down from a \$7.79 million loss in H1 FY23.

The Collaboration and Communication division achieved an underlying EBITDA<sup>2</sup> for H1 FY24<sup>1</sup> of \$3.48 million (H1 FY23: \$6.38 million) on half-year revenue of \$19.78 million (H1 FY23: \$22.58 million). The softer trading experienced in H2 FY23 continued into H1 FY24<sup>1</sup>, with demand remaining subdued due to lack of SME business confidence, inflation, increasing interest rate environment and poor business sentiment. However, the segment finished the half in a strengthened position with a new multi-year agreement signed with Cisco for its Webex Wholesale offering and a number of cost saving initiatives implemented. The business has seen a positive start to 2024 with customers returning to an improved level of confidence and sales.

The Cyber Security division achieved an underlying EBITDA<sup>2</sup> for H1 FY24<sup>1</sup> of \$621,000 (H1 FY23: \$259,000) on half-year sales revenue of \$19.22 million (H1 FY23: \$14.85 million). The continued positive momentum in earnings growth following the H2 FY23 rebuild of the segment's sales and delivery capabilities, with the new Security Operations Centre ("SOC") now supporting a growing number of leading Australian organisations.

The Managed Services division delivered an Underlying EBITDA<sup>2</sup> loss for H1 FY24<sup>1</sup> of \$2.46 million (H1 FY23 loss: \$1.28 million) on half-year sales revenue of \$18.16 million (H1 FY23: \$30.06 million) which was extremely disappointing. H1 FY24<sup>1</sup> was very challenging with ongoing restructuring activities and downsizing impacting Underlying EBITDA<sup>2</sup> alongside a slower-than-expected sales pipeline rebuild which necessitated a restructure of the sales Go-To market structure. Additional cost out in Q3 FY24<sup>5</sup> to occur, with breakeven Underlying EBITDA<sup>2</sup> basis to be achieved by June 2024.

Cash and cash equivalents at 31 December 2023 totalled \$6.7 million (30 June 2023: \$7.0 million).

The H1 FY24<sup>1</sup> results reflect the majority of the restructuring initiatives undertaken and associated one-off costs. The Company expects the Managed Services segment to breakeven in Q4 FY24<sup>6</sup> and return to profitability in FY25<sup>4</sup> and Collaboration and Communication to rebound due to greater confidence in the SME market outlook.

Spirit expects to report its results for the six months ended 31 December 2023 (H1 FY24<sup>1</sup>) on Friday, 23 February 2024.

<sup>1</sup> H1 FY24 refers to the 6-month period 1 July 2023 to 31 December 2023.

<sup>2</sup> EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ("AAS") and represents the profit/(loss) under AAS adjusted for depreciation, amortisation, interest and tax. Underlying EBITDA is EBITDA adjusted to exclude share-based payments, gain/(loss) on divestment of non-core assets, acquisition & divestment costs, restructuring and integration costs, other normalisation items, net fair value loss on remeasurement of contingent consideration on business combinations and impairment of non-current assets.

<sup>3</sup> FY24 refers to the 12-month period 1 July 2023 to 30 June 2024.

<sup>4</sup> FY25 refers to the 12-month period 1 July 2024 to 30 June 2025.

<sup>5</sup> Q3 FY24 refers to the 3-month period 1 January 2024 to 31 March 2024.

<sup>6</sup> Q4 FY24 refers to the 3-month period 1 April 2024 to 30 June 2024.

<sup>7</sup> CAGR refers to compound annual growth rate representing LTM Dec-23 versus FY22.

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

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About Spirit Technology Solutions:

Spirit Technology Solutions is an ASX listed provider to Australian businesses of innovative IT&T managed services, cyber security and collaboration and communications platforms.

We are building the modern secure digital workplace for Australian businesses. Our mission is to “Make our customers secure, sustainable and scalable, while living our team values”

‘Secure by design’ is in our mantra and our world class cyber security solutions help Australian businesses take a different, data-centric and strategic approach to effective security.

Our collaboration and communications business was awarded by Cisco as Webex partner of the year for 2022 in the Asia-Pacific region, recognizing our world class team and focus on delivering amazing experiences to SMB customers.