

## archTIS December 2021 Quarterly Report

### Company Drives Transition into Annual Recurring Revenue Model

**archTIS Limited (ASX:AR9, OTCQB: ARHLF, archTIS or the Company)**, a provider of innovative software solutions for the secure collaboration of sensitive information, is pleased to provide its quarterly activities report and Appendix 4C cash flow report for the for the quarter ended 31 December 2021 (**Reporting Period or Quarter**).

#### Q2 FY22 Highlights

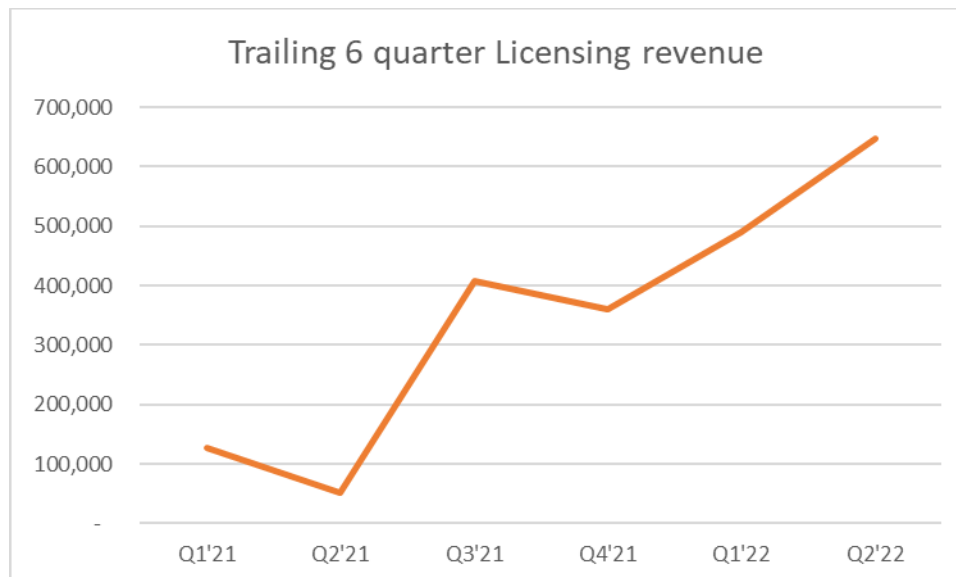
Licencing revenue up 1,163% on PCP*	Annual recurring revenue up 104% on PCP* and 15% from prior quarter	Gross margins for quarter at 69%
International capital raise of \$6.9M with closing cash balance of \$12.5M	Commenced quotation on the US-based OTCQB market	Launched Kojensi V2.0 & NC Protect Data Connector for Azure Sentinel

\* Figures relative Prior Comparative Period (PCP)

**Daniel Lai, archTIS Managing Director and CEO**, stated, “During the December quarter, the Company continued to deliver on key contract wins and renewals while driving Annual Recurring Revenue (ARR) and maintaining low customer churn. We delivered product innovation through new releases and integrations into Microsoft and put in place key global corporate initiatives through an international capital raise and expansion into the US public markets through the quoting on the OTCQB. We are well-placed to execute over the remainder of FY22 with strong pipeline growth, key strategic alliances and continued market tailwinds.”

#### Quarterly Operational Review

The Company continued to deliver on growth through the execution and investment of personnel, particularly across the global infrastructure of sales and marketing. Even through the resurgence of the global pandemic, the Company continued to experience strong licensing revenue growth through positive annual recurring revenues (ARR).



## **Key Customer Wins & Renewals**

### **Contract Win with Australian National Intelligence and Law Enforcement agency**

During the quarter, the Company announced it had entered into a contract with an Australian National Intelligence and Law enforcement agency for the deployment of Okera's Dynamic Access Platform for structured data security (refer to ASX announcement dated 28 October 2021). Total contract value is \$449,570, with the option for five additional years of licensing.

Okera's complimentary platform offers the same policy based ABAC control over structured data that archTIS' products deliver for unstructured data, resulting in an end-to-end solution for customers and ensuring organizations can implement a secure data access layer to protect and secure sensitive data.

### **New Microsoft Co-sell Customer and Extension of Pipeline**

A large US public entertainment company was introduced to archTIS through the Microsoft IP Co-sell program resulting in a sale of NC Protect for Office 365. NC Protect will secure sensitive and unreleased images containing intellectual property (IP) using attribute-based access controls (ABAC) and dynamic watermarking for secure collaboration and sharing with retail trading partners.

During the quarter, the Company also generated 25 IP Co-sell opportunities alongside Microsoft. The expanded pipeline goes across all three sales regions with specific vertical focus on government defence agencies and global defence and intelligence corporations.

## **Expansion of Licensing Footprint to Existing Customers**

An enterprise application software company expanded its licensing footprint of Kojensi SaaS in the UK and Canada to communicate across the supply chain with national defence agencies across the globe.

## **Renewed All Major Customer Contracts**

The Company renewed all in-quarter major customer contracts with a 0.1% customer churn rate against ARR, exhibiting continued value of offerings and stability of products in a tight and competitive market. A significant number of renewals included those from the recently acquired Cipherpoint technologies.

## **Other Key In-quarter Customer Wins**

- Multinational firm that supplies electronic components to the defence and aerospace market for ITARs compliance with NC Protect for SharePoint 2019
- An integrated community health organization to deliver encrypted documents through upgrade to NC Protect
- Global European bank to provide secure collaboration with NC Protect to an initial division
- Major international defence contractor deployed both Kojensi and NC Protect to secure both protected and sensitive information
- Singapore procurement agency for encrypting documents with cp.Protect

## **Product Innovation**

### **NC Protect Data Connector for Azure Sentinel**

The Company announced the launch of NC Protect Data Connector in the Microsoft Azure Marketplace, an online store providing applications and services for use on Microsoft Azure. The new Data Connector further bolsters the Company's relationship with, and integration into, the Microsoft suite by aggregating NC Protect user access and data protection logs with existing Azure Sentinel processes to enhance data security and protect against insider threats.

### **Kojensi Version 2.0 Launch**

archTIS released Kojensi Enterprise v2.0 in the Australian markets enhancing secure document collaboration and sharing of sensitive content between government, defence, defence industry base (DIB), and higher education institutions. Kojensi v2.0 makes it easier for defence, industry, multinational coalitions, and organisations that support them, to create dynamic and granular information barriers between coalitions, partners, co-workers, and external clients. The upgrade also assists organisations with meeting regulatory guidelines, like ITAR and DISP, and compliance obligations for secure information sharing.

The launch of Kojensi v2.0 Enterprise demonstrates the ongoing focus on product innovation and addition of new capabilities based on customer feedback and market requests with many of

the new features and functions resulting from archTIS' continued engagement with the Australian Department of Defence as well as future entry into global market opportunities.

## **Corporate**

### **Placement and SPP**

During the quarter, the Company completed a placement to domestic and international institutions as well as sophisticated investors and members of the archTIS executive team. archTIS also invited existing Australian and New Zealand shareholders to participate in a Share Purchase Plan (SPP) that completed on 23 December 2021. The SPP, together with the placement, raised a total of \$6.9M (before costs). 30,132,848 fully paid ordinary shares were issued at \$0.23 per share, together with 10,044,257 options, each with an exercise price of \$0.35, and an expiry date of 23 December 2023.

Funds raised are being used to leverage prior success with the Australian Department of Defence through the introduction and launch of Kojensi into two key regional markets; US FED and UK, continued execution of the Company's proven M&A strategy geared toward achieving greater ARR, and building the opportunity pipeline in conjunction with the Microsoft field through IP Co-Sell across defence and other regulated industries.

### **Commenced Trading on the OTCQB Market in the United States**

archTIS successfully commenced trading on the U.S.-based OTCQB Market as announced on 2 November 2021 under the stock ticker OTCQB: ARHLF. The Company's quotation on OTCQB broadens archTIS' international profile and provides U.S. institutional and retail investors with the ability to trade the Company's stock, aligning with global expansion efforts. The U.S. is an important growth market for the Company. Being quoted on the OTCQB helps to establish archTIS' presence in the US market with key corporate executives, along with federal agencies and defence contractors.

### **Research & Development (R&D) Claim Receipt**

During the quarter, the Company received \$1.5M from the ATO in relation to R&D expenses for eligible activities during FY21 and is accrued monthly with payments received on an annual basis.

### **Completion of Cipherpoint integration, Subsidiary Expansion & Staff Investments**

The Company completed integration into the Cipherpoint technology asset purchase and those employees located on the Continent. As such, the Company incorporated both a UK and German subsidiary to better serve the European markets for partner community and end-customer sales. Additionally, the on-boarding for the sales and marketing teams are now complete; making them well equipped to deliver new sales and partner opportunities in the coming quarters.

**Kurt A. Mueffelman, Global COO & US President**, stated, “Even with the intensifying global pandemic forcing delayed deals, we’re seeing organisations prioritise digital workplace and zero-trust architecture in response to the challenges created by this environment. archTIS’ data-centric security offerings lie at the centre of addressing these challenges. With the improved quality of revenue through our focus on licensing and ARR, our pipeline continues to globally not only through our IP Co-Sell partnership with Microsoft but with the maturing of our international sales model from earlier in the fiscal year. We are looking forward to these significant opportunities coming to fruition in the coming quarters.”

### Quarterly Financial Summary (unaudited)

Total unaudited revenue for the quarter was \$0.8M, up 15% on PCP. Licencing revenue contributed \$0.65M (up 1,163% on PCP), which is consistent with our key strategy to grow high margin annual recurring revenues through licensing. ARR increased 15% quarter over quarter and at a triple digit growth rate of 104% from the PCP. Services revenue decreased this quarter. The opportunity to deliver future engagements are reflected in the increased Australian government pipeline with the opening back of the economy and face-to-face meetings post-COVID lockdowns.

Operating expenses were \$2.8M; reflecting the Company's continued investment in sales and marketing resources, the incorporation of the Cipherpoint team into the Company's accounts, as well as establishment costs to support global expansion and to execute it's go-to-market strategy. Operating expenses are not forecasted to materially increase in the coming quarters.

The table below shows some of the financial highlights for the quarter:

A\$'000	<u>FY22</u> Q2	<u>FY21</u> Q2
Licencing revenue	645.2	51.1
Services revenue	153.1	640.6
<b>Total revenue</b>	<b>798.3</b>	<b>691.7</b>
<i>% increase prior comparative period</i>	<i>15%</i>	
Annual Recurring Revenue	2,018	990.1
<i>% increase prior comparative period</i>	<i>104%</i>	
Gross margin	69%	75%
OPEX (after capitalising development costs)	2,866	949.1
<i>% increase on prior comparative period</i>	<i>202%</i>	

archTIS ended the quarter with a cash balance of \$12.5M; which included funds raised from a \$6.5M (before capital raising costs) placement with new and existing international institutional investors and sophisticated shareholders. A further \$0.42M (before capital raising costs) was

raised from existing shareholders via a Share Purchase Plan (SPP). Cash receipts from customers for the December quarter were \$1.0M. The Group maintains a healthy cash position with on-going flexibility to execute its organic growth strategy.

The decrease in overall gross margin can be directly attributed to a single lower margin customer services engagement that acted as an initial partner on-boarding and enablement exercise. More importantly the engagement deliverable created of a key technical proof of concept (POC) which should enable significant pipeline licensing in the typically strong Q3/Q4 timeframe

The Company's net operating cash outflows for the quarter of \$1.5M were mainly comprised of employee and contractor costs (\$2.4M), administrative and corporate costs (\$1.7M), advertising and marketing (\$0.1M) and product manufacturing and operating costs (\$0.1M). The costs include a full quarter of employee and contractor costs following the acquisition of Cipherpoint Limited's technology assets and customers on 20 September 2021. Consistent with the prior quarter, there were a number of one-off costs incurred to support the establishment of global infrastructure to continue expanding the business. The payments included at section 6.1 of the attached Appendix 4C relate to directors' fees and wages of \$0.1M. The key activities carried out by staff and contractors were ongoing product development, sales, marketing, and corporate administration.

## Investor Updates

archTIS will host a quarterly results webinar on 27 January 2022 at 11:00am EST (Sydney/Melbourne), 9:00am WST (Perth) to update shareholders on its quarterly results. Register at: [https://us02web.zoom.us/webinar/register/WN\\_HuN\\_nEsSSMGQMdEhHwnpzA](https://us02web.zoom.us/webinar/register/WN_HuN_nEsSSMGQMdEhHwnpzA)

Authorised for issue by order of the Board of Directors.

## ENDS

### For further enquiries please contact:

#### Company enquiries

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### **About archTIS Limited**

archTIS Limited (ASX:AR9, OTCQB:ARHLF) is a global provider of innovative software solutions for the secure collaboration of sensitive information. The company's award-winning data-centric information security solutions protect the world's most sensitive content in government, defence, supply chain, enterprises and regulated industries through attribute-based access and control (ABAC) policies. archTIS products include Kojensi, a multi-government certified platform for the secure access, sharing and collaboration of sensitive and classified information; and NC Protect and the cp. suite of products for enhanced information protection for file access and sharing, messaging and emailing of sensitive and classified content across Microsoft 365 apps, Dropbox, Nutanix Files and Windows file shares. For more information visit [architS.com](https://www.archtis.com) or follow [@arch\\_tis](https://twitter.com/arch_tis).

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## Appendix 4C

### Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

archTIS Limited

ABN

79 1230 986 71

Quarter ended ("current quarter")

31 December 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	1,035	1,654
1.2 Payments for		
research and development	-	-
product manufacturing and operating costs	(121)	(235)
advertising and marketing	(71)	(281)
leased assets	(42)	(86)
staff costs	(2,352)	(4,789)
administration and corporate costs	(1,696)	(2,641)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	(2)	(2)
1.7 Government grants and tax incentives	1,541	1,549
1.8 Other (GST)	246	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,496)</b>	<b>(4,865)</b>



Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	-	-
businesses	(250)	(250)
property, plant and equipment	-	(24)
investments	-	-
intellectual property	-	(1,400)
other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
businesses	-	-
property, plant and equipment	-	-
investments	-	-
intellectual property	-	-
other non-current assets	-	-
2.3 Cash flows from loans to other entities:	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Payments to settle liabilities on settlement including transaction costs	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>(250)</b>	<b>(1,674)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	6,779	6,779
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	75
3.4 Transaction costs related to issues of equity securities or convertible debt securities	(521)	(521)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>6,258</b>	<b>6,333</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	8,035	12,739
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,496)	(4,865)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(250)	(1,674)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	6,258	6,333
4.5	Effect of movement in exchange rates on cash held	(17)	(3)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>12,529</b>	<b>12,529</b>

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	12,529	8,035
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>12,529</b>	<b>8,035</b>

		<b>Current quarter \$A'000</b>
<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	
6.1	Aggregate amount of payments to related parties and their associates included in item 1	91
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: Amounts included at item 6.1 relate to payments to directors of the Board.

		<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
<b>7.</b>	<b>Financing facilities</b>		
	<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
	<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	50	3
7.3	Other (please specify)	-	-
7.4	<b>Total financing facilities</b>	50	3

<b>7.5</b>	<b>Unused financing facilities available at quarter end</b>	47
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7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Unsecured corporate credit card facility of \$50,000 (annual interest rate 20.24%) with Westpac Banking Corporation.

		<b>\$A'000</b>
<b>8.</b>	<b>Estimated cash available for future operating activities</b>	
8.1	Net cash from / (used in) operating activities (Item 1.9)	(1,496)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	12,529
8.3	Unused finance facilities available at quarter end (Item 7.5)	47
8.4	Total available funding (Item 8.2 + Item 8.3)	12,576
8.5	<b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	8.4

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

## Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 27 January 2022

Authorised by: Board of Directors

(Name of body or officer authorising release – see note 4)

## Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".

5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.