

February 28, 2022



Level 28
108 St Georges Terrace
PERTH WA 6000

ABN 98 103 348 947
ASX CNW

Continued Focus on Services Strategic Growth

HIGHLIGHTS

- Revenue of \$44.5 million, down 17% on H1 FY21 driven by lower non-core product revenue
- EBITDA (pre options) of (\$379k) loss due to disappointing Q1 pre restructure
- Strong Q2 of EBITDA (pre options) of \$457k profit after significant restructure
- 37% growth in managed services delivering record annuity revenue and margin
- **Preferred and in advanced negotiations on a significant Managed Service contract**
- Solid H2 outlook with healthy pipeline of opportunities in key markets and strategic focus on services
- Key sectors in Canberra and WA remain strong

Cirrus Networks Holdings Limited (“Cirrus” or the “Company”) (ASX: CNW) has today announced its half year result for H1 FY22 as the Company continues its journey to become a managed service provider of choice within the Australian IT sector.

Commenting on the H1 FY22 result, Cirrus Managing Director, Chris McLaughlin, said:

“While the half result is disappointing on a headline basis it was driven down by a disappointing Q1 with significant internal and external headwinds, including a distracting and costly failed low-ball hostile takeover attempt. We are very pleased with the outcomes of the business restructure decisions executed during October which have driven improved revenue and margins on a significantly lower annualized overhead cost run rate. While revenue was down 17% year on year to \$44.5m it was attributable to non-core Product revenue reductions with our strategic services focus very much on track.

A real positive was the growth in Services revenue and in particular the higher margin annuity based Managed Services which improved 37% to a record \$7.5m revenue for the half. This together with the ongoing opportunities being qualified and tendered demonstrates Cirrus’ evolution into a market leading and innovative national IT managed service provider of choice.

The growth in services contribution, coupled with a right sizing of the overhead base provides confidence to deliver a solid H2 revenue and earnings result.”

H1 FY22 REVENUE TRANSITION

The \$44.5m of revenue for H1 represents a 17% decrease on the comparative period in FY21. This was due to a \$10.5m reduction in non-core low margin product revenue for the half. Product revenue is expected to decrease over time in its overall contribution to group revenues as the strategic focus moves to higher margin

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services and in particular annuity managed services. However, product revenue was also impacted by the ongoing supply chain challenges brought on as a result of the pandemic, particularly in the semi-conductor sector. As a result, customer orders contracted but not delivered / recognised (backorder) ballooned to \$9.1m, a 64% increase from the prior year and significantly above pre pandemic levels.

H1 year on year Cirrus delivered a 9% increase in services revenue driven by a 37% increase in managed services annuity revenue. The successful transition and operation of the Geoscience managed service in H1 was a strong contributor to this increase. We remain confident on the managed service trajectory with a very strong pipeline of qualified opportunities and a number of tenders lodged awaiting final outcomes.

Professional Services revenue was down \$772k or 9% on H1FY21 levels. This was affected by ongoing project delays caused by supply chain negatively impacting product deliveries for those implementation projects along with continued tightening of the labour market due in large part to the state and international border restrictions. This was a continuation of what had been experienced through most of calendar 2021 and impacting labour cost and availability including retention.

There are improved early signs for calendar 2022 with projects commencing and labour becoming more accessible. January delivered a 13% and 23% improvement in revenue year on year for professional services and managed services respectively.

Resources and Energy companies along with Government (Federal, State and Local) continue to drive the company forward with 77% of revenue earned from these desirable sectors.

MIXED EARNINGS

Adjusted EBITDA (pre options) for the 6 months to 31 December 2021 was (\$379k) Loss against a prior period \$1.2m EBITDA.

	Q1 HY22 Pre restructure (\$)	Q2 HY22 Post restructure (\$)	HY ENDED 31 DEC 2021 (\$)	HY ENDED 31 DEC 2020 (\$)
UNDERLYING EBITDA	(789,508)	445,935	(343,573)	1,225,288
Foreign exchange	(46,417)	10,880	(35,537)	(12,646)
EBITDA (PRE-OPTIONS)	(835,925)	456,815	(379,110)	1,212,642
JobKeeper incentive	-	-	-	1,634,800
One off corporate transaction fees*	(561,364)	(46,689)	(608,053)	-
Redundancy and business restructure costs	(513,775)	-	(513,775)	(99,152)
Amortisation and depreciation	(183,374)	(185,724)	(369,098)	(357,689)
Amortisation – Right-of-use asset	(194,259)	(194,259)	(388,518)	(371,769)
Net Interest	(35,522)	(73)	(35,595)	(611,137)
Share based options expensed	99,983	(16,510)	83,473	(399,337)
STATUTORY NET PROFIT/(LOSS) AFTER TAX	(2,224,236)	13,560	(2,210,676)	1,008,358

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The earnings result should however be viewed across the two quarters given the significant events in the business during the half.

Q1 saw Cirrus successfully defend a very disruptive and costly low-ball hostile takeover bid whilst faced with ongoing Covid headwinds on labour and supply chain as well as commencing overhead and structural investment ahead of the trending underlying business growth seen in the second quarter (Q2). This culminated in Cirrus delivering an EBITDA (pre options) (\$836k) Loss for Q1.

After a comprehensive review, the business executed on a restructure to reduce overhead and simplify the organisational structure to better execute on the strategic services focus as a pathway to earnings growth. The changes included Board and executive refresh with a new Chairman and CEO. Despite the changes being executed in October and an expected period of transition, there was immediate positive effect of the changes with Q2 delivering an EBITDA (pre options) profit of \$457k including improved revenue, margins and an annualized \$4m reduction in overhead run rate from Q1 to Q2.

SOLID BALANCE SHEET MAINTAINED

Despite the difficult trading conditions in H1, Cirrus maintained a solid debt free balance sheet including a cash balance of \$6.6m at 31 December 2021. Despite significant one-off expenditure on corporate activity through the defence of a low-ball hostile takeover along with a significant restructure, the Company maintained the working capital position (Cash + Trade Receivables – Trade Payables) at \$2.6m excess for 31 Dec 2021.

Further, Operating Cash Flow also withstood these strong headwinds delivering a \$507k cash outflow for the half despite the large one-off cash impacts and disappointing H1 trading result. We expect continuing improved performance during H2 to deliver positive operating cash for the full year.

POSITIVE OUTLOOK FOR H2FY22

While the economy continues to operate within the uncertainty of the global pandemic, Cirrus expects the improved trading performance during Q2 to continue into H2 as structural changes are bedded in and benefits fully crystallise.

Earnings growth is underpinned by a strong orderbook, positive pipeline of opportunities and strategic focus on higher margin services revenue. Strong market positioning within Federal Government and the WA

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resources sector should provide a solid foundation for delivery but they are not without challenges including the impacts of the pending federal election in H2 and the ongoing WA hard border.

ENDS

The Board of Directors at Cirrus has authorized the release of this announcement.

Contact for further information		
Chris McLaughlin Managing Director	Matt Green Chief Financial Officer	08 6180 4222 investor@cirrusnetworks.com.au cirrusnetworks.com.au

ABOUT CIRRUS

Cirrus Networks Holdings Limited (ASX: CNW) is an innovative IT solutions provider who works with companies, Government agencies and non-for-profit organisations to understand their technological needs and implement world leading solutions that are both cost effective and provide long term operational benefit.

The diverse reach of Cirrus means the company is able to provide a wide range of solutions including:

- Data Centre and Cloud
- Convergence
- Storage
- Data management (including big data)
- Network design and optimisation
- Business continuity & Cyber Security
- End user computing
- Unified communications and IP Telephony, and
- High quality IT Service Management, Consulting and Project Management services.

Excellent service and an innovative, holistic approach have seen Cirrus quickly grow an extensive base of blue-chip clients across industry, government and non-for-profit sectors. The rapid expansion of Cirrus has seen the company receive several awards as one of Australia's fastest growing technology companies.

The Cirrus offering was strengthened further in 2015 with the acquisition of Perth-based IT Solutions Provider, L7 Solutions. Since then, an assertive national expansion strategy has enabled Cirrus to establish a robust Eastern states presence with the acquisitions of Melbourne based IT Provider, NGage Technology Group and leading Canberra IT services company Correct Communications.

Cirrus won a transformational managed service contract with Federal Government entity Geoscience Australia in excess of \$13M in March 2021. This contract provides a strong reference for Cirrus to expand its contestable market in terms of client type and contract size.

Cirrus is a rapidly growing IT solutions provider exposed to the megatrend of digitisation.