

Strong Q1 Sales and Reduced Cash Outflow Confirms FY23 Positive Outlook

Q1 FY23 HIGHLIGHTS

- 80.1% reduction in quarterly cash burn to (\$0.7M) versus (\$3.4M) pcp*
- Annual recurring revenue (ARR) increased 97% to \$3.5M pcp
- Licensing revenue increased 41% to \$0.7M versus pcp
- Market-leading customer engagement, with churn stable at <1%
- Consistent operating expenses across the prior five quarters, demonstrating efficient capital management
- Cash position of \$5.8M
- FY23 outlook confirmed:
 - Minimum 60% revenue growth (current visibility for triple-digit growth)
 - Cash receipts at \$9.5M - \$10.0M
 - Monthly cash burn expected to halve (versus FY22)
- archTIS quarterly results webinar to be held Thursday, 27 October 2022 at 11am AEDT

**Prior comparative period Q1'22 (pcp)*

archTIS Limited (ASX:AR9, OTCQB:ARHLF, archTIS or the **Company**), a global provider of innovative software solutions for the secure collaboration of sensitive information, is pleased to release its Quarterly Activities Report and Appendix 4C Cash Flow Report for the quarter ending 30 September 2022 ("**Q1**" or "**September quarter**").

Managing Director Daniel Lai stated, "archTIS delivered a strong quarter to the market through a significant decrease in our cash burn, record Q1 sales during a traditionally slow sales quarter and confirmed visibility into key FY23 metrics including cash receipts, reduction in cash burn and increase in revenues. Our leading economic indicators of ARR, licensing growth and stable operating expenses demonstrated strong leverage across the business.

"Beyond our headline numbers, we continue to make encouraging progress in acquiring new customers, expanding key alliances and achieving greater cross-product traction in our targeted markets. Our ongoing product innovation was also recognised with archTIS being named 2022 Cyber Business of the Year by the Australian Defence Industry Awards."

"Lastly, with the increasing levels of cyber breaches in the Australian market, the awareness of growing threats and the need to improve security postures across all industries has never been greater."

Quarterly Financial Summary (unaudited)

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

	FY23	FY22
(A\$'000)	Q1	Q1
Licensing Revenue	690	490
<i>% Increase on prior comparative period</i>	41%	
Services Revenue	566	1,134
Equipment Revenue	8	-
Total Revenue	1,264	1,625
Annual Recurring Revenue	3,472	1,763
<i>% Increase on prior comparative period</i>	97%	
Gross Margin	63%	72%
Operating Expenses	2,749	2,619

QUARTERLY FINANCIAL SUMMARY (UNAUDITED)

During Q1, total revenue was \$1.3M. Licencing revenues increased 41% to \$0.7M as the Company continues to focus on leveraging more profitable licensing sales, while opportunistically aligning services-based revenue streams. Notwithstanding total revenue was down 22% (vs Q1 FY22) due to a significant service project milestone being recognised during FY22, licensing revenue growth was highlighted by ARR of \$3.5M (+97% vs Q1 FY22).

Q1 FY23 gross margin was \$0.8M (63%), compared to \$1.2m (72%) during Q1 FY22. This decline in gross margin is attributed to third-party licence sales, equipment and services in relation to the Australian Department of Defence contract.

The Company ended the quarter with \$5.8M of available cash. The quarterly cash outflow of \$0.7M was an 80.1% improvement compared to a cash outflow of \$3.4M in the prior comparative period. The significant reduction in cash burn from prior quarters was predicated upon archTIS maintaining operating expenses at similar levels to the previous four quarters and increased customer receipts associated with software licensing contracts. The Company remains focused on achieving cashflow neutrality with a targeted 50% reduction in cash burn from the prior financial year.

The Company's net operating cash outflows (cash burn) for the quarter of \$0.7M were mainly comprised of staff and contractor costs (\$2.3M), administrative and corporate costs (\$0.7M), advertising and marketing costs (\$0.2M), and product manufacturing and operating costs (\$0.2M). The payments included in section 6.1 of the attached Appendix 4C relate to directors' fees and wages of \$0.2M, which is higher than prior quarters due to the cash out of long service leave entitlements and an incentive payment ((\$20k) partial achievement of target). The key activities carried out by staff and contractors during the quarter were ongoing product development, sales, marketing, and corporate administration.

Although certain projects were delayed at the outset of Q1, the Company confirms its targeted minimum annual revenue growth of 60% and \$9.5M cash receipts for FY23. All projects have been initiated and the Company remains on track from an annual revenue perspective.

CUSTOMER WINS

archTIS continued to demonstrate cross-product customer traction in Defence and Intelligence, Microsoft IP Co-sell, expanded geographical channel growth and strong customer retention. Most notably:

- Via a direct Microsoft field introduction, the Company closed its first US CMMC and ITAR compliance customer; a manufacturer of precision military components. The solution will automatically classify, restrict access to and control distribution of controlled unclassified information (CUI).
- Entered into an OEM Agreement with NTT Singapore to deliver NC Encrypt for SharePoint to an important government customer in Singapore. The OEM license is valued at \$191,869 for a three-year period with an option to extend for an additional 2-year period.
- The Chief Information Officer Group (CIOG) within Australian Defence procured a contract to use NC Protect for \$138,441. The solution will provide increased access control and file level security of classified and sensitive information shared in a multi-nation, joint exercise environment with allied nations.
- The Australian Department of Health awarded archTIS a \$430,000 contract to provide advisory services on architectural changes toward the creation of an organization-wide data-centric strategy.
- A 180,000 employee international logistics organization in Europe procured a “proof-of-concept” license to migrate from cp.Protect to NC Protect and NC Encrypt.
- Additional sampling of new and renewed product licences during the quarter – across industry sectors – includes:
 - Kojensi selected for supply chain communications across:
 - A European supplier to the global automotive industry.
 - A leading international systems provider for security technology.
 - United States Office of Secretary of Defense for encrypting key communications.
 - Renewal of Kojensi SaaS license by the Australian Attorney General.
 - A Scandinavian Central Bank to secure and encrypt key documents and information.
 - An international guided weapons and explosive ordinance company deploying Kojensi SaaS.
 - One of the largest US public university systems for the classification and securing of information.
 - A global engineering and consulting company deploying Kojensi SaaS.

PARTNERSHIP ALLIANCES

Ongoing momentum during the September quarter as archTIS continues to build upon its network of strategic partners in Asia with an expanded relationship with Singapore-based i-Sprint, a world-class solution provider in Identity and Access Management Solutions (late August). The new and expanded relationship will help accelerate archTIS’ footprint in Asia.

The Company continues to make strong traction within the existing pipeline of Microsoft Co-sell activities. archTIS closed the first US sale for our CMMC and CUI offering. The solution provides defence industry suppliers looking to do business with the US Department of Defense the ability to demonstrate compliance across information security controls. Discussions also continue across all levels of coalition forces with the highlight being the use of NC Protect for key information in a “proof-of-concept” in a multi-nation coalition exercise.

To date, the Company has closed total co-sell contract values in excess of \$3M since inception while maintaining a strong pipeline in all regions.

archTIS is in the final stages of procuring a Tranche 1 work order as a subcontractor to KPMG to provide secure data architecture consulting services for the ICT 2284 OneDefence Data Program. The program includes initiatives Defence is implementing to uplift the data security environment, improve data maturity and enhance the information available to the Australian Defence Force to better manage data as a strategic warfighting asset. As the preferred systems integrator, KPMG was selected to lead a consortium of vendors, including Oracle, Microsoft, archTIS, and others to deliver the investments outlined in the data strategy.

PRODUCT INNOVATION ACHIEVEMENTS AND INDUSTRY AWARDS

On the product front, archTIS announced two notable achievements within the quarter including:

- The launch of NC Encrypt to provide independent encryption key management and Bring Your Own Key (BYOK) support for Microsoft 365 applications and SharePoint Server environments.

- The release of Kojensi SaaS v2.0 ensures secure document collaboration and sharing of sensitive and Export Controlled content between Government, Defence, Defence supply chain, and higher education institutions to assist customers with meeting ITAR and other compliance mandates.

archTIS received key industry validation in the quarter being named *Cyber Business of the Year* in the 2022 Australian Defence Industry Awards. The award recognises the cyber business that has most effectively capitalised on market opportunities and driven demonstrable business growth while supporting the strengthening of Australia's defence and national security capabilities through its participation in the defence industry. The Company was one of 29 category winners, from 248 distinguished finalists.

Global COO and US President Kurt Mueffelmann stated: "As part of the greater macroeconomic challenges across the globe, we made a concerted effort to maintain operating expenses in our drive toward cash flow neutrality. We confirm our annual goals for FY'23 to cut cash burn in half from the prior year through cash receipts greater than \$9.5M while growing revenues at a rate greater than 60%. Importantly, we are winning deals globally within our targeted verticals of defence agencies and industrials by delivering product innovation and driving pipeline growth with major alliance partners. We are confident that our forward momentum will allow our shareholders to realise significant benefits in the future."

Investor Webinar

archTIS will host a quarterly results webinar on Thursday, 27 October 2022 at 11:00am AEDT (Sydney/Melbourne), 8:00am AWST (Perth), 26 October 2022 8:00pm EDT (New York, NY - USA) to update investors on its quarterly results.

Register at: https://us02web.zoom.us/webinar/register/WN_zZHEV2EaTUGwEPirs_1PtA

Authorised for issue by order of the Board of Directors.

ENDS

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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 archtis.com or follow @arch_tis.

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")

30 September 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,768	2,768
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(222)	(222)
(c) advertising and marketing	(191)	(191)
(d) leased assets	(65)	(65)
(e) staff costs	(2,350)	(2,350)
(f) administration and corporate costs	(594)	(594)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	1
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	(17)	(17)
1.7 Government grants and tax incentives	-	-
1.8 Other (GST)	-	-
1.9 Net cash from / (used in) operating activities	(671)	(671)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(5)	(5)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.2	Proceeds from disposal of:		
	(g) entities	-	-
	(h) businesses	-	-
	(i) property, plant and equipment	-	-
	(j) investments	-	-
	(k) intellectual property	-	-
	(l) 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	-	-
2.6	Net cash from / (used in) investing activities	(5)	(5)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	6,521	6,521
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(671)	(671)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(5)	(5)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(12)	(12)
4.6	Cash and cash equivalents at end of period	5,833	5,833

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	5,833	5,833
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	5,833	5,833

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
200
-

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

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	50	11
7.3 Other (please specify)	-	-
7.4 Total financing facilities	50	11

7.5 **Unused financing facilities available at quarter end** 39

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.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(671)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	5,833
8.3 Unused finance facilities available at quarter end (Item 7.5)	39
8.4 Total available funding (Item 8.2 + Item 8.3)	5,872
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	8.75

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 October 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.