

ASX Release

30 January 2023



Q2 FY23 QUARTERLY ACTIVITIES REPORT & APPENDIX 4C

DUG Technology Ltd (ASX: DUG) (“DUG” or the “Company”) is pleased to provide this update on activities and the Appendix 4C for the quarter ended 31 December 2022.

Highlights¹

- Total revenue in Q2 FY23 was US\$14.0 million, an increase of 25% on Q1 FY23 and 67% on Q2 FY22.
- EBITDA for Q2 FY23 of US\$4.6 million, an increase of US\$1.6 million on Q1 FY23 and US\$4.3 million on Q2 FY22.
- US\$13.9 million in new Services projects during the quarter, a tenfold increase on Q2 FY22 and 29% increase on Q1 FY23.
- Operating net cash inflows for Q2 FY23 of US\$2.1 million. Net investing cash outflows for Q2 FY23 of US\$0.6 million.
- Total cash held at 31 December 2022 was US\$2.5 million with net debt (excluding AASB 16 leases) at 31 December 2022 of US\$2.0 million.

Operational update

Revenue increased during the period by 25% from the previous quarter, and 67% on Q2 FY22, with contributions from each of DUG’s product lines. The Services business performed particularly well, delivering a record high revenue for a quarter.

Stronger revenues and a continued focus on costs produced a record quarterly EBITDA of US\$4.6 million. Operating cash inflows of US\$2.1 million remained weighed by working capital investments which are expected to reverse during Q3 FY23, further improving cash flows for that period.

Business development initiatives secured US\$13.9 million of new Services contracts during Q2 FY23 (up 29% on Q1 FY23 and tenfold increase on Q2 FY22), the signing of Monash University² for the HPCaaS business as well as strong renewals in Software.

Managing Director Dr Matthew Lamont said: “We’ve continued momentum from a good first quarter to produce our best half on record for EBITDA and importantly delivering positive operating cash flows.

I’m delighted with our order book and opportunity pipeline with key strategic client wins over the last two months. Our Services business is performing exceptionally well. We see continued strength in the business moving forward.”

¹ Results disclosed are unaudited

² Refer ASX Announcement “Monash University signs on for DUG McCloud” on 16 December 2022

Revenue

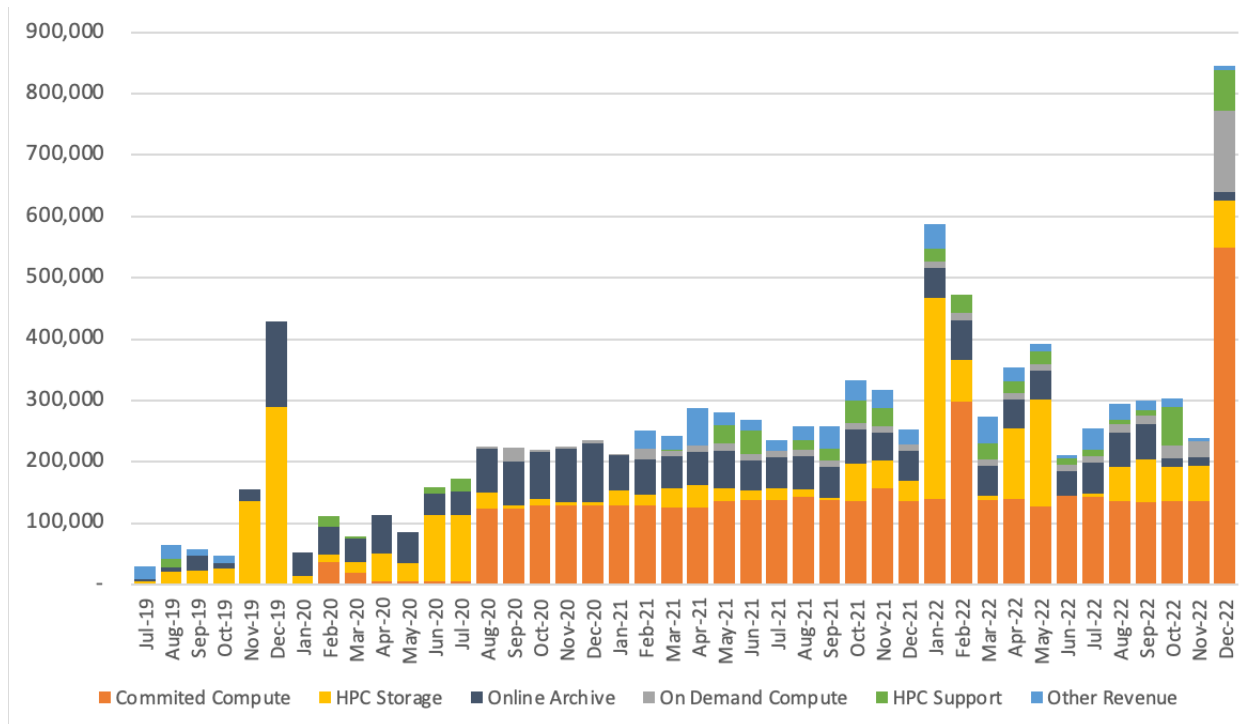
Total revenue was US\$14.0 million for Q2 FY23. The table below summarises the break-down of revenue across the Company’s three product lines:

Product line	Q2 FY23 (US\$ million)	Q2 FY22 (US\$ million)	Variance FY23 Q2 to FY22 Q2 (%)
Services	11.2	5.9	90%
Software	1.7	1.6	6%
HPCaaS	1.1	0.9	22%
Total	14.0	8.4	67%

The Services business continued to strengthen with a 29% increase on the previous quarter and a 90% increase on Q2 FY22. Services revenue for 1H FY23 of \$19.9 million is in line with pre-COVID revenues from calendar years 2018 and 2019.

Both the Software and HPCaaS revenues also grew. Software revenue increased 13% on the previous quarter and 6% on Q2 FY22; HPCaaS revenues grew by 10% on the previous quarter and 22% on Q2 FY22, supported by new contract wins from non-oil and gas customers.

The graph below illustrates the trend in HPCaaS invoicing³ (US\$):



³ This graph sets out HPCaaS invoices raised during each month. A portion of December 2022 invoicing relates to advance payments procured for future services expected to be recognised as revenue in H2 FY23.

Cash flow

Cash inflows from operating activities were US\$2.1 million for Q1 FY23 (Q1 FY23: inflow of US\$0.3 million) – this includes interest payments of US\$0.3 million (Q1 FY23: US\$0.3 million).

Cash inflows from operating activities were improved on the previous quarter and are expected to further improve in Q3 FY23 as working capital investment across certain large services projects unwinds.

Capital expenditure of US\$0.6 million during Q2 FY23 included the purchase of new computer hardware in Australia to support customers outside the oil and gas industry.

Due to the timing of the Christmas break, CBA elected to deduct the quarterly loan repayment for early January 2023, at 31 December 2022. The term loan remained at US\$4.0 million and is expected to reduce to US\$3.0 million by 31 March 2023. In November 2022, DUG arranged an overdraft extension from A\$1.0 million to A\$3.0 million for a three-month period to manage working capital levels⁴. At 31 December 2022 no amounts were drawn on this overdraft facility.

At 31 December 2022, total cash held by the Company was US\$2.5 million, an increase of US\$1.0 million compared to 30 September 2022.

Payments to related parties of the entity and their associates

The amount included in section 6.1 of the Appendix 4C comprises fees and salaries paid to directors of US\$192,691.

This ASX Announcement has been approved for release by the Board of DUG Technology Ltd.

ENDS

⁴ Refer DUG Technology 2022 AGM Chairman's Address released 24 November 2022.

For more information:

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ABOUT DUG

DUG is an ASX listed technology company, headquartered in Australia, that specialises in analytical software development and reliable, green, high-performance computing (HPC). The company is built on a strong foundation of applied science and a history of converting research into practical, real-world solutions. DUG delivers innovative software products and cost-effective, cloud-based HPC as a service backed by bespoke support for technology onboarding. DUG's expertise in algorithm development and code optimisation enables clients to leverage big data and solve complex problems.

DUG is a global company with offices in Perth, London, Houston and Kuala Lumpur, supporting a diverse industrial client-base that includes radio-astronomy, biomedicine and meteorology, as well as the resource, government and education sectors. DUG designs, owns, and operates a network of some of the largest and greenest supercomputers on Earth. The company continues to invest and innovate at the forefront of software and HPC, working towards a climate-positive future.

To learn more, please visit www.dug.com.

Appendix 4C

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

Name of entity

DUG Technology Ltd

ABN

99 169 944 334

Quarter ended ("current quarter")

31 December 2022

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (6 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	10,316	18,647
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(804)	(1,477)
(c) advertising and marketing	(351)	(903)
(d) leased assets	-	-
(e) staff costs	(5,806)	(11,616)
(f) administration and corporate costs	(801)	(1,325)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	1
1.5 Interest and other costs of finance paid	(273)	(609)
1.6 Income taxes received/(paid)	(57)	(116)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
Non recurring redundancy costs	(123)	(161)
1.9 Net cash from / (used in) operating activities	2,102	2,441
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(600)	(1,102)
(d) investments	-	-
(e) intellectual property	(16)	(58)

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (6 months) \$US'000
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	18	72
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(598)	(1,088)

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	319	319
3.6 Repayment of borrowings	(270)	(770)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Repayment of leases	(485)	(957)
3.10 Other	-	-
3.11 Net cash from / (used in) financing activities	(436)	(1,408)

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	1,517	2,656
4.2 Net cash from / (used in) operating activities (item 1.9 above)	2,102	2,441

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 months) \$US'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(598)	(1,088)
4.4	Net cash from / (used in) financing activities (item 3.11 above)	(436)	(1,408)
4.5	Effect of movement in exchange rates on cash held	(54)	(70)
4.6	Cash and cash equivalents at end of period	2,531	2,531

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 \$US'000	Previous quarter \$US'000
5.1	Bank balances	2,531	1,517
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)	2,531	1,517

6.	Payments to related parties of the entity and their associates	Current quarter \$US'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(193)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

Amounts included in 6.1 are remuneration payments made to Directors.

7. Financing facilities	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
<p><i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i></p> <p><i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i></p>		
7.1	4,000	4,000
7.2	1,000	569
7.3a	200	200
7.3b	2,038	-
7.3c	312	312
7.4 Total financing facilities	7,550	5,081
7.5 Unused financing facilities available at quarter end		2,469
<p>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.</p>		
<p>Commonwealth Bank of Australia:</p> <ol style="list-style-type: none"> 1. USD Term Debt: US\$4,000,000 <ol style="list-style-type: none"> a. Interest rate: SOFR rate plus 4.25% line fee. b. Maturity date: 1 July 2024 c. Secured or Unsecured: Secured 2. Contingent Instrument Facility: US\$1,000,000, drawn down to \$US569,000 <ol style="list-style-type: none"> a. Interest rate: Line fee of 1.00% plus utilisation fee of 2.95% on amounts drawn. b. Maturity date: Subject to annual review c. Secured or Unsecured: Secured 3. Overdraft Facility: A\$3,000,000 (US\$2,037,600 as at 31 December 2022 spot rate), steps down to A\$1,000,000 effective 28 February 2023. <ol style="list-style-type: none"> a. Interest rate: Line fee of 1.50% plus Overdraft Index Rate as quoted on CBA's website b. Maturity date: Subject to annual review c. Secured or Unsecured: Secured <p>Other facilities include a premium funding loan for the Group's insurance policies which is unsecured, and asset financing facilities which is secured against assets purchased with those facilities.</p>		
8. Estimated cash available for future operating activities	\$US'000	
8.1	2,102	
8.2	2,531	
8.3	2,469	
8.4	5,000	
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	N/A	
<p><i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i></p>		

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

8.6.1 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:

N/A

8.6.2 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:

N/A

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

Answer:

N/A

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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: 30 January 2023

The Board

Authorised by:
(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.