

archTIS March 2023 Quarterly Report

Triple-digit Revenue Growth Combined with Decrease in Operating Costs Supports Continued Market Acceleration

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 provide an update on its Quarterly Activities Report and Appendix 4C Cash Flow Report for the quarter ended 31 March 2023 (**Reporting Period or Quarter**).

Q3 FY23 Highlights*

Revenue of \$1.78M Up 107% PCP Up 65% PQ	Operating Expenses Decreased 38% PCP Decreased 17% PQ	New customers acquired across a number of international markets
ARR of \$3.5M Up 67% PCP	Net Operating Cash Outflow Decreased 31% PCP	Australian Defence Strategic Review provides positive guidance for new opportunities

* Prior Comparative Period (PCP) /
Prior Quarter (PQ)

Daniel Lai, Managing Director and CEO, stated, “archTIS continues to deliver revenue growth despite difficult global economic conditions. We have expanded our international presence with new customer sales into the US, Germany, France and South Korea. We have also maintained financial discipline through the reduction of our overall expenses as we move towards sustainable cash flow targets. Most importantly we have made significant strategic inroads this quarter by progressing a number of exciting proof of concept opportunities across all regions with national defence agencies and suppliers. Finally, the release of Australian Defence Strategic Review (DSR) validates our strategy and will present further opportunities in our ambition to become the preferred provider of secure collaboration and information sharing products to global defence agencies and industry”.

Quarterly Financial Summary (unaudited)

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

	FY23	FY22
(A\$'000)	Q3	Q3
Licencing Revenue	853	783
Services Revenue	835	75
Equipment Revenue	91	-
Total Revenue	1,778	858
<i>% Increase on prior comparative period</i>	107%	
Annual Recurring Revenue	3,450	2,067
<i>% Increase on prior comparative period</i>	67%	
Gross Margin	50.1%	78.5%
OPEX (after capitalising development costs)	1,677	2,693

During Q3, total revenue was \$1.8M, an increase of 107% from the prior comparative period (PCP). The revenue was split across licencing of \$0.9M and services of \$0.8M as the Australian Department of Defence continues to invest in the expansion and enhancement of Kojensi and NC Protect as well as a number of international customer wins has resulted in \$3.5M ARR, an increase of 67% from the PCP.

Although gross margin percentages decreased, actual gross margins increased by \$0.2M from PCP. The lower gross margin percentage was associated with increased third-party service resources and hardware procurements to deliver the various Australia Department of Defence contracts. Licencing margins remain strong at approximately 85%.

Operating costs for the quarter were \$1.7M. The significant decrease in costs reflects a reduction of 38% from \$2.7M PCP and 17% from \$2.0M in the prior quarter. The drop in operating expenses reflects management's commitment towards becoming cash flow positive.

The Company ended the quarter with \$4.8M of available cash. The Company's net operating cash outflows for the quarter was \$1.9M, mainly comprised of product manufacturing and operating costs (\$0.8M), advertising and marketing costs (\$0.2M), staff costs (\$2.1M), administration and corporate costs (\$0.1M) and receipts from customers (\$1.4M). The net operating cash outflow was due to a number of deals moving into Q4 and a higher cost of goods sold associated with services projects. Further actions have been identified including cost reductions to drive the company forward to cash flow positive as soon as possible. The average monthly cash outflow through three quarters was \$407k; improved against the annualised

targeted \$448k. This represents a continued on-target 50% reduction in overall monthly cash burn from the prior year.

The payments included in section 6.1 of the attached Appendix 4C relate to Director's fees and wages of \$0.1M.

Continued Customer Wins and Expansions

New and expanded contracts and product renewals across all geographical regions and vertical sectors in the quarter include a sampling of:

- KPMG Australian Technologies Solutions (KTech) provided additional work orders of approximately \$0.7M for data-related architecture consulting services including data taxonomy, modelling, and security for a Defence Data Program
- A South Korean top ten business enterprise for defence manufacturing selected Kojensi SaaS for secure collaboration of sensitive files.
- An additional Australian Defence agency selected NC Protect to enforce data protection across their infrastructure communications.
- A multinational manufacturing company for the protection of intellectual property across their R&D teams using NC Protect.
- Renewal of Kojensi SaaS licensing by SAP to communicate with national defence agencies across the globe.

Furthering Partnership Alliances

archTIS continues to build a strong Microsoft alliance and pipeline across product technologies, field sales and go to market activities through its membership in the invitation-only Microsoft Intelligent Security Association (MISA). Additionally, the Company has delivered several go-to market activities with Microsoft at the world's largest security exhibition, RSA, including a leadership position on a Purview Team's invite-only Data Security Executive Roundtable and a demo on the exhibit Microsoft showcase integrations with MPIP and Sentinel.

MISA announced archTIS' NC Protect as a Compliance & Privacy Trailblazer Award Finalist in the annual Microsoft Security Excellence Awards. NC Protect was nominated for its unique capabilities for solving Defence requirements for the safe handling of and application of visual markings for sensitive, Controlled Unclassified Information (CUI) and classified data.

The Company announced the integration of NC Encrypt with strategic alliance partner Thales CipherTrust Manager to offer a viable solution for customers using Microsoft 365 that are determined to keep their keys separated from their data in the cloud. In addition, customers already using Thales Hardware Security Modules that want the additional value of dynamic, policy-driven encryption can easily integrate with NC Protect. This opens new market opportunities with existing Thales customers.

Kurt Mueffelman, Global COO and US President, stated, “archTIS’ growth story continues as we drive forward to meet our revenue growth goals and operating improvements. Our offerings are continuing to gain traction with increased opportunities in the Defence and Defence industrial space. We remain confident that with our experienced and motivated team, the Company will maintain its consistent momentum and be well positioned to take advantage of industry tailwinds to achieve sustainable growth in future periods.”

Outlook

The Company is on track for solid year-over-year revenue growth. However, risks have been identified in the delivery to Australian Defence of \$1.6M in equipment revenue in the coming quarter that may affect the Company’s ability to achieve the 60% revenue outlook statement provided earlier in the year. This is due to two factors: firstly, the slowdown in Defence procurement activity in anticipation of the release of the Defence Strategic Review; and secondly due to procurement policy changes within the Australian Commonwealth around supply chain assurance, resulting in a change of hardware providers that has delayed the expected order. The customer expects the order will be placed and fulfilled in FY24. The impact to gross margins from the \$1.6m in equipment revenue is anticipated to be approximately \$0.25M.

Estimated year-end revenues is expected to be between \$6.0M - \$6.5M, representing YOY revenue growth of approximately 30% - 40%. archTIS is providing this updated revenue range as the Company is working closely with the Commonwealth to manage these changes as the overall project continues to progress in a positive manner.

The Company maintains a targeted outlook for annual cash receipts of \$9.5M and a reduction in cash outflow of 50% from the prior financial year.

The broader outlook is positive, with strong customer engagement, a number of proof of concept engagements progressing with strong licencing opportunities pending their successful outcome. Overall market tailwinds remain strong and the release of the DSR and the AUKUS alliance through burgeoning UK and US partnerships is presenting new opportunities for strong growth over the medium term.

Investor Updates

archTIS will host a quarterly results webinar on 28 April 2023 at 11:00am EST (Sydney/Melbourne), 9:00am WST (Perth), 27 April 2023 at 9pm EDT (New York) to update the market on the quarterly results.

Register at: https://us02web.zoom.us/webinar/register/WN_6gz-rIM1RwSg0md_f6lTBq

Authorised for issue by order of the Board of Directors.

ENDS

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archTIS Interactive Investor Hub

<https://investors.archtis.com/>

The archTIS Investor Hub is an online portal for investors to read and interact with our announcements and updates. Investors can ask questions and add comments, which our team will respond to where possible.

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](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 March 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,372	5,560
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(841)	(1,604)
(c) advertising and marketing	(207)	(555)
(d) leased assets	(65)	(196)
(e) staff costs	(2,063)	(7,156)
(f) administration and corporate costs	(127)	(1,528)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	16	16
1.5 Interest and other costs of finance paid	(2)	(4)
1.6 Income taxes paid	-	(17)
1.7 Government grants and tax incentives	-	1,822
1.8 Other (GST)	-	-
1.9 Net cash from / (used in) operating activities	(1,917)	(3,662)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(1)	(17)
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(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	Payments to settle liabilities on settlement including transaction costs	-	-
2.6	Net cash from / (used in) investing activities	(1)	(17)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	14	2,226
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	(57)	(260)
3.5	Proceeds from borrowings	-	1
3.6	Repayment of borrowings	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
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	(43)	1,968

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	6,765	6,521
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,917)	(3,662)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1)	(17)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(43)	1,968
4.5	Effect of movement in exchange rates on cash held	(3)	(8)
4.6	Cash and cash equivalents at end of period	4,801	4,801

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	4,801	6,765
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)	4,801	6,765

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

Current quarter \$A'000	
6.1	117
6.2	-

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	1,500	1
7.2	50	5
7.3	-	-
7.4	50	5

7.5 **Unused financing facilities available at quarter end** 1,544

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)	(1,917)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	4,801
8.3	Unused finance facilities available at quarter end (Item 7.5)	1,544
8.4	Total available funding (Item 8.2 + Item 8.3)	6,345
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	3.31

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: 28 April 2023

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.