

archTIS September 2023 Quarterly Report

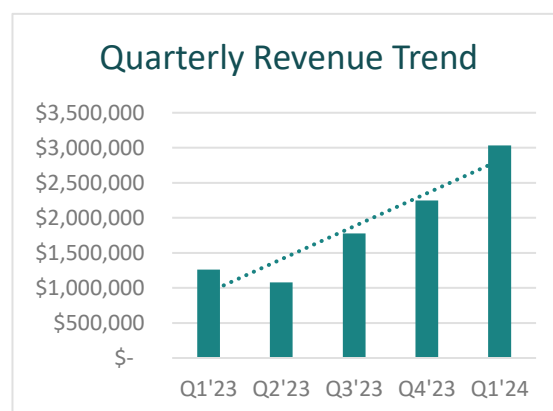
Delivers Strong Q1 Performance

archTIS Limited (ASX:AR9, OTCQB:ARHLF, archTIS or the Company), a global provider of data-centric 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 30 September 2023 (Reporting Period or Quarter).

Highlights

- Revenue up 140% from PCP, with licensing revenue up 60% and services revenue up 239%.
- Net quarterly cash usage (burn) lowered to \$0.2M
- Record customer cash receipts of \$4.8M
- Operating expenses decreased 40%
- Launch of Kojensi into UK markets
- Joins NetApp Technology Alliance Program
- Receives several industry awards

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



Daniel Lai, Managing Director and CEO of archTIS, stated, “archTIS is pleased to announce its Q1 results for FY24. We have grown revenue by 140% on PCP, principally through delivering several proof of concepts (PoC) that we believe will lead to future licence revenue in our target market. We continued to reduce our overall net cash operating outflows as part of targeting a cash flow positive position. The quarter also saw our successful launch of Kojensi into the international market in conjunction with Fujitsu at the UK Defence and Security Equipment International (DSEI) conference, opening new partner channels in the UK market. This is timely following significant shifts in Defence alliances driven by the AUKUS alliance and the integration of global supply chains. The uptake of Kojensi and NC Protect licencing has also accelerated through both new customer acquisitions and licence growth in existing accounts.

“Finally, it has been humbling to have received several awards, including the 2023 Australian Cyber Business of the Year, the 2023 Policy Management Solution of the Year, and the most inclusive information security company on the Australian Securities Exchange (ASX) for having women represented at every level of our leadership team.”

Quarterly Financial Summary (unaudited)

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

	FY24	FY23
(A\$'000)	Q1	Q1
Licencing Revenue	1,102	690
Services Revenue	1,916	566
Equipment Revenue	14	8
Total Revenue	3,033	1,264
<i>% Increase on the prior comparative period</i>	140%	
Annual Recurring Revenue (ARR)	3,399	3,472
<i>% Decrease on the prior comparative period</i>	2.1%	
Gross Margin	47.4%	62.5%
OPEX (after capitalising development costs)	1,637	2,749

The Company's net operating cash outflows (cash burn) for the quarter were \$0.2M, mainly comprised of receipts from customers of \$4.8M, product manufacturing and operating costs (\$2.3M), staff costs (\$2.0M), administration and corporate costs (\$0.7M), and advertising and marketing costs (\$0.1M). Net operating cash outflow was an improvement of 85% versus PQ and 64% versus PCP. Cash receipts include a payment from the Australian Department of Defence for \$3.2M (including GST) for a contract signed in Q4 FY23 (refer to ASX announcement dated 29 June 2023).

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

During Q1, total revenue was \$3.0M, an increase of 140% from the PCP and up 35% from the PQ. The revenue was split across licencing of \$1.1M, which grew 60% and services of \$1.9M, which expanded by 239% PCP.

ARR was \$3.4M, a slight decrease from the PCP and attributable to a third-party software contract wherein the vendor discontinued that product. As this was a non-company product, the decrease in licence margin is immaterial.

Gross margin decreased to 47.4% from 62.5% PCP, although consistent with the PQ. The lower gross margin percentage was associated with increased services, including third-party resources to deliver the various Australian Department of Defence contracts. The services

continue to create PoC and mature pipeline opportunities to drive future licensing sales at increased margins.

Operating costs for the quarter were \$1.6M. The significant decrease in costs reflects a reduction of 40% from \$2.7M PCP. The drop in operating expenses reflects the Company's cost reduction initiatives announced in November 2022 (refer to ASX announcement dated 17 November 2022) and management's commitment to becoming cash flow positive.

The Company ended the quarter with \$3.0M of available cash. Record cash receipts from customers for the quarter totalled \$4.8M, a 131% increase from the PQ and 74% PCP.

Continued Customer Wins and Expansions

During the quarter, archTIS continued strong customer adoption across key vertical markets and geographies. A sampling of customer wins in the quarter include:

- A global defence manufacturer selected archTIS to provide initial consulting on data-centric collaboration and future product selection associated with AUKUS;
- Another European bank chose NC Protect and NC Encrypt for independent encryption key management for their Microsoft 365 applications and SharePoint on-premises environments to maintain digital sovereignty and add data-centric protection to combat insider threats;
- An Australian global logistics company with operations in transportation, warehousing and logistics signed a 3-year deal to securely collaborate across their supply chain using Kojensi SaaS;
- The Australian Department of Defence extended its licenses for NC Protect across additional divisions;
- An additional US defence firm selected NC Protect for Microsoft's GCC High Cloud environment to meet US DoD compliance requirements;
- A US real estate development company signed a 3-year contract for NC Protect to use its secure viewer and dynamic watermarking functionality to securely collaborate with external users across sensitive documents; and,
- Skool4Kidz, an existing referenced account, purchased an additional 190 NC Protect for Microsoft 365 licenses through the company's ASEAN distributor, i-Sprint Innovations.

Corporate Update

archTIS was named the "2023 Cyber Business of the Year" by the Australian Defence Industry Awards. It 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. archTIS also won the category in 2022 and was a finalist in 2021.

NC Protect product won “2023 Policy Management Solution of the Year” at the 7th annual CyberSecurity Breakthrough Awards. The award program is conducted by CyberSecurity Breakthrough, a leading independent market intelligence organisation that recognises the top companies, technologies and products in the global information security market today.

Elect recognised the Company as the most inclusive information security company on the ASX with a three-star Gender Equality Rating for having women represented at every level of its leadership team.

The Company announced the UK launch of the Kojensi secure information collaboration and sharing platform for defence in conjunction with Fujitsu UK.

archTIS announced NetApp Technology Alliance Program membership as a Preferred Partner and field validation of NC Protect’s integration with NetApp ONTAP. NC Protect paired with ONTAP protects information dynamically at the data layer at the time of access. The combined solution provides a multi-faceted 360-degree layered approach to protecting data accessed on Windows File Shares in ONTAP.

Outlook

archTIS is well positioned to deliver strong revenue growth driven by our significant existing partner base and a growing pipeline of customers, partners and products. The Company remains focussed on:

- Delivering licensing revenue growth through a strong sales pipeline.
- Continue pursuit toward being cash flow positive while executing our go-to-market, customer acquisition and research and development functions.
- Driving product innovation to maintain our position as the premium provider of policy-enforced access management and data-centric security products to the global defence market.

Investor Updates

archTIS will host a quarterly results webinar on Thursday, 26 October at 11:00am AEDT (Sydney/Melbourne), 8:00am AWST (Perth), 25 October at 8:00pm EDT (New York) to update the market on the quarterly results.

Register at:

https://us02web.zoom.us/webinar/register/WN_vH85trSJK8aWWrIQV2lStw

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 for enhanced information protection for file access and sharing, messaging and emailing of sensitive and classified content across Microsoft 365 apps, SharePoint on-premises, NetApp ONTAP, Nutanix Files and Windows file shares. For more information, visit archtis.com or follow [@arch_tis](https://twitter.com/arch_tis) on Twitter.

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 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	4,824	4,824
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(2,290)	(2,290)
(c) advertising and marketing	(55)	(55)
(d) leased assets	(57)	(57)
(e) staff costs	(1,973)	(1,973)
(f) administration and corporate costs	(691)	(691)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	25	25
1.5 Interest and other costs of finance paid	(2)	(2)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	(26)	(26)
1.8 Other (GST)	-	-
1.9 Net cash from / (used in) operating activities	(244)	(244)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
	(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	-	-
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	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,245	3,245
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(244)	(244)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	(1)	(1)
4.6	Cash and cash equivalents at end of period	3,000	3,000

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	3,000	3,245
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)	3,000	3,245

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
117
-

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.

- 7.1 Loan facilities
- 7.2 Credit standby arrangements
- 7.3 Other (please specify)
- 7.4 **Total financing facilities**

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	1,500	1
7.2	50	7
7.3	-	-
7.4	1,550	8

7.5 Unused financing facilities available at quarter end

1,542

- 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

- 8.1 Net cash from / (used in) operating activities (Item 1.9)
- 8.2 Cash and cash equivalents at quarter end (Item 4.6)
- 8.3 Unused finance facilities available at quarter end (Item 7.5)
- 8.4 Total available funding (Item 8.2 + Item 8.3)
- 8.5 **Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**

\$A'000

(244)

3,000

1,542

4,542

18.59

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:

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.