

CIRRUS NETWORKS HOLDINGS LIMITED

(ASX:CNW)

QUARTERLY ACTIVITIES REPORT



JUNE 2018

ACTIVITIES DURING THE QUARTER

Highlights

- Strong Q4 revenue of \$24.6m (unaudited)
- Record FY18 revenue \$76m (unaudited)
- Strong Q4 operating cash flow of positive \$725k and \$1.309m for the FY18 year
- Another quarter of tight working capital and cash control with 6 of the last 8 quarters cash positive
- Continued focus on growth in higher margin professional and managed services
- Year 3 of a 5 year business transformation and geographic expansion plan

Record FY18 revenue

Cirrus Networks Holdings Limited (“Cirrus” or the “Company”) (ASX: CNW) has delivered a strong fourth quarter of the financial year ending 30 June 2018 generating \$24.6m of revenue resulting in a record revenue result for FY18 of \$76m (unaudited). The increase represents a \$22.2m (41%) improvement year on year.

The Company delivered an impressive 130% year on year increase in services based revenue as it continued to advance the strategic goal of being an innovative IT solutions provider and market leader in enterprise managed services. The \$19m Services revenue now contributes 35% of total gross margin delivered and continues to grow. To this end the Company announced the awarding of the Crown Melbourne and Perth managed service contract of circa \$2.5 million. The contract is for a 5 year period and provides for Cirrus to manage data networks and voice infrastructure at the Crown Melbourne and Crown Perth Entertainment complexes.

Positive Operating Cash result

With the solid trading result Cirrus continued the strong cash generation with Net Cash from Operating Activities being \$725k for Q4 and \$1.3m for the year. The Company delivered positive cash from operating activities for the last three quarters and with tight control of working capital 6 of the last 8 quarters have been cash positive.

At 30 June 2018 the Company had a cash balance of \$5.263m. Cirrus has a positive \$4.430m net of debt with the only borrowings being \$833k of acquisition funding drawn for Tranche 1 payment of the Correct Communications acquisition.

Acquisition performing well

Leading Canberra based IT solutions provider Correct Communications was acquired by Cirrus on 23 November 2017. After the successful completion and integration of the business it has continued to perform above expectations during the quarter. There has been an immediate and positive impact of the identified acquisition synergies including Cirrus’ Cisco Gold accreditation and Federal government panel access.

Upon finalisation of the year end audit it is expected the final purchase price, being 3.92 times EBIT will achieve the maximum cap of \$5m of which \$2m has been paid in Tranche 1. The remaining \$3m comprises \$1m of cash with the remaining \$2m in shares or cash at CNW discretion.

Change to Cirrus Board

Subsequent to the end of the quarter the Company announced the appointment of Paul Everingham as a Non-Executive Director and the resignation of Non-Executive Director Patrick Glovac

Strong outlook for FY19

This quarter was the culmination of the third successful year in a 5 year business transformation and geographic expansion plan. It continued the significant revenue growth momentum in the business and with strong gains in higher margin services profile has established a platform for sustained profit growth.

With a strong cash position and continued positive pipeline of opportunities, Cirrus remains on track to deliver on its 2020 strategic aspirations.

STATUS OF CONDITIONS FOR EXERCISE OF DEFERRED CONSIDERATION SHARES

As required by the waiver to ASX Listing Rule 7.3.2 granted to the Company by ASX on 17 April 2015 in relation to the issue of "Deferred Consideration Shares" to the Cirrus vendors as part of the Cirrus acquisition, the Company advises as follows:

| | |
|---|--|
| Number of Deferred Consideration Shares issued during the reporting period | Nil |
| Number of Deferred Consideration Shares issued in previous reporting periods: | |
| 1. Cirrus achieving AUD\$12,000,000 in actual gross revenue with a minimum Gross Profit of 10% within a period of 2 years from 2/7/2015 ("Milestone 1") | 50,000,000 ordinary shares (per ASX release 16 September 2016) |
| Number of Deferred Consideration Shares that remain to be issued on the following bases: | |
| 2. Cirrus achieving AUD\$2,000,000 in EBIT during any rolling period of 12 months within a period of 3 financial years from 2/7/2015 ("Milestone 2") | 25,000,000 ordinary shares |
| 3. Cirrus achieving AUD\$4,000,000 in EBIT during any rolling period of 12 months within a period of 3 financial years from 2/7/2015 ("Milestone 3") | 17,500,000 ordinary shares |

For enquiries please contact:

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About Cirrus:

Cirrus Networks Holdings Limited (ASX: CNW) is an innovative IT solutions provider who works with businesses to understand their technological needs and implement world leading solutions that are both cost effective and provide long term operational gain. 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;
- End user computing;
- Unified communications and IP Telephony;
- High quality IT Service Management, Consulting and Project Management services.

Excellent service and an innovative, holistic approach has seen Cirrus quickly grow an extensive base of blue chip clients across industry sectors. The rapid expansion of Cirrus has seen the company receive a number of 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 recent acquisitions of Melbourne based IT Provider, NGage Technology Group and leading Canberra IT services company Correct Communications.

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

CIRRUS NETWORKS HOLDINGS LIMITED

ABN

98 103 348 947

Quarter ended ("current quarter")

30/06/2018

| 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 | 17,269 | 85,696 |
| 1.2 Payments for | | |
| (a) research and development | - | - |
| (b) product and operating costs | (11,758) | (67,705) |
| (c) advertising and marketing | (46) | (317) |
| (d) leased assets | - | - |
| (e) staff costs | (4,747) | (16,407) |
| (f) other corporate costs | - | - |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 7 | 42 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Government grants and tax incentives | - | - |
| 1.8 Other (provide details if material) | - | - |
| 1.9 Net cash from / (used in) operating activities | 725 | 1,309 |

| Consolidated statement of cash flows (continued) | Current quarter \$A'000 | Year to date (12 months) \$A'000 |
|---|------------------------------------|---|
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) property, plant and equipment | - | (437) |
| (b) businesses (see item 10) | - | (1,500) |
| (c) investments | - | - |
| (d) intellectual property | - | - |
| (e) other non-current assets | - | - |
| 2.2 Proceeds from disposal of: | | |
| (a) property, plant and equipment | - | - |
| (b) businesses (see item 10) | - | - |
| (c) investments | - | - |
| (d) intellectual property | - | - |
| (e) 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)* | - | 410 |
| 2.6 Net cash from / (used in) investing activities | - | (1,527) |
| *Relates to cash and cash equivalents acquired in Correct Communications Pty Ltd Business Combination | | |

| | | |
|---|-------------|--------------|
| 3. Cash flows from financing activities | | |
| 3.1 Proceeds from issues of shares | - | 788 |
| 3.2 Proceeds from issue of convertible notes | - | - |
| 3.3 Proceeds from exercise of share options | - | - |
| 3.4 Transaction costs related to issues of shares, convertible notes or options | - | - |
| 3.5 Proceeds from borrowings | - | 1,000 |
| 3.6 Repayment of borrowings | (83) | (166) |
| 3.7 Transaction costs related to loans and borrowings | (12) | (23) |
| 3.8 Dividends paid | - | - |
| 3.9 Other (provide details if material) | - | - |
| 3.10 Net cash from / (used in) financing activities | (95) | 1,533 |

| Consolidated statement of cash flows (continued) | 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 quarter/year to date | 4,633 | 3,948 |
| 4.2 Net cash from / (used in) operating activities (item 1.9 above) | 725 | 1,309 |
| 4.3 Net cash from / (used in) investing activities (item 2.6 above) | 0 | (1,527) |
| 4.4 Net cash from / (used in) financing activities (item 3.10 above) | (95) | 1,533 |
| 4.5 Effect of movement in exchange rates on cash held | | |
| 4.6 Cash and cash equivalents at end of quarter | 5,263 | 5,263 |

| 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 | 5,263 | 4,634 |
| 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) | 5,263 | 4,634 |

| 6. Payments to directors of the entity and their associates | Current quarter \$A'000 |
|--|------------------------------------|
| 6.1 Aggregate amount of payments to these parties included in item 1.2 | 44 |
| 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3 | - |
| 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2 | |

Directors fees (including superannuation)

| 7. Payments to related entities of the entity and their associates | Current quarter \$A'000 |
|--|----------------------------|
| 7.1 Aggregate amount of payments to these parties included in item 1.2 | 28 |
| 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3 | - |
| 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2 | |

Marketing services

| 8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i> | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|--|--|---|
| 8.1 Loan facilities | - | - |
| 8.2 Credit standby arrangements | - | - |
| 8.3 Multi Option Facility | 1,000 | 231 |
| • Commercial Advance Facility | | |
| • Bank Guarantee | | 231 |
| • Overdraft Facility | | |
| 8.4 Commercial Advance Facility | 1,000 | 833 |

Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

8.3 The Company entered into a Multi Option Facility with Bankwest which forms part of the cash management for general business purposes. This Bankwest Multi Option Facility includes the following facilities drawn down at the Company's discretion across any or all of the facilities and totalling \$1,000,000. The facility options are:

- Commercial Advance Facility with interest payable at the rate of BBSY plus a Margin of 2.20% per annum
- Bank Guarantee Contingent Instrument Facility
- Business Corporate Transaction Account Facility with interest payable at the rate of the variable Bankwest Business Variable Overdraft Reference Rate.

8.4 The Company also entered into a separate Commercial Advance Facility with Bankwest specifically for Acquisition Funding. Interest is payable at BBSY plus a margin of 3.00% per annum. Loan is repayable over 3 years.

| 9. Estimated cash outflows for next quarter * | \$A'000 |
|--|-----------------|
| 9.1 Research and development | - |
| 9.2 Product and operating costs | (14,250) |
| 9.3 Advertising and marketing | (60) |
| 9.4 Leased assets | - |
| 9.5 Staff costs | (4,850) |
| 9.6 Other corporate costs | - |
| 9.7 Other (provide details if material) | - |
| 9.8 Total estimated cash outflows | (19,160) |

* Cash inflows for the next quarter are estimated to cover the cash outflows

| 10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above) | Acquisitions | Disposals |
|--|--|------------------|
| 10.1 Name of entity | Correct Communications Pty Ltd | Not applicable |
| 10.2 Place of incorporation or registration | Australian Capital Territory | Not applicable |
| 10.3 Consideration for acquisition or disposal | \$1,500,000 | Not applicable |
| 10.4 Total net assets | Correct Communications Pty Ltd had \$300 of net assets on date of acquisition by Cirrus Networks Holdings Limited. | Not applicable |
| 10.5 Nature of business | Leading IT solutions provider specialising in Networking, Storage, Security and Unified Communications Infrastructure to Government and large enterprises in Canberra. | Not applicable |

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.

Sign here:
(Company secretary)

Date: ...25 July 2018.....

Print name:Catherine Anderson.....

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.