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Cirrus Group Market Update

HIGHLIGHTS

- Record unaudited EBITDA (pre options) of \$1.8m
- Unaudited revenue of \$88m, up 16%
- Record Cash from Operations of \$2.16m
- Managed Services revenue up 91%
- Strong FY20 outlook

Cirrus Networks Holdings Limited (“Cirrus” or the “Company”) (ASX: CNW) is pleased to provide the following market update.

RECORD EBITDA AND OPERATING CASH

Cirrus expects to announce a record FY19 EBITDA (pre options) of \$1.8m (unaudited).

This result is driven by strong growth in overall services revenue of 36% along with significantly improved performance at the gross margin line, with an 80% uplift in services gross margin contributing 46% of total gross margin (\$7.3m in FY19) compared to 35% in FY18 (\$4.1m). Blended gross margin across all services was 29% for FY19, up from 21.9% in FY18. Overall blended gross margin for the business increased from 15.4% (\$11.7m) in FY18 to 18% (\$15.9m).

Consistent with the EBITDA result, Cirrus generated record Cash from Operating Activities of \$2.16m.

CONTINUED GROWTH IN CONSOLIDATED REVENUE AND MANAGED SERVICES

Revenue (unaudited) for FY19 is expected to be \$88m, representing a 16% uplift from FY18.

Managed services revenue grew 91%, with gross margins in this category achieving significant growth of 181% (\$1.3m in FY18 to \$3.7m in FY19). Product revenue was lower than expected due primarily to some significant FY19Q4 contracts being delayed and moving into FY20, with the business subsequently having been awarded \$9m in product contracts since July 1.

CONTINUED DELIVERY ON STRATEGIC PLAN

Continued revenue growth and a strong services contribution to the gross margin line, demonstrates that Cirrus' strategy of focusing on growth through higher margin services and a diversified geographic base is delivering sustainable improvements in financial outcomes.

DESCRIPTION	FY16	FY17	FY18	FY19 (UNAUDITED)
Revenue	\$19m	\$54m	\$76m	\$88m
Blended Gross Margin %	12.9%	13.1%	15.4%	18.0%
EBITDA (pre options)		(\$784k)	\$437k	\$1.8m
Cash from Operating Activity	(\$1.2m)	\$0	\$1.3m	\$2.2m
Staff	50	101	134	182
Services Revenue (Prof & Managed)	\$4m	\$8m	\$18.5m	\$25m
Blended Services Gross Margin %	10.7%	25.4%	21.9%	29.0%
Services Contribution as % of Margin	15%	29%	35%	46%

OUTLOOK FY20

FY20 has started strongly with the successful closure of a number of significant deals previously expected to close in FY19Q4. This is in addition to new managed service contracts in Canberra in excess of \$3m total contract value which were signed during FY19H2, with full year impact expected in FY20. A strong pipeline of opportunities is expected to drive further growth in the coming year.

The Company reaffirms its guidance that the combination of professional and managed services gross margin is anticipated to cover overhead costs in FY20, with this breakeven point expected to occur in FY20Q4. Overheads, which averaged \$1.2m per month in FY19, are expected to increase by 2.3% in FY20.

A continued focus on higher margin service contracts is expected to be the primary driver of growth in total revenue to circa \$100 million in FY20, with gross margin contribution from all services expected to exceed 50% of overall gross margin.

Commenting on the update, Cirrus Managing Director, Matt Sullivan, said:

“As an Australian SME, Cirrus is proud to deliver a record earnings result to shareholders. Cirrus continues to demonstrate value-based solutions to government and corporate sectors as we become a market leading national network and storage managed service provider.

Whilst the lower than expected revenue highlights the unpredictable nature of product sales it vindicates our strategic direction away from product and into the more profitable and more predictable services. The ongoing success in growing services revenue and margin positions the company well to deliver on earnings growth expectations going forward.”

Contact for further information		
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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, and;
- High quality IT Service Management, Consulting and Project Management services.

Excellent service and an innovative, holistic approach have 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.