



ASX Announcement

24th July 2023

Damstra Technology

(ASX: DTC)

Q4 FY23 Quarterly Report and Appendix 4C

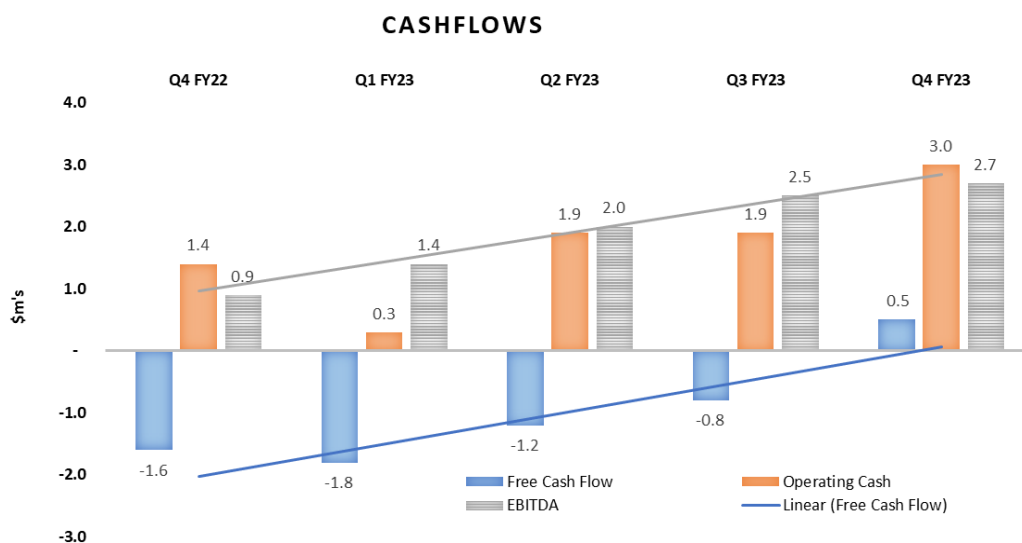
Damstra Holdings Limited (ASX:DTC) (**Damstra** or the **Company**), provides an update on the company's financial results and operations for the fourth quarter of FY23 ended 30 June 2023 (**Quarter** or **Q4**).

Cash Highlights

- Free cash flow \$0.5¹m vs pcg negative (\$1.6m);
- Operating cashflow of \$3m vs up 131% on pcg basis of \$1.3m;
- 5th consecutive quarter of positive operating cashflow.

Financial Highlights

- Quarterly Revenue of \$7.4m, same as prior quarter;
- EBITDA of \$2.7²m, up 145% on pcg basis of \$1.1m;
- EBITDA Margin of 37%, up 164% of pcg basis of 14%;
- Q4 Gross Margin 79%;
- Client churn 1.8%;
- Refinanced existing debt facilities, providing investor certainty.



Commenting on the results, Chief Executive Officer, Christian Damstra, said:

"Q4 FY23 has been a real milestone for the company in achieving free cashflow of \$0.5m, this turnaround in performance is something all of us in Damstra are proud of. To reflect only a short time ago Damstra's FY22 annual cashflow was negative (\$13.6m), this shows the magnitude of business transformation that Damstra has undertaken".

1) Includes operating, investing, and financing but excludes acquisition, drawdown/repayment of debt

2) EBITDA before share-based payments, impairment and restructuring



“We acknowledge, in recent times, investor views about the performance of the business, questioning if we could we deliver our cost out program and turnaround plan. We are delighted to now rule a line in the sand and move forward with a fundamentally stronger structural position. We have and will continue to focus on accelerating growth while continuing to generate positive cashflow. This can already be evidenced by our recent contract success and the pipeline we have in front of us”.

Cashflow

Q4 cash outcomes have been extremely strong. Free cash flow of \$0.5m and operating cash flow of \$3m for the quarter, both materially up on the prior quarter and on a PCP basis.

Free Cash Flow margin was 7% for Q4, to show the true underlying results if financing costs were removed free cashflow would have been \$1.4m delivering a FCF margin of 19%. Free cash flow (FCF) margin is the metric of the company's free cash flow as a percentage of revenue.

The cashflow profile delivered in Q4 is now sustainable, underpinned by current revenue, sales pipeline, improving gross margins, and reducing cost base.

Free Cash flow

In Q4 FY23, we generated free cash flow of \$0.5m, which is \$2.1m improvement on pcq basis vs Q4 FY22 which was negative (\$1.6m).

The magnitude of the change in free cash flows can be seen by the comparisons with the average quarterly FY22 cash outflow position which was negative (\$3.4m).

Metric	Q4 FY23	Q3 FY23	Q2 FY23	Q1 FY23	Q4 FY22	Ave Quarter FY22
Free cash outflow	\$0.5	(\$0.8m)	(\$1.2m)	(\$1.8m)	(\$1.6m)	(\$3.4m)

Operating Cash

Damstra has now achieved five consecutive quarters of positive operating cashflow. During FY22, the average quarterly operating cash was negative (\$0.9m). Q4 FY23 operating cash was \$3m demonstrating the fundamental structural change in the business.

Metric	Q4 FY23	Q3 FY23	Q2 FY23	Q1 FY23	Q4 FY22	Ave Quarter FY22
Operating Cash	\$3m	\$1.9m	\$1.9m	\$0.3m	\$1.4m	(\$0.9m)

Financial

Q4 FY22 EBITDA Margin was 37%, the result shows a continuing improvement in our EBITDA Margin. This is best illustrated that our H1 FY23 EBITDA margin was 13.4%. This is an improvement of some 2360 basis points (bps) from the 1st Half results, or 164% increase on a pcq basis.

Q4 EBITDA was \$2.7m, vs 1H FY23 of \$2m this is an improvement of \$700,000 of first half results. Showing how the business performance has accelerated in Q4 FY23 compared to Q1 and Q2 FY23.

One key driver of the EBITDA improvement was a Gross Margin of 79%, which demonstrates the continual improvement vs FY22 where gross margin was 70%.





Metric	Q4 FY23	Q3 FY23	Q2 FY23	Q1 FY23	Q4 FY22
EBITDA %	37%	33%	19%	8%	14%
EBITDA \$'m	\$2.7	\$2.4	\$1.4	\$0.6	\$1.1

The financial results have been driven by multiple initiatives:

- Client profitability review, and shedding low value high cost clients (tail)
- Implementation of various pricing programs
- The costs management program, that commenced in FY22, has delivered \$9m which is now embedded into annualised savings
- The above actions have led to an improvement in gross margin
- There is no CPI cost escalation pressure in the business. Excluding people, our largest cost is hosting and the use of software, for which we have specific cost reduction or removal programs underway

Refinanced debt facilities

During the quarter we refinanced existing debt facilities with Partners for Growth (PFG), this gives investors certainty about Damstra's debt position. The structure of the facility recognises the turnaround in financial performance of Damstra over the past financial year and the achievement of five consecutive quarters of positive operating cash flow.

The term of the facility has been extended for 3 years and 5 months to November 2026.

Managing Director and Head of Asia Pacific & Australia, Partners For Growth Karthi Sepulohniam, said:

"We are pleased to be extending our financing relationships with Damstra and continuing to see their journey unfold as a leading provider of enterprise protection software. We have been pleased with the management team's progress over the last 12 months, especially in reducing costs and increasing profitability to deliver the latest quarter of positive operating cashflow."

Client Activity

We have had recent client success across our global business and the pipeline of activity is extremely positive. The impact of recent client success will be seen in FY24 revenue, as we implement these new agreements.

These announced contract wins¹ will give the business ~\$1m in additional ARR (annual recurring revenue), which demonstrates the future opportunity in front the business.

Recent client success and our sales pipeline is a testament to the business model and our focus on the core verticals of mining and civil construction, within the growth sector of safety and compliance. Our recent success has in large part been driven by the continuing evolution of our EPP platform which many of our clients see as a platform for delivering capability and productivity solutions across their operations.

What has also been pleasing is our client churn rate of 1.8%, which in past quarters was materially higher.

¹ ASX announcements dated; 28/6, 14/7, 17/7





Recent client activity

- Signing a three year agreement covering Barrick mine sites in Africa, commencing Phase 3 of the global rollout with Barrick. Damstra has now signed contracts with Barrick with a total contract value of USD \$1.8m
- Signing agreements with Foxleigh Mine and Stanwell Corporation, both clients will implement EPP (Enterprise Protection platform) for their employees and contractor management
- Signing of a three year extension agreement plus three one year options with Coronado Global Resources Inc. Coronado will upgrade from our legacy platform to our new Enterprise Protection Platform (EPP). The length of this agreement demonstrated the client's commitment to our platform
- Continuing expansion of our facilities management vertical. Our clients include global tier 1 facility management operations such as CBRE, Cushman Wakefield and BGIS
- Continuing strong performance of our civil construction vertical, with progressive implementation of larger long dated civil construction projects; such as Sydney Children's Hospital, the North East Link project in Victoria, and the Waterfront Project in Brisbane

Future Pipeline

We have a large pipeline of opportunities, some of the more material ones in the final stages are listed below;

- New international mining client with operations in Queensland and New South Wales, where we have gone through a competitive tender process and are presently in final contractual negotiations
- Major Australian construction company, tender process now down to the last two providers
- International Facilities Management company has agreed to the cost/scope of our services and progressing to execute a Global SaaS agreement
- Australian Iron Ore Company, trial for 500 workers agreed for a six month period. On the success of the trial potential to move to cover a complete workforce >20,000
- Capstone Copper (North America) is operational, and we are looking to finalise implementation plans for entry into Latin America (Mexico and Chile)
- Australian mining company (existing client) expanding EPP to all locations with expanded scope, in the final stages of contractual negotiations
- Building materials company (existing client) looking for long term contract extension an expanded scope

Client Churn

Client churn for the quarter was 1.8%, showing the "stickiness" of our client base. In past disclosure's we had reported client churn excluding one past lost client to show underlying performance. That client has now rolled off in a pcip context, so the 1.8% churn is now a completely clean reporting indicator.

Product

Strategic positioning of the EPP pivoting from product to solution focus

With the integration of the Damstra Forms and Workflow module, the EPP is now focused on providing Clients solutions rather than integrated, single sign-on, products and modules. This represents a significant expansion of the EPP's capabilities. This pivot to solution-driven capabilities enables the outcomes our clients are seeking, rather than concentrating on various modules and their features.

This strategic shift has wider implications for Damstra's business strategy. It is vital to our focus on cross-selling to our existing enterprise clients in FY24 as well as increasing the revenue potential of new clients. Additionally,



solution-based marketing and sales strategies, account management and client servicing strategies have been reconfigured to deliver on the solution-based approach of the EPP.

Case study: Major mining company – Rapid rollout of EPP solutions globally

The solution-driven sales approach has resulted in clients adopting a range of EPP modules at vastly increased speed. One of our latest new clients, a major global mining company, implemented within a 6-month timeframe the following EPP-based solutions:

- Digitising classroom and online learning to ensure workers are prepared and compliant with digitised assessment for both training methods.
 - Adoption of EPP modules: Workforce management, Class-room training, Online learning, learning Paths, Forms, Workflows, Insights
- Digitising incidents, inspections, risk assessments and corrective action to create safer workplaces.
 - Adoption of EPP modules: Safety, Forms, Workflows, Insights
- Digitising asset pre-starts, ongoing inspections and actions to create safer asset deployment.
 - Adoption of EPP modules: Assets, Safety, Forms, Workflows, Insights

Further Cost Optimisation - \$3m target

As part of continual cost discipline for FY24 Damstra will implement further annualised cost savings initiatives of \$3m. These will be implemented by the end of Q1 FY24, to achieve these cost savings will require a one off charge of ~\$500,000.

This initiative will further underpin sustainable free cash flow generation of the business.

At an aggregate level this is a ~10% reduction on the FY23 cost base.

The savings will be driven by;

- The retirement of legacy systems and a reduction of R&D resources, this will further reduce R&D as % of revenue during FY24, as ~60% of the \$3m costs savings target will be R&D related
- Offshoring of certain non-client facing roles
- Closure of two offices
- Rationalisation of 3rd party software
- Reduction of business support costs, due to a variety of tender processes being run i.e. share registry, and various advisory services.

We have not reduced any Business Development or Account Management resources as these are essential client facing functions.

Outlook

The Company's guidance for FY23 provided on the 24th of April 2023 is below.

Damstra can confirm that they will meet or exceed the four guidance measures provided (on an unaudited basis), these will be confirmed when the FY23 Full Year results are released.

Q4 Free cash flow guidance, this has been exceeded coming in at \$0.5m versus guidance of (\$0.4m) - \$0.2m.

Revised Guidance	
Revenue	\$29.5m - \$31m
EBITDA Margin	20% - 25%
Free Cash Flow	(\$4.2m) – (\$3.6m)
Q4 Free Cash flow	(\$0.4m) – \$0.2m



Payments to related parties of the entity and their associates

Included in section 6.1 of the Appendix 4C for the quarter ended 30 June 2023 payments of \$335,000 were made to related parties of Damstra. These amounts relate to Directors' fees, salaries, and allowances paid to Directors and their associates.

Damstra 4C/Q4 webinar

A briefing will be held by Christian Damstra (CEO) and Paul Burrows (CFO) at 9:30 am (AEST) on 24 July 2023 to discuss its fourth quarter (Q4) cash report and activities update. To register for the webinar, please use the following link:

https://cdandco.zoom.us/webinar/register/WN_2-7_Uc0IS12g_NnvVGlt8w

Authorised for release to ASX by the Board of Damstra Holdings.

Ends

Enquiries

Investors

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About Damstra

Damstra is a global leader in enterprise protection software. Its Enterprise Protection Platform (EPP) integrates an extensive range of modules and products that allows organisations to mitigate and reduce unforeseen and unnecessary business risks around people, workplaces, assets, and information.

Integral to the Damstra EPP, Damstra's Workforce Management, Learning Management and Connected Worker solutions combine to ensure Protected People. In creating workplaces that are Safe, Damstra's Access Control, Digital Forms and Safety Solutions are utilised. Assets are connected into operations, through integrated Asset Management enabling Asset mobilisation and offerings in RFID and IOT. And lastly Accessible Information, Reporting BI tools and Predictive Analytics are critical to ensuring customers are making the right decisions with the right information.

For more information, please visit <https://www.damstratechnology.com> or visit our LinkedIn page <https://www.linkedin.com/company/damstra-technology>

Forward-Looking Statements

This ASX release includes certain forward-looking statements that are based on information and assumptions known to date and are subject to various risks and uncertainties. Forward-looking statements are based on:

- assumptions regarding the Company's financial position, business strategies, plans and objectives of management for future operations and development and the environment in which the Company will operate; and
- current views, expectations, and beliefs as at the date they are expressed, and which are subject to various risks and uncertainties.

Actual results, performance or achievements could be significantly different from those expressed in, or implied by, these forward-looking statements. Such forward-looking statements are not guaranteeing of future performance and involve known and unknown risks, uncertainties, and other factors, many of which are beyond the control of Damstra. These factors may cause actual results to differ materially from those expressed in the statements contained in this announcement.

The Company disclaims any responsibility for the accuracy or completeness of any forward-looking statement. The Company disclaims any responsibility to update or revise any forward-looking statements to reflect any change in the Company's financial condition, status or affairs or any change in the events, conditions, or circumstances on which a statement is based, except as required by law. The projections or forecasts included in this announcement have not been audited, examined, or otherwise reviewed by the independent auditors of the Company.

You must not place undue reliance on these forward-looking statements.





Appendix 4C

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

Name of entity

Damstra Holdings Limited [DTC.ASX]

ABN

74 610 571 607

Quarter ended ("current quarter")

30 June 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 (incl GST)	8,876	33,831
1.2 Payments (incl GST) for		
(a) research and development		
(b) product manufacturing and operating costs	(2,166)	(9,076)
(c) advertising and marketing	(26)	(189)
(d) leased assets		
(e) staff costs	(2,039)	(10,498)
(f) administration and corporate costs	(1,650)	(6,682)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Government grants and tax incentives	49	49
1.8 Other (Restructuring costs – staff redundancies & leave payments)	-	(358)
1.9 Net cash from / (used in) operating activities	3,044	7,077
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities		
(b) businesses	-	(3,500)





Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
	(c) property, plant and equipment	(121)	(1,150)
	(d) investments		
	(e) intellectual property	(1,623)	(6,873)
	(f) other non-current assets		
2.2	Proceeds from disposal of:		
	(g) entities		
	(h) businesses		
	(i) property, plant and equipment		
	(j) investments		
	(k) intellectual property		
	(l) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (contingent consideration relating to prior year acquisition)		
2.6	Net cash from / (used in) investing activities	(1,744)	(11,523)

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	-	5,000
3.6	Repayment of borrowings	(169)	(558)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		





Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
3.9	Other (provide details if material) <ul style="list-style-type: none"> Leased assets – equipment Leased assets – offices Interest received Interest and other costs of finance paid 	- (238) 42 (530)	- (1006) 151 (1,790)
3.10	Net cash from / (used in) financing activities	(895)	1,797

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	7,041	10,095
4.2	Net cash from / (used in) operating activities (item 1.9 above)	3,044	7,077
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,744)	(11,523)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(895)	1,797
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	7,446	7,446

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	7,446	7,446
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)	7,446	7,446





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**

\$335

6.1 above is comprised of director fees and expenses paid to 6 directors for the period 1 April – 30 June 2023

- 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
amounts at quarter
end
\$A'000**

**Amount drawn at
quarter end
\$A'000**

- 7.1 Loan facilities
- 7.2 Credit standby arrangements
- 7.3 Other (please specify)
- Merchant prepayment
 - Insurance funding
 - Asset finance
 - Bank guarantees
- 7.4 **Total financing facilities**

15,000

15,000

306

306

15,306

15,306

7.5 Unused financing facilities available at quarter end

-

- 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.

- \$15m Revolving Loan Note Facility with interest only repayments (“Loan Facility”)



8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	3,044
8.2	Cash and cash equivalents at quarter end (Item 4.6)	7,446
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	7,446
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	N/A

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: N/A

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

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

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.

On behalf of the Board

Authorised by: The Board.....

Date: 24 July 2023

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.