

ASX Announcement (SOV)

Appendix 4C Release – Quarter to September 2021 (Q1 FY22)

Sovereign Cloud Holdings Limited (“SOV”, the “Company”), trading as AUCloud, is pleased to provide its quarterly activity update for the quarter ending 30 September 2021. SOV also released its Appendix 4C today.

Key Highlights – Q1 FY22

- The company generated over a million dollars in revenue for the first time, recording \$1.06m (a 43% increase on Q4 FY21) which includes a 31% increase in Quarterly IaaS Consumption (QIC) to \$0.94m.
- Despite the challenges of Canberra being locked down due to Covid-19 for almost the entire of Q1, TCV Closed of \$0.9m was secured with new LAND contracts of 3 direct government agencies and 3 new partners in the Quarter combined with 5 EXPANSION and 7 EXTENSIONS.
- TCV outstanding at the end of Q1 of \$5.77m in line with previous quarter end.
- Cash on hand at the end of Q1 of \$10.6m (\$13.5m at the end of Q4), with \$0.4m capital expenditure and the balance supporting operational cashflow.
- The company became the first Cloud Services Provider to secure both the HCF Certified Strategic and CAAF Phase 2 Authority to Operate, further validating the company’s sovereign credentials to its customer base.

Summary of TCV Metrics	Q4 FY21 \$'m	Total FY21 \$'m	Q1 FY22 \$'m
Opening Total Contract Value (TCV)	2.65	0.80	5.96
Add: Increase in Quarterly TCV	4.06	7.7	0.87
Less: Revenue	(0.74)	(2.54)	(1.06)
Closing TCV Outstanding	5.96	5.96	5.77

The company was pleased with the growth in revenue and underlying QIC of \$1.06m, with overall revenues increased by 43% for the period. This included a greater proportion of set-up fees in Q1FY22 compared with Q4FY21 as implementation of a large contract was delivered.

Covid related lockdowns in Canberra impacted the decision-making pace across government agencies and partner companies during the period, which saw many projects delayed and impacted on the quanta of Total Contract Value (TCV) closed during the period. As lockdown restrictions ease in Canberra the company anticipates these projects will regain their momentum throughout Q2.

While the confidential nature of the Company’s contractual commitments continues to preclude disclosure of the specifics around the components which combine to deliver the TCV figure, the Company can confirm that the increase in the period includes eighteen new contracts/purchase orders made up of six new LAND customers, five contract EXPANSION across existing partners and seven contract EXTENSIONS. It was pleasing to see Expansion work contributing significantly to the total TCV figure for the period, illustrating that partners are continuing to identify additional opportunities to work with the company after initial Land projects have been successfully delivered.

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Capital expenditure payments during Q1FY22 totalled \$0.4m with order commitments of \$2.6m, secured with vendor financing.

CEO Comment

Overall, we are pleased with the flow of TCV through into revenue and underlying QIC but the impact of Covid related lockdowns in our two main markets (ACT and NSW) not only affected decision making but also delayed planned market expansion activities. Projects have been delayed not cancelled however, creating the potential for a strong Q2 as we anticipate budget holders are likely to seek to initiate expenditure ahead of the caretaker government period prior to the Federal Election later this financial year.

We are also delighted to have secured certification as a “Certified Strategic” Cloud Services Provider under the DTA’s Hosting Certification Framework (HCF), which recognises the sovereign nature of ownership and control over the company’s investment decisions. This complements the recently announced Cloud Assessment and Authorisation Framework (CAAF) Authority to Operate, which in turn highlights the capability of AUCloud to deliver IaaS services to PROTECTED control standards with no data leaving Australian shores or been subject to other nation’s legal jurisdiction. No other Cloud Services Provider that we are aware of has yet to secure both the HCF Certified Strategic and CAAF Phase 2 Authority to Operate. We expect these standards to be increasingly formalised within commonwealth government procurement requirements.

A hat trick of sovereign recognition was achieved with VMware announcing that, out of 4300 partners in over 120 countries, AUCloud was one of only ten partners designated as a Sovereign Cloud provider. It is pleasing to see the market for sovereign cloud services increasingly being recognised by industry analysts, global vendors and cloud service providers, with both Gartner and IDC Group releasing analysis on the topic during the quarter.

I’d like to thank our team who have worked hard from remote locations to support our customers and partners throughout this challenging period of lockdowns, and we are all looking forward to the opportunity to resume normal business engagements as restrictions ease in the coming quarter.



Philip Dawson
Managing Director

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Operating Metrics Defined

Summarised below are new operating metrics adopted by management for measuring the progress of business:

- **Total Contract Value (TCV)** is the total value of expected revenue from estimated consumption of Infrastructure-as-a-Service (IaaS), services secured through non-enforceable customer contracts (e.g. purchase orders, statement of works). Invoices are raised typically on a monthly basis against these contracts based on actual customer usage. Such contracts generally form part of a larger contractual scope that is less defined but provides overarching commercial terms (e.g. Master Services Agreements, Channel Partner Agreements, Teaming Agreements). As such, TCV provides an estimated of the total IaaS consumption expected by a customer over a defined time period, typically 12 months.
- **TCV Closed** in any period is the aggregated revenue associated with all signed commercial contracts in that period.
- **TCV Outstanding** is the remaining aggregated balance of all signed contracts at a point in time, net of any consumption utilised to date recognised against the respective contracts.
- **IaaS Consumption** is the revenue recognised based on the aggregated consumption of IaaS services, including contractual implementation, consulting and setup charges. In the Company's experience it is reasonable to expect IaaS Consumption to be repeated in subsequent periods. Quarterly IaaS Consumption (QIC) and Monthly IaaS Consumption (MIC) are terms that are also used referring to the relevant period.

Use of Funds – ASX Rule 4.7B

The Company is required to provide analysis of its expenditure since the date of its ASX listing (14 December 2020) and a comparison of actual expenditure against the estimated amounts set out in the “Use of Funds” section included in the Prospectus (Section 7.3). Actual cash expenditure post ASX Listing is shown below, by quarter, together with a comparison of total estimated amounts included in the “Use of Funds” section in the Prospectus.

Use of funds	Estimated Total per Prospectus \$ million	Actual Incurred \$ million	
		Total FY21	FY 22 Q1
Customer growth capex	9.3	0.5	0.4
Lease Liabilities	3.1	1.8	1.0
Increase in headcount	2.7	0.6	0.1
Working capital	9.7	4.6	1.4
Offer costs	1.7	1.6	-
Total uses	26.5	9.1	2.9

Cash expenditure post ASX Listing is intended to be used to fund the following:

- **Customer Growth Capex:** AUCloud’s operating model requires ongoing investment in computer and storage capacity to meet customer demand. As revenue grows, platform capacity will need to be expanded. Cash raised from the IPO will be used to fund estimated platform capacity expansion in 2021 and 2022 in accordance with growth in demand.
- **Lease Liabilities:** The lease finance facilities were used to develop the second cloud platform based in the Sydney Data Centre and each facility has a term of three years. Cash raised from the IPO will be used to fund lease payments in 2021 while the Company grows its revenue base.
- **Increase in Headcount:** The Company’s activities are forecast to expand as customers are on-boarded, which will require additional service and support as well as an increase in the sales and marketing team to continue to grow the revenue pipeline. The Company also intends to proactively market its services to State Governments, Defence and Research Organisations, through additional sales and marketing personnel.
- **Working Capital:** As an IaaS provider, and currently positioned at early revenue stage, AUCloud expects to incur losses until monthly revenue meets and exceeds cash outflows from operations. Cash raised from the IPO will be used to fund the Company’s working capital requirements during this period.

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Appendix 4C

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

Name of entity

Sovereign Cloud Holdings Limited

ABN

80 622 728 189

Quarter ended ("current quarter")

September 2021

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	1,094	1,094
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(548)	(548)
(c) advertising and marketing	(60)	(60)
(d) leased assets	-	-
(e) staff costs	(1,795)	(1,795)
(f) administration and corporate costs	(502)	(502)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4	4
1.5 Interest and other costs of finance paid	(88)	(88)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	376	376
1.8 Other (IPO costs expensed)	-	-
1.9 Net cash from / (used in) operating activities	(1,519)	(1,519)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(383)	(383)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) * \$A'000
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	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	(383)	(383)

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	(1,004)	(1,004)
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	(1,004)	(1,004)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	13,504	13,504
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,519)	(1,519)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(383)	(383)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) * \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(1,004)	(1,004)
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	10,598	10,598

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	10,598	13,504
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Bank Guarantee)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	10,598	13,504

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	0
6.2	Aggregate amount of payments to related parties and their associates included in item 2	0
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000																												
7.1	Loan facilities	2,816	2,816																												
7.2	Credit standby arrangements																														
7.3	Other (please specify)																														
7.4	Total financing facilities	2,816	2,816																												
7.5	Unused financing facilities available at quarter end		0																												
7.6	<p>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.</p> <div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> <p>The company has historically funded part of the computer hardware & related assets required to run its business under finance lease arrangements where the Company chooses the equipment required which is then purchased by a third party (often a company related to the supplier of the equipment). Details of each facility is summarised below:</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="text-align: left;">Lender</th> <th style="text-align: center;">Balance Owing \$'000</th> <th style="text-align: left;">Maturity date</th> <th style="text-align: center;">Interest Rate</th> </tr> </thead> <tbody> <tr> <td>Cisco Capital #1</td> <td style="text-align: center;">508</td> <td>February 2022</td> <td style="text-align: center;">4.17%</td> </tr> <tr> <td>Cisco Capital #2</td> <td style="text-align: center;">506</td> <td>September 2024</td> <td style="text-align: center;">5.10%</td> </tr> <tr> <td>Cisco Capital #3</td> <td style="text-align: center;">495</td> <td>November 2024</td> <td style="text-align: center;">5.53%</td> </tr> <tr> <td>Cisco Capital #4</td> <td style="text-align: center;">909</td> <td>November 2024</td> <td style="text-align: center;">5.47%</td> </tr> <tr> <td>Other</td> <td style="text-align: center;">398</td> <td>May 2023</td> <td style="text-align: center;">7.0%</td> </tr> <tr> <td>Total</td> <td style="text-align: center;">2,816</td> <td></td> <td></td> </tr> </tbody> </table> <p style="margin-top: 10px;">The above finance facilities are secured by the respective computer equipment and software assets acquired.</p> <p style="margin-top: 10px;">The above facilities exclude lease liabilities relating to right-of-use leased assets, such as data centres.</p> </div>			Lender	Balance Owing \$'000	Maturity date	Interest Rate	Cisco Capital #1	508	February 2022	4.17%	Cisco Capital #2	506	September 2024	5.10%	Cisco Capital #3	495	November 2024	5.53%	Cisco Capital #4	909	November 2024	5.47%	Other	398	May 2023	7.0%	Total	2,816		
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8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,519)
8.2	Cash and cash equivalents at quarter end (item 4.6)	10,598
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	10,598
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1) <i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	7
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions: 8.6.1 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? <div style="border: 1px solid black; padding: 5px; min-height: 30px;">Answer: NA</div> 8.6.2 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? <div style="border: 1px solid black; padding: 5px; min-height: 30px;">Answer: NA</div> 8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis? <div style="border: 1px solid black; padding: 5px; min-height: 30px;">Answer: NA</div> <i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

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: 12 October 2021

Authorised by: The 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.