

ASX Announcement (SOV)

Appendix 4C Release – Quarter to March 2021 (Q3 FY21)

Sovereign Cloud Holdings Limited (“SOV”, the “Company”), trading as AUCloud, is pleased to provide its quarterly activity update for the quarter ending 31 March 2021. SOV also released its Appendix 4C today.

Key Highlights – Q3 FY21

- Continued growth in TCV with an additional \$1.3m closed in Q3.
- TCV outstanding at the end of Q3 was \$2.6m, a 28% increase compared to \$2.1m at the end of Q2.
- Quarterly IaaS Consumption (QIC) revenue in Q3 was \$0.7m (an increase of 25% on Q2) with overall growth in revenues of 29%.
- Cash on hand at the end of Q3 of \$17.2m (\$20.5m at the end of Q2)

Summary of TCV Metrics	Q1 FY21 \$'m	Q2 FY21 \$'m	Q3 FY21 \$'m
Opening Total Contract Value (TCV)	0.80	0.84	2.07
Add: Increase in Quarterly TCV	0.57	1.78	1.29
Less: Quarterly IaaS Consumption (QIC)	(0.53)	(0.55)	(0.71)
Closing TCV Outstanding	0.84	2.07	2.65

The company was pleased to add additional Total Contract Value (TCV) during the period and record an increase in Quarterly IaaS Consumption (QIC) Revenue from the prior period. While the confidential nature of the Company’s contractual commitments precludes disclosure of the specifics around the components which combine to deliver the TCV figure, the Company can confirm that the \$1.3m total includes 13 new contracts/purchase orders made up of four new customers, three contract expansions across existing partners and six contract extensions. Extensions formed a significant component of the total value, which aligns well to the Company’s ‘land, expand and extend’ strategy outlined in previously provided market information. Two of the expansion activities were underwritten by increasing the rate of consumption of existing contracts.

CEO Comment

We are pleased to see the increasing growth of both QIC and TCV Outstanding as our target customers recognise the sovereignty and data security benefits available through an IaaS provider owned, operated and located in Australia, with TCV growth delivered through 13 new contracts secured in the period through direct and channel partners.

We are especially pleased with the progress that we are making to win the trust of government and partners as they factor AUCloud’s secure sovereign IaaS and secure operations centre services into their core business processes. We are confident that the business will continue to see additional contracts, landed, expanded and extended.



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, excluding implementation, consulting and setup charges or one-off non-recurring charges. In the Company's experience it is reasonable to expect IaaS Consumption to be repeated in subsequent periods.

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	
		Q2	Q3
Customer growth capex	9.3	-	0.3
Lease Liabilities	3.1	0.2	0.8
Increase in headcount	2.7	-	0.2
Working capital	9.7	0.3	2.0
Offer costs	1.7	1.6	-
Total uses	26.5	2.1	3.3

*Actual incurred in Q2 relates to the period post ASX listing.

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")

March 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) * \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	699	1,773
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(461)	(1,097)
(c) advertising and marketing	(13)	(17)
(d) leased assets	(267)	(539)
(e) staff costs	(1,509)	(4,111)
(f) administration and corporate costs	(720)	(1,495)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	6	12
1.5 Interest and other costs of finance paid	(77)	(252)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	7	358
1.8 Other (IPO costs expensed)	-	(497)
1.9 Net cash from / (used in) operating activities	(2,335)	(5,865)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(298)	(2,950)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	78	(38)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 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	(220)	(2,988)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	25,426
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	-	(1,114)
3.5	Proceeds from borrowings	-	3,218
3.6	Repayment of borrowings	(813)	(2,429)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	67	(160)
3.10	Net cash from / (used in) financing activities	(746)	24,941

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	20,518	1,129
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,335)	(5,865)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(220)	(2,988)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) * \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(746)	24,941
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	17,217	17,217

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	17,217	20,518
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)	17,217	20,518

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>		

* Year to date numbers previously reported in Appendix 4C for the quarter ended December 2020 have been amended for any differences between the Appendix 4C and Appendix 4D, being the half-year financial report.

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	5,032	5,845																												
7.2	Credit standby arrangements	-	-																												
7.3	Other (please specify)	-	-																												
7.4	Total financing facilities	5,032	5,845																												
7.5	Unused financing facilities available at quarter end <div style="border: 1px solid black; height: 20px; width: 100%; margin-top: 5px;"></div>																														
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;">1,494</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;">801</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;">687</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;">1,348</td> <td>November 2024</td> <td style="text-align: center;">5.47%</td> </tr> <tr> <td>Other</td> <td style="text-align: center;">702</td> <td>May 2023</td> <td style="text-align: center;">7.0%</td> </tr> <tr> <td>Total</td> <td style="text-align: center;">5,032</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. Payment relating to these facilities are included in cashflows from operating activities under "lease assets".</p> </div>			Lender	Balance Owing \$'000	Maturity date	Interest Rate	Cisco Capital #1	1,494	February 2022	4.17%	Cisco Capital #2	801	September 2024	5.10%	Cisco Capital #3	687	November 2024	5.53%	Cisco Capital #4	1,348	November 2024	5.47%	Other	702	May 2023	7.0%	Total	5,032		
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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)	(2,335)
8.2	Cash and cash equivalents at quarter end (item 4.6)	17,217
8.3	Unused finance facilities available at quarter end (item 7.5)	0
8.4	Total available funding (item 8.2 + item 8.3)	17,217
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>	7.4
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: 15 April 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.