

ASX: 9SP

ASX Release

31 May 2019

Appendix 4E – Preliminary Final Report

9 Spokes International Limited

Year ended 31 March 2019

In accordance with Listing Rule 4.3A, please find attached the Appendix 4E Preliminary Final Report for the year ended 31 March 2019 including a review of the financial year and the Financial Statements.

Yours faithfully



Neil Hopkins

Company Secretary and Chief Financial Officer

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About 9 Spokes

9 Spokes is a tracking tool designed to help SMEs enhance their performance and be their best business self. It collates and sorts the SME's data, so they can more easily see their progress against the things that matter most to their business.

SMEs can connect their cloud software to 9 Spokes to get a comprehensive picture of their business performance through a single smart dashboard—so it's easier to make the big and small decisions required to manage and grow their business effectively. As well connecting their existing supported software to the dashboard, businesses can choose from a selection of other recommended and accredited apps to suit their industry.

9 Spokes is provided under a direct model to small businesses and as a white labelled platform allowing key Banking Partners to offer 9 Spokes to their SME customers under their own brand.

Find out more at www.9spokes.com

Appendix 4E Preliminary Final Report

9 Spokes International Limited (ASX:9SP) (“9 Spokes” or “the Company”), ABN 610 518 075, presents its Appendix 4E report for the year ended 31 March 2019, incorporating results for the previous corresponding year ended 31 March 2018.

This report includes consolidated Financial Statements of 9 Spokes and its subsidiaries (“the Group”)

Results for announcement to the market

	12 months ended 31 March 2019 NZ\$'000	12 months ended 31 March 2018 NZ\$'000	Change NZ\$'000	Change %
Revenue from operating activities	8,191	6,678	1,513	23%
Loss from ordinary activities after tax and net loss for the period, attributable to members	(9,267)	(17,366)	8,099	-47%

Detailed results are presented in the attached Financial Statements. The 2019 figures are still subject to audit completion.

Commentary on the Results

A commentary on the results is included in the attached review of financial performance.

Dividends or Distributions

There were no dividends or distributions for the year ended 31 March 2019.

Details of entities over which control has been gained or lost during the period

There were no entities over which control has been gained or lost during the year ended 31 March 2019.

Details of associates and joint venture entities

The Company has no associates or joint venture entities at 31 March 2019.

Earnings per share and net tangible assets per security

	12 months ended 31 March 2019 NZ\$'000	12 months ended 31 March 2018 NZ\$'000
Basic and diluted loss per share	(\$0.02)	(\$0.04)
Net tangible assets per security	(\$0.00)	\$0.01

Accounting Standards

9 Spokes is incorporated in New Zealand. The financial statements have been prepared in accordance with Generally Accepted Accounting Practice ("GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS), as appropriate for for-profit entities.

Audit Status

The audit of the financial statements is in the process of being completed. 9 Spokes is not expecting a modified opinion, but it is likely that the independent auditor's report will include an emphasis of matter related to going concern and the importance of securing new customer revenue.

Financial Performance

Revenue

Total revenue for the year is \$8.2 million, up 23% on the prior year amount of \$6.7 million. Platform access revenue was \$4.5 million (2018: \$4.1 million) while recognised Implementation revenue was \$2.4 million (2018: \$1.7 million). Implementation revenue is deferred when invoiced and recognised over the initial term of an Enterprise Channel Customer contract. Implementation revenue includes \$0.6 million of deferred revenue recognised early, following cancellation of the contract with Royal Bank of Canada.

As at 31 March 2018 the Annual Recurring Revenue from platform access fees amounted to \$4 million.

The Group also generated \$0.4 million of revenue for additional services such as Marketing as a Service, referral fees and a proof of concept, with existing and prospective Enterprise Channel Customers.

Grant Income received mainly from Callaghan Innovation, a Crown entity of New Zealand was \$0.8 million (2018 \$0.5 million).

Expenditure

Total expenditure for the year is \$16.8 million, which represents a significant decrease of \$7.3 million, or 30% year on year (2018: \$24.1 million). Cost management and control has been a key objective for this financial year with a focus on alignment of costs to the requirements of the business.

Over the course of the year, costs have progressively reduced, for the first half year total expenditure was \$9.9 million, this has reduced to \$6.9 million (down 31%) in the second half of the year. This compares to \$11.2 million for the second half of the last financial year. The Group is continuing to work with a keen focus on cost control against the backdrop of continued expected revenue increases.

Total employee costs have reduced by \$3.0 million a decrease of 23% year on year, Headcount has reduced, with the average during the last quarter of the year being 66 full time equivalents across the group compared to 100 staff for the same quarter last year. This reduction has been managed to ensure that the Company continues to have capacity to service Enterprise Channel Customers and to seek and secure new revenue opportunities.

Other significant cost savings in the year have been marketing spend, down by 86%, a reduction of \$2.1 million compared to marketing spend last financial year. Marketing focus this year has been on supporting growth of users from Enterprise Channel Customers who now account for over 60% of total users.

Cost reductions have also been achieved in hosting and infrastructure as we have moved to new hosting environments, and travel and professional fees including having brought legal resources in house.

Cash flows

Annual net cash outflows from operations were \$9.3 million, down by 44% year on year, reflecting a 27% increase in receipts from Enterprise Channel Customers and government grants and a 25% reduction in payments to our people and suppliers. Quarter on quarter there has been a reduction in net cash outflows from operating activities, reducing from \$3.2 million in the first quarter to \$1.3 million in the last quarter, a trend that is expected to continue.

The cash flows from financing activities records the \$2.5 million short term lending provided to the Company during the year, see note 6 of the Preliminary Final Report Financial Statements for more detail on the loan and subsequent settlements since the end of the year.

Cash and cash equivalents at 31 March 2019 were \$1.4 million (2018: 7.3 million). Subsequent to the year end the Company completed a rights issue and share placements raising circa A\$6.0 million before costs.

9 Spokes International Limited

Preliminary Final Report

Financial Statements

Year ended 31 March 2019

(Unaudited)

9 Spokes International Limited - ABN 610 518 075
Preliminary Final Report
Consolidated Statement of Comprehensive Income (2019 unaudited)
For the year ended 31 March 2019

	Notes	2019 \$'000	2018 \$'000
Revenue and other income:			
Operating revenue	1 (a)	7,341	6,069
Other income	1 (b)	850	609
Total revenue and other income		8,191	6,678
Expenses:			
Operational expenses	2 (a)	(3,335)	(6,778)
Research and development expenses	2 (b)	(4,304)	(4,144)
Sales, marketing and administration expenses	2 (c)	(9,186)	(13,128)
Total expenses		(16,825)	(24,050)
Operating loss		(8,634)	(17,372)
Net finance (expense)/income	3	(690)	306
Net loss before income tax		(9,324)	(17,066)
Income tax expense	4	-	(125)
Net loss from continuing operations		(9,324)	(17,191)
Other comprehensive income:			
Translation of international subsidiaries		57	(175)
Total comprehensive loss attributable to shareholders		(9,267)	(17,366)
Earnings per share			
Basic and diluted loss per share	7	(\$0.02)	(\$0.04)

The accompanying notes form an integral part of these financial statements.

9 Spokes International Limited - ABN 610 518 075
Preliminary Final Report
Consolidated Statement of Changes in Equity (2019 Unaudited)
For the year ended 31 March 2019

	Share capital \$'000	Share based payments reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total \$'000
Balance as at 1 April 2017	36,145	1,658	(25)	(26,848)	10,930
Proceeds from shares issued	12,955	-	-	-	12,955
Share option expense	-	180	-	-	180
Costs of capital raise	(1,012)	-	-	-	(1,012)
Reclassification of previously expensed amounts from share based payments	940	(940)	-	-	-
Reserve arising on conversion of foreign currency subsidiary	-	-	(175)	-	(175)
Net loss for the year	-	-	-	(17,191)	(17,191)
Balance as at 31 March 2018	49,028	898	(200)	(44,039)	5,687
Share option expense	-	8	-	-	8
Costs of capital raise	(44)	-	-	-	(44)
Reserve arising on conversion of foreign currency subsidiary	-	-	57	-	57
Net loss for the year	-	-	-	(9,324)	(9,324)
Balance as at 31 March 2019	48,984	906	(143)	(53,363)	(3,616)

The accompanying notes form an integral part of these financial statements.

	Notes	2019 \$'000	2018 \$'000
Assets			
Non-current assets			
Property, plant and equipment		346	480
Total non-current assets		346	480
Current assets			
Cash and cash equivalents		1,360	7,297
Term deposits with maturities of more than three months		-	1,000
Trade and other receivables		805	2,077
Contact assets		266	660
Total current assets		2,431	11,034
Total assets		2,777	11,514
Equity			
Share capital		48,984	49,028
Share based payments reserve		906	898
Foreign currency translation reserve		(143)	(200)
Accumulated losses		(53,363)	(44,039)
Equity attributable to the owners of the company		(3,616)	5,687
Total equity		(3,616)	5,687
Current liabilities			
Trade and other payables	5	1,685	2,551
Short-term loan	6	2,637	-
Fair value of loan conversion option	6	585	-
Contract liabilities		1,486	3,276
Total current liabilities		6,393	5,827
Total equity and liabilities		2,777	11,514

The accompanying notes form an integral part of these financial statements.

	Note	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Receipts from customers		6,518	5,227
Receipts from government grants		839	312
Payments to employees and suppliers		(16,816)	(22,445)
		(9,459)	(16,906)
Interest received		82	323
Income tax credit received		-	-
Net cash flows from operating activities	9	(9,377)	(16,583)
Cash flows from investing activities			
Purchase of property, plant and equipment		(67)	(183)
Transfer from / (to) term deposits		1,000	4,900
Net cash flows from investing activities		933	4,717
Cash flows from financing activities			
Proceeds from the issue of share capital		-	12,955
Proceeds from short-term loan		2,500	-
Cost of raising capital		(49)	(992)
Net cash flows from financing activities		2,451	11,963
Net change in cash and cash equivalents		(5,993)	97
Cash and cash equivalents at the beginning of the year		7,297	7,484
Foreign exchange loss on cash and cash equivalents		56	(284)
Cash and cash equivalents at the end of the year		1,360	7,297

The accompanying notes form an integral part of these financial statements.

1. Revenue

a) Operating revenue from contracts with customers

	2019 \$'000	2018 \$'000
Implementation revenue	2,446	1,732
Platform access revenue	4,532	4,134
Other revenue from enterprise customers	161	-
Other revenue	202	203
Total operating revenue	7,341	6,069

b) Other operating income

	2019 \$'000	2018 \$'000
Government grants	801	520
Other income	49	89
Total other operating income	850	609

2. Expenses by nature

a) Operational expenses

	2019 \$'000	2018 \$'000
Employee benefit expenses	2,335	4,509
Platform hosting	790	1,480
Third party contractors	23	323
Other operational expenses	187	466
Total operational expenses	3,335	6,778

b) Research and development expenses

	2019 \$'000	2018 \$'000
Employee benefit expenses	2,875	2,650
Third party contractors	337	493
Depreciation expense	62	52
Other research and development expenses	667	536
Capitalisation of expenditure as work in progress	(31)	(265)
Amortisation of previously capitalised work in progress expenditure	394	678
Total research and development expenses	4,304	4,144

c) Administration expenses

	2019 \$'000	2018 \$'000
Depreciation expense	128	130
Directors' fees	169	344
Directors' consultancy services	136	304
Remuneration of auditors	214	176
Expensed cost of capital raises	-	169
Employee benefit expenses	4,465	5,474
Marketing expenses	361	2,510
Travel	793	1,206
Professional, office running costs and other administration expenses	2,920	2,815
Total sales, marketing and administration expenses	9,186	13,128

3. Finance expense/(income)

	Notes	2019 \$'000	2018 \$'000
Interest receivable on short term bank deposits		(42)	(311)
Bank interest payable		11	5
Finance expense on short term loan	6	683	-
Fair value loss on loan conversion option	6	38	-
Total finance expense/(income)		690	(306)

4. Income and Deferred Tax

Reconciliation of effective tax rate:

	2019 \$'000	2018 \$'000
Loss before income tax	(9,324)	(17,066)
Prima facie taxation at 28% (2018: 28%)	(2,611)	(4,778)
Expenses not deductible for tax purposes	17	138
Deferred tax assets not recognised:		
Temporary timing differences	(62)	42
Research and development expenses (recognised) / deferred (net of income)	(749)	(482)
Total losses not recognised	3,405	4,955
Total income tax expense	-	(125)

The Group has tax losses available to carry forward of \$32.0 million (2018: \$28.6 million) subject to shareholder continuity being maintained. The Group has deferred research and development deductions of \$5.8 million (2018: \$5.5 million), after offsetting related revenue. The deferred tax assets have not been recognised as it is uncertain whether the Group will maintain shareholder continuity or when it will generate taxable profits.

5. Trade and other payables

	2019 \$'000	2018 \$'000
Trade payables	469	838
Other creditors and accruals	1,012	1,396
Deferred rent	204	317
Total trade and other payables	1,685	2,551

6. Short-term loan and fair value of conversion option

Short term loan

During the year, the Company entered into a short-term funding facility intended to provide the Company with working capital to allow time to conclude its capital raise with a total sum of \$2.5 million drawable under the facility. The loan was initially taken out of 17 October 2018 and terms varied on 16 January 2019. The key commercial terms of the facility are:

- The interest rate is 6.5% per annum until 31 December 2018, and 12% after that date.
- Completion and work fees are payable.
- Advances are secured by way of a general security agreement over the material assets of the Company and subsidiaries.
- Contingent of the timing and nature of the capital raise lenders have the option to convert any portion of the total loan to ordinary shares. Under certain situations this conversion may be exercised at a discount to the current market price of the shares. This option was introduced at 16 January 2019.

As a result of the conversion option introduced on 16 January 2019 the loan is accounted for as two separate components, the pure debt portion and the loan conversion option.

Where there are financial instruments with embedded derivatives whose economic characteristics are not closely related to that of the host financial instrument, the embedded derivative is separated and accounted for separately.

For embedded derivatives that provide the option to settle the arrangement with the Company's equity instruments, the derivative is classified as equity if the conversion feature results in a fixed amount of debt converted into a fixed amount of equity instruments. Otherwise they are classified as liabilities.

Derivatives classified as liabilities are initially recognised at fair value and then subsequently measured at fair value at each reporting date. The gains and losses are recognised as finance expenses or income in the Statement of Comprehensive Income. In these cases, the debt portion of the financial instrument is presented as borrowings and measured at amortised cost.

Accounting for the debt portion of the loan

The loan is assumed to be settled on 24 May 2019 (see settlement paragraph below). At 31 March 2019 the carrying value of the loan at amortised cost was \$2,637,000.

The fair value of the loan at 31 March 2019 is estimated to be \$2,778,000. Since the loan was callable at that date, the fair value is based on the principal, interest and other fees that were outstanding at that date. This is classified as a level 2 fair values in the fair value hierarchy.

Finance expense of the debt portion

The finance expense is made up of interest plus completion and work fees estimated over the life of the loan. The finance expense is accounted for using the amortised cost basis. Total finance expense up to 31 March 2019 was \$683,000.

Fair value of the derivative conversion option

As a result of the conversion option introduced at 16 January 2019 a derivative was recognised for the loan conversion option.

The fair value of the conversion option was initially calculated as at 16 January 2019 and has been revalued as at 31 March 2019. The calculation took account of the market price of the ordinary shares, potential discount options, loan exit fees that were payable on the proportion of the loan not converted, and the likely quantum of shares that could be converted given the cap on the quantity of shares available for conversion due to takeover regulations.

Changes in the value of the option at 31 March 2019 are recognised in the Consolidated Statement of Comprehensive Income as 'Fair value loss on loan conversion option' (note 3.)

7. Loss per share

	2019 000's	2018 000's
Total comprehensive loss attributable to shareholders	(\$9,267)	(\$17,366)
Ordinary number of shares	518,301	518,301
Weighted average number of shares on issue	518,301	476,778
Basic and diluted loss per share	(\$0.02)	(\$0.04)

Basic earnings per share is calculated by dividing the comprehensive profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares on issue during the year.

Diluted earnings per share is determined by adjusting the comprehensive profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares on issue for the effects of all dilutive potential ordinary shares, which comprise share options. Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase the loss per share. The potential shares are anti-dilutive in nature. The diluted loss per share is therefore the same as the undiluted loss per share. The number of shares and weighted average number of shares has been adjusted for the dilutive impact of bonus shares that arise from the rights issue completed in May 2019.

8. Share based payments and options

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

<i>Exercise price</i>	Pre-IPO employee share options Dec 2015 NZ\$0.16 '000's	IPO advisor share options Jan 2016 AU\$0.20 '000's	Employee ESOPs Aug 2017 AU\$0.20 '000's	NEDs ESOPs Sep 2017 AU\$0.225 '000's	Total '000's	Weighted average exercise price \$ per option
Balance outstanding at 1 April 2017	1,785	8,750	-	-	10,535	0.20
Granted	-	-	2,721	1,713	4,434	0.23
Forfeited	(252)	-	(1,006)	-	(1,258)	0.21
Balance outstanding at 31 March 2018	1,533	8,750	1,715	1,713	13,711	0.21
Balance exercisable at 31 March 2018	1,022	-	1,715	-	2,737	0.22
Granted	-	-	-	-	-	-
Forfeited	-	-	(363)	(570)	(933)	0.24
Balance outstanding at 31 March 2019	1,533	8,750	1,352	1,143	12,778	0.21
Balance exercisable at 31 March 2019	1,533	-	1,352	-	2,885	0.19

9. Reconciliation of reported loss after tax with cash flows from operating activities

	2019 \$'000	2017 \$'000
Loss after income tax	(9,324)	(17,191)
Non-cash items:		
Depreciation expense	190	182
Share option expense	8	180
Foreign exchange loss / (gain) on monetary assets	-	104
Finance expense on short term loan	683	-
Fair value loss on loan conversion option	38	-
Changes in working capital:		
(Decrease)/increase in trade and other payables	(763)	1,215
Decrease in deferred revenue	(1,791)	(686)
Decrease / (Increase) in trade and other receivables	1,188	(799)
Decrease / (increase) in contract assets (implementation costs)	394	412
Net cash flow from operating activities	(9,377)	(16,583)

10. Commitments

Capital commitments

The Group had no capital commitments as at 31 March 2019 (2018: Nil).

Lease commitments

The Group has lease agreements on certain premises. Future minimum rentals payable under non-cancellable agreements are:

	2019 \$'000	2018 \$'000
Not later than one year	793	1,221
Later than one year and no later than five years	713	1,985
Total lease commitments	1,506	3,206

11. Events after the reporting period

Company announces underwritten rights issue and placement

On 18 April 2019 the Company announced a fully underwritten pro rata renounceable entitlement offer (Entitlement Offer) to issue 330,180,971 shares at A\$0.016 per share to raise A\$5.3 million before costs. Further on 21 May 2019 the Company announced that as a consequence of demand from shareholders and sub-underwriters for the Rights Issue and shortfall, the Company has secured a placement of up to 43,500,000 fully paid ordinary shares at an issue price of A\$0.016 to raise up to an additional A\$696,000. The rights issue and placement was completed on 24 May 2019.

Settlement of short-term loan Repayment

On completion of the offer on 24 May 2019, the short-term loan (note 6) including interest to that date and exit fees were discharged by the payment of \$2.32 million and the issue of 80.1 million shares at the rights issue offer price. This repaid the outstanding amount and the lenders' security was released