

23 October 2023

Appendix 4C Release – Quarter to 30 September 2023

Sovereign Cloud Holdings Limited (“**SOV**” the “**Company**”), trading as “**AUCloud**”, is pleased to provide its activity update for the quarter ended 30 September 2023 (“**Q1 FY24**”).

Key Financial Metrics – Q1 FY24

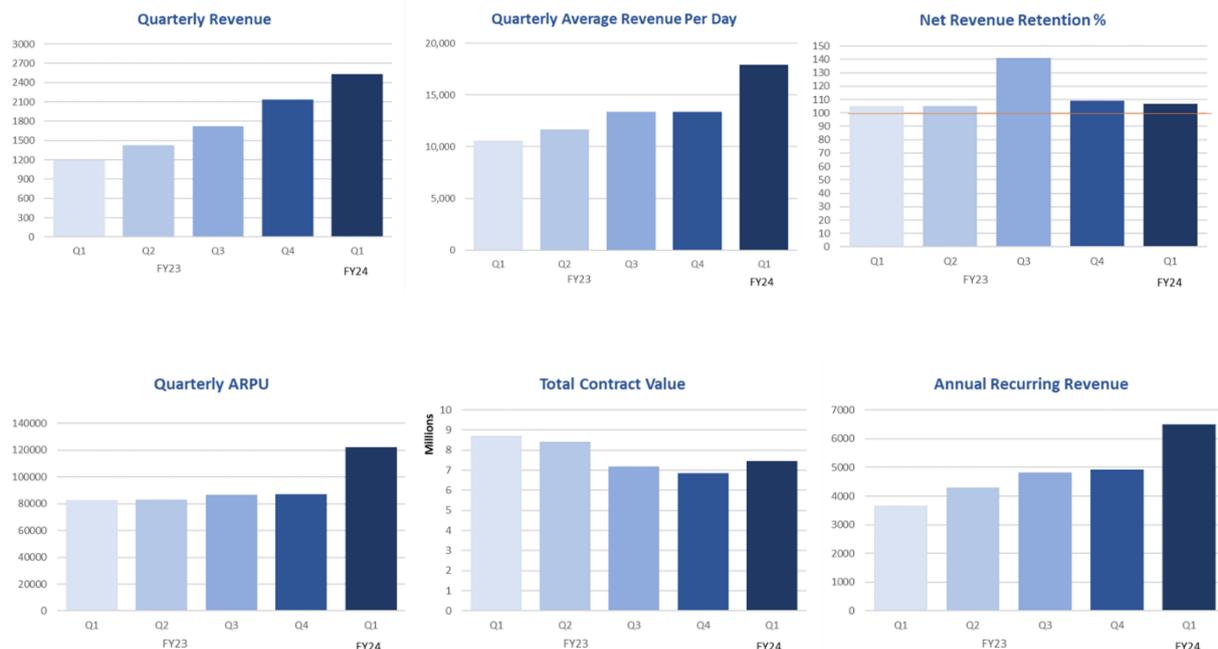
The Key Financial Metrics for Q1 FY24 demonstrate that the Company is starting to benefit from executing on the Strategic Direction we articulated in the June 2023 Capital Raise.

- Strengthening AUCloud’s sales and marketing capabilities has generated a record quarter for total revenue, annual recurring revenue and contracts signed.
- Aligning the cost base to focus only on the strategy, has resulted in lower operating costs and wages expense; with headcount reduced to 60.
- We continue to expand our offering in cyber security solutions; with cyber security revenue now the primary income stream; contributing 54% of ARR. We continue to explore how we can most effectively amplify our growth through building, partnering or acquiring capabilities in the cyber security sector.
- Rationalising our sovereign cloud environments, to better enable partnerships in the public cloud market is well advanced and will be completed in Q2 FY24. The company is currently undertaking the pre-requisite certifications to partner with a hyperscaler; which we expect to present new opportunities in 2024.
- In Q1, we executed on our strategy to launch the 1st of our targeted industry specific solutions. AUCloud in partnership with leading legal industry MSP provider, LexVeritas, launched LexCloud. In Q1 we onboarded the first law firm to LexCloud; with a new 3-year contract.

We remain confident that the market drivers remain strong, and that our scalable platforms provide growth opportunities in both cyber security and cloud solutions, evidenced by the growing sales momentum being seen through the Q1 result.

	Q1FY24	Q4FY23	Change		Q1FY23	Change	
	(A\$m)	(A\$m)	(A\$m)	%		(A\$m)	%
Total Revenue (TR)	2.5	2.1	0.4	19%	1.1	1.4	112%
Annual Recurring Revenue (ARR)	6.5	4.9	1.6	32%	3.6	2.9	78%
Net ARR Contracts Signed *	3.1	1.8	1.3	72%	0.3	2.8	933%
Salary & Wages	2.9	3.1	(0.2)	(7%)	3.2	(0.3)	(10%)
Operating Expenses	0.69	0.72	(0.03)	(4%)	0.97	(0.28)	(28%)
Net Operating Cash Outflow	(3.5)	(3.5)	-	-	(5.6)	2.1	37%

* Previously the company has reported Total Contract Value (TCV) Signed within each quarter. TCV was at times a mix of ARR and paid projects to be delivered over a set time period, such as the build of the Arqit platform. The Company believes Net ARR Contracts Signed, which removes project-based revenue and deducts the value of unused contracts, is a more meaningful metric and comparators to past periods have been adjusted accordingly.



Q1 FY24 compared to Q4 FY23

Total Revenue (TR) increased 19% in Q1 FY24 compared to Q4 FY23. The Annual recurring revenue (ARR), which excludes Arqit revenue, increased by 32% to reflect an annualised run rate of \$6.5M; up from \$4.9M.

We had a record quarter for contracts signed. \$3.1M contracts were secured, up 72% from \$1.8M in Q4 FY23. New customers spanned law firms, local councils, state government agencies and the

private sector. The AEC also extended their agreement by 12 months. The majority of new customer agreements procured cyber security solutions.

Total contract value (TCV) increased 8% compared to 30 June 2023. The new customer acquisition pipeline continues to grow with 25% of operating expenses now attributed to marketing to drive future revenue growth.

Q2 FY24 has opened strongly, as sales momentum continues to accelerate. During October 2023, AUCloud secured new customer agreements totalling \$1.3m including a 5-year agreement with a federal government agency.

The Arqit solution, deployment of the Asia Pacific region's first Quantum Safe Symmetric Key Agreement Platform as a Service, was officially launched to the Australian market in Canberra during Q1. To date the Arqit contract has provided minimum gross margin due to the fixed licence fee arrangement. From Q2 FY24 onwards revenue and cost of sales associated with the Arqit contract will transfer from fixed licence fees to variable fees based on end customer uptake. The transition has no impact on ARR (Cloud & Cyber Security revenue), and we expect the Arqit solution to have a positive earnings impact in 2024 as customers are onboarded.

Quarterly Cash Flow

The Company incurred negative cash flow of \$3.5 million before financing activities, similar cash outflow to Q4 FY24. There was zero CAPEX in Q1 FY24.

Included at item 6.1 of the Appendix 4C are payments to related parties and their associates of \$269,000 for director fees, excluding reimbursements of out-of-pocket expenses.

Peter Maloney

Managing Director

23 October 2023

END

This ASX announcement was authorised for release by AUCloud's Board of Directors.

Further information, please contact:

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Company Secretary
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About AUCloud

AUCloud is an Australian owned and operated Cyber Security Managed Security Service Provider (MSSP) and Sovereign Cloud Service (IaaS) specialist that supports Australian Governments, Critical National Industries (CNIs) with the latest sovereign cloud infrastructure, backup and cyber security threat defence and response services. AUCloud solutions enable customers to benefit from sovereign data protection with the scale, automation, elasticity and lower costs typically associated with global cloud offerings.

AUCloud's Sovereign Cloud Service (IaaS) and Cyber Security Solutions are underpinned by a range of security certifications, including "Certified Strategic" on Digital Transformation Agency's Hosting Certification Framework (HCF), assessed to the PROTECTED controls of the Australian Signals Directorate's (ASD) Information Security Manual (ISM) through to the Australian Cyber Security Centre's Cloud Assessment and Authorisation Framework (CAAF), inclusive of the Information Security Registered Assessors Program (IRAP) certification and ISO 27001. This provides AUCloud's customers with confidence that their data is secure and that services are delivered to the highest standards.

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 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) * \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,659	2,659
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(2,193)	(2,193)
(c) advertising and marketing	(250)	(250)
(d) leased assets	-	-
(e) staff costs	(3,181)	(3,181)
(f) administration and corporate costs	(597)	(597)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	68	68
1.5 Interest and other costs of finance paid	(4)	(4)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (IPO costs expensed)	-	-
1.9 Net cash from / (used in) operating activities	(3,498)	(3,498)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) * \$A'000
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
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	-	-

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	500	500
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	(216)	(216)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(238)	(238)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (ROU Repayments)	(365)	(365)
3.10 Net cash from / (used in) financing activities	(319)	(319)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) * \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	11,640	11,640
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,498)	(3,498)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(319)	(319)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	7,823	7,823

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	7,760	11,534
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Bank Guarantee)	63	106
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	7,823	11,640

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	269
6.2	Aggregate amount of payments to related parties and their associates included in item 2	0

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.

<p>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></p>	<p>Total facility amount at quarter end \$A'000</p>	<p>Amount drawn at quarter end \$A'000</p>																				
7.1 Loan facilities	115	115																				
7.2 Credit standby arrangements																						
7.3 Other (please specify)																						
7.4 Total financing facilities	115	115																				
7.5 Unused financing facilities available at quarter end		0																				
<p>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.</p>																						
<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;"> <thead> <tr> <th style="text-align: left;">Lender</th> <th style="text-align: center;">Balance Owning \$'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 #2</td> <td style="text-align: center;">-</td> <td>September 2023</td> <td style="text-align: center;">5.10%</td> </tr> <tr> <td>Cisco Capital #3</td> <td style="text-align: center;">40</td> <td>November 2023</td> <td style="text-align: center;">5.53%</td> </tr> <tr> <td>Cisco Capital #4</td> <td style="text-align: center;">75</td> <td>November 2023</td> <td style="text-align: center;">5.47%</td> </tr> <tr> <td>Total</td> <td style="text-align: center;">115</td> <td></td> <td></td> </tr> </tbody> </table>			Lender	Balance Owning \$'000	Maturity date	Interest Rate	Cisco Capital #2	-	September 2023	5.10%	Cisco Capital #3	40	November 2023	5.53%	Cisco Capital #4	75	November 2023	5.47%	Total	115		
Lender	Balance Owning \$'000	Maturity date	Interest Rate																			
Cisco Capital #2	-	September 2023	5.10%																			
Cisco Capital #3	40	November 2023	5.53%																			
Cisco Capital #4	75	November 2023	5.47%																			
Total	115																					
<p>The above finance facilities are secured by the respective computer equipment and software assets acquired.</p> <p>The above facilities exclude lease liabilities relating to right-of-use leased assets, such as data centres.</p>																						

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(3,499)
8.2	Cash and cash equivalents at quarter end (item 4.6)	7,823
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	7,823
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.24
<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>		
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?	
	Answer: NA	
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?	
	Answer: NA	
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?	
	Answer: NA	
<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

- This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- This statement gives a true and fair view of the matters disclosed.

Date: 23 October 2023

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.