



30<sup>th</sup> January 2023

ASX Announcement

## Quarterly Report

The Board of pre-fabricated modular Data Centre specialist, DXN Limited (ASX:DXN) (“DXN” or “the Company”) is pleased to provide its quarterly report and Appendix 4C for the three months ended 31 December 2022 (“Q2FY23”).

### Highlights

- On 28 November 2022 DXN announced that it had entered into an Exclusive Global Distribution License Agreement (EGDLA) and Exclusive Global Consulting Services Agreement (EGCSA) with Flow2Edge Holdings I Pte Ltd (Flow). The EGDLA is a contract for a minimum of 10 modules per year (for exclusivity to continue on a yearly basis) for 10 years with an exclusivity fee of A\$2m while the EGCSA is a consulting contract for \$1.5m over 3 years.
- DXN has since received A\$2,000,000 in cash as part of the exclusivity and licensing fees associated to the EGDLA. Further, DXN has also received the first quarterly payment of A\$125,000 related to the EGCSA.
- Cash receipts for the quarter - A\$3.786m, down on the previous corresponding quarter (A\$6.179m) which was boosted by the cash sale of DXN Melbourne data centre assets to Wingu Africa.
- Further, DXN received its R&D tax incentive of A\$1.029m during the current quarter.
- Cash position at 31 December 2022 - A\$2.891m.
- Strategic Shift: As announced in the End of Year Business Update released 28 December 2022 DXN has received non-binding indicative offers to acquire its data centre assets and negotiations are in advanced stages. DXN will keep shareholders updated on the progress of these negotiations
- DXN SYD01’s major international cloud storage customer, brought in during the previous quarter has expanded its footprint in DXN SYD01 during this quarter.
- The appointment of Mr. Peter McGrath on the 25 November 2022 as a non-executive director of DXN brings vast data centre industry experience to the Board.

### Operating Update

#### *Modular Data Centre Manufacturing*

During the quarter, DXN successfully contracted the following projects:

- DCE Electrical Modular Data Centre Design order for Telstra
- Anglo American Modular Data Centre Design order

Design orders are typically a precursor to Modular orders.

#### **DXN Limited**

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DXN also commenced joint design work with Flow for its EGDLA and EGCSA contracts.

During the quarter, DXN also successfully designed new modular manufacturing products for indoor telecommunications applications.

### Data Centre Operations

DXN's data centres continued to operate in line with expectations, with revenues for the quarter of A\$704k (**previous corresponding quarter** A\$694k).

DXN brought in a major international cloud and bare metal customer into its Sydney data centre in the previous quarter, with this customer further expanding its footprint into DXN SYD01 during the quarter.

### Summary of payments

During the quarter the Company's payments included the following:

- product manufacturing and operating costs of A\$1,505,000;
- staff costs of A\$1,029,000;
- administration and corporate of A\$798,000;
- leased assets of A\$533,000.

### Operating Cash Flow

DXN had a positive operating cash flow for the quarter, due to funds received from the Flow EDGLA and EGCSA agreements as well as the R&D tax incentive.

### Cash Position

As of 31 December 2022, DXN had a cash balance of A\$2.891m.

### Related Party Payments

The aggregate amount of payments to related parties and their associates included in the current quarter totalled A\$47k. These payments consisted of director's fees, salaries, and superannuation for non-executive directors. All payments were on normal commercial terms.

### Outlook

DXN's success has been underpinned by strong sales progress in the Modular Manufacturing business in the past three years, highlighted by revenue growth from \$1.4m in FY19, to \$13.1m in FY22.

The Data Centre Manufacturing business is also a profitable Operating Segment – its profit before tax was \$1.08m in FY22, up from \$0.85m in FY21. DXN has also progressed in an exclusive process for the sale of its data centre assets, thereby providing the opportunity to repay existing debt facilities, recapitalise the modular manufacturing business and focus on reaching positive EBITDA.

As the DXN team focuses on our core business of modular manufacturing, underpinned by the EGDLA with Flow, as well as potential new modular manufacturing opportunities within Australia, we anticipate a positive turnaround in calendar year 2023.

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DXN also anticipates further modular manufacturing business growth in Australia and the Pacific due to Australia and its global allies' investing into submarine cable infrastructure in the region alongside DXN's Edge data centre and cable landing solutions.

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### About DXN Limited

DXN is Asia Pacific's only vertically integrated manufacturer and operator of modular data centres. DXN's core business is designing, engineering, manufacturing, maintaining and operating data centres.

The Company has two core divisions that provide a complete symbiotic relationship that better captures what we do, how we do it and why we do it.

These divisions are:

1. **Modular Division** – designs, engineers, manufactures, and deploys EDGE facilities and critical DC infrastructure; and
2. **Data Centre Operations** - operates, maintains and markets data centres and critical infrastructure for our own DXN data centres as well as our modular customers. For more <https://dxn.solutions>.

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ASX Release authorised by the Board

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## Appendix 4C

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

**Name of entity**

DXN Limited

**ABN**

46 620 888 548

**Quarter ended ("current quarter")**

31 December 2022

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	3,786	5,490
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(1,505)	(2,863)
(c) advertising and marketing	-	-
(d) leased assets	(533)	(979)
(e) staff costs	(1,029)	(2,214)
(f) administration and corporate costs	(798)	(1,251)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	5
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	1,088	1,088
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>1,012</b>	<b>(724)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(2)	(2)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 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)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(2)</b>	<b>(2)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	2,125
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	(22)	(172)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(11)	(19)
3.7	Transaction costs related to loans and borrowings	(114)	(228)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>(146)</b>	<b>1,706</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	2,036	1,925
4.2	Net cash from / (used in) operating activities (item 1.9 above)	1,012	(724)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2)	(2)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(146)	1,706
4.5	Effect of movement in exchange rates on cash held	(9)	(14)
4.6	<b>Cash and cash equivalents at end of period</b>	<b>2,891</b>	<b>2,891</b>

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	2,891	2,036
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>2,891</b>	<b>2,036</b>

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	47
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<p><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></p> <p><i>Includes director's fees, salaries and superannuation for non-executive directors.</i></p>		

<b>7.</b>	<b>Financing facilities</b> <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>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1	Loan facilities	4,000	4,000
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	<b>Total financing facilities</b>	4,000	4,000
7.5	<b>Unused financing facilities available at quarter end</b>		-
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.		
	A \$4,000,000 secured facility with Pure Asset Management Pty Ltd to finance working capital and acquisitions. The interest rate (including line fee) is 11.25% p.a plus a 2.50% establishment fee. The maturity date is 14 October 2025. The facility is secured by a General Security Agreement over the assets of the company.		

<b>8.</b>	<b>Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1	Net cash from / (used in) operating activities (item 1.9)	1,012
8.2	Cash and cash equivalents at quarter end (item 4.6)	2,891
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	2,891
8.5	<b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	N/A
	<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:	
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:	
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:	
	<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: 30 January 2023

Authorised by: "By the Board"

(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.