

Largest deal in company history highlights Q4 while providing strong revenue growth and cash receipts outlook for FY23

Q4 FY22 HIGHLIGHTS

- Delivers largest deal in its history of \$7M, validating strategy of securing sensitive information sharing across global Defence and its supply chain
- Revenue up 58% to \$1.4M from prior quarter; with licensing up 91% from prior comparative period
- Annual recurring revenue (ARR) increased 68% to \$3.3M from prior quarter
- Strong cash position at quarter end of \$6.6M with additional \$2.0M collected post-period
- Consistent operating expenses across prior financial quarters, demonstrating efficient capital management
- Monthly cash burn expected to halve in FY23 from prior year*
- FY23 expected to deliver a minimum of 60% revenue growth with current visibility for triple digit growth
- FY23 minimum cash receipts expected of \$9.5M
- archTIS quarterly results webinar on 26 July 2022 at 11am AEST

archTIS Limited (ASX:AR9, OTCQB:ARHLF, archTIS or the Company), a global provider of innovative software solutions for the secure collaboration of sensitive information, is pleased to release its Quarterly Activities Report and Appendix 4C Cash Flow Report for the quarter ending 30 June 2022.

Managing Director Daniel Lai stated, “The Company delivered the largest deal in its history during the quarter, with a \$7.0M (inc. GST) contract to expand and enhance the existing deployment of Kojensi within Defence. This win drives a strong outlook for revenue and cash receipts as we commence FY23. We continue to execute on our strategy of targeting the Global Defence and Defence Industrial Base (DIB) markets. We are successfully driving key strategic alliances and record pipeline opportunities across the likes of Microsoft and Thales while we continue to pursue product innovation.”

archTIS’ recent Defence deal provides \$5.0M of recognisable revenue in FY23, along with \$7.0M of cash proceeds this year. The Company is providing revenue outlook guidance for a **minimum year-on-year increase of 60%** with current visibility for triple-digit growth in FY23; which includes committed revenue associated with the Defence contract, existing short-term deferred revenue on the balance sheet and previously committed contractual engagements. Core gross margins are anticipated to remain at the targeted 70% level.

FY23 cash receipts without further new sales are expected to be a minimum of \$9.5M. The Company expects to see its monthly cash burn halved during FY23 due to increased revenues, cash receipts and continued monitoring of operating expenses. This will support the trend toward cash-flow neutrality.

archTIS’ pipeline continues to be at an all-time high and is growing consistently.

* Prior year operating cash burn excludes net proceeds from the capital raise undertaken during November and December 2021 and payments for business acquisitions.

Quarterly Financial Summary (unaudited)

The table below shows some of the financial highlights for the quarter:

	FY22	FY21
(A\$'000)	Q4	Q4
Licensing Revenue	691	361
Services Revenue	667	1,765
Equipment Revenue	-	133
Total Revenue	1,358	2,259
Annual Recurring Revenue	3,257	1,939
<i>% Increase on prior comparative period</i>	68%	
Gross Margin for quarter	64%	66%
Underlying OPEX*	2,939	2,305

*Q4 OPEX was \$1.06M, after a year-to-date adjustment of \$1.9M in relation to the year-end capitalisation adjustment of additional development costs.

CUSTOMER WINS

archTIS continued to demonstrate cross-product customer traction across Defence and Intelligence, Microsoft IP Co-sell, expanded geographical channel growth and strong customer retention.

Most notably, the Company secured a \$7.0M contract in June with the Australian Department of Defence (Defence) for expanded and enhanced licensing of Kojensi to be deployed on-premises. The sale continues archTIS' strong growth in the Defence and National Security market, while establishing Kojensi for future user and licensing growth as Defence expands the platform across additional sites. Total contract value is \$7.0M over two years, which includes \$3.4M in recurring revenue over a two-year period and \$3.6M for services, support and hardware for the expanded growth and implementation of Kojensi.

Also in June, i-Sprint Innovations (i-Sprint) joined the archTIS Channel Partner Program to resell archTIS' dynamic, data-centric security solution NC Protect to customers in the Asia-Pacific region. i-Sprint secured its first customer as part of the Microsoft IP Co-sell program for NC Protect in dynamically securing Microsoft 365 files.

Furthermore, the Company delivered new, expanded, and renewed product solutions across regions and verticals, illustrating the "network growth" effect of Kojensi SaaS and importance of NC Protect licence in driving customer acquisition, globally. Examples include:

- Several higher-education institutions, allowing collaboration with the Australian Department of Defence
- Several accounts, including Northrop Grumman and SAP Australia, renewing and expanding software application; and
- Key new and renewed NC Protect licences observed across:
 - National Institute of Health (U.S. Department of Health and Human Services)
 - Global distributor of computer and IT components
 - US-based energy conglomerate
 - One of the largest US real estate management companies
 - Middle-Eastern government agency
 - One of the largest health insurance providers in the eastern US
 - European specialist developer and provider of advanced healthcare technologies.

QUARTERLY FINANCIAL SUMMARY (UNAUDITED)

Overall revenue was up 58% from the prior quarter to \$1.4M, although 40% below the prior comparative period (pcp), as the Company continues to focus on leveraging more profitable licensing sales while opportunistically aligning services-based revenue streams. archTIS delivered strong quarterly licensing revenue of \$0.7M, up 91% on the pcp. Licensing revenue growth was highlighted by ARR of \$3.3M, which was a 68% increase on the pcp.

The Company maintained operating expenses at a similar level to previous quarters outside of increases in insurance and travel. Net operating cash outflows for the Quarter of \$3.2M were mainly comprised of staff and contractor costs (\$2.5M), administrative and corporate costs (\$0.9M), advertising and marketing costs (\$0.2M), and product manufacturing and operating costs (\$0.1M). The payments included at section 6.1 of the attached Appendix 4C relate to directors' fees and wages of \$0.1M. The key activities carried out by staff and contractors during the Quarter were ongoing product development, sales, marketing, and corporate administration.

The Company ended the quarter in a strong financial position with \$6.6M of available cash. Additional cash receipts of \$2.0M were collected from customers post close of Q422.

For the full year on an unaudited basis, archTIS delivered revenue of \$4.6M with a 70.5% gross operating margin. This was highlighted by \$2.6M in licensing revenue, up 126% on the prior year. Operating expense investments in the business were \$10.9M for the completed year. Further analysis and audited results will be released to the market in late August in accordance with ASX year-end reporting requirements.

PARTNERSHIP ALLIANCES & CONTINUED PRODUCT INNOVATION

During the quarter, the Company announced it was invited to participate in a systems integration consortium, led by KPMG, for the Australian Department of Defence. The acquisition of Tranche 1 of the ICT 2284 OneDefence Data Program was announced by the Australian Assistant Minister of Defence, the Hon Andrew Hastie MP, on 8 April 2022.¹ The OneDefence consortium aims to improve the data maturity and security of the Australian Defence Force. Contractual terms are in the final stages of negotiation.

In continuing with a strong Microsoft partnership, archTIS announced the availability of NC Protect for Microsoft 365 in both Microsoft Azure Marketplace and Azure Government Marketplace, online stores providing applications and services for use on Azure. Microsoft Azure customers worldwide now gain access to NC Protect to take advantage of the scalability, reliability and agility of Azure, to drive application development and shape business strategies through streamlined deployment and management.

archTIS Global COO and US President Kurt Mueffelman presented at Microsoft Inspire on 19 July, the company's annual global partner kick-off conference for FY23. The session focused on Modernising Defence and Intelligence Customers through partnerships presented by the Defence and Intelligence Industry Leadership Team. archTIS discussed how the company's NC Protect solution enhances and adds value to Microsoft security investments with specialised capabilities to support secure collaboration in defence and the defence industry.

The Company announced a new NC Protect watermarking feature to support CUI Designator labelling to assist US Defense and the Defence Industrial Base (DIB) with meeting the requirements for Controlled Unclassified Information (CUI) document handling and tagging. The feature will be globally available, expanding the strategic market opportunity across defence and defence prime contractors.

¹ <https://www.minister.defence.gov.au/minister/andrew-hastie/media-releases/managing-defence-data-military-and-strategic-advantage>

CORPORATE ANNOUNCEMENTS

As announced in September 2021, the Company entered into an asset sale agreement (Agreement) to purchase certain technology assets from Cipherpoint Limited (ASX:CPT) (refer to ASX announcement dated 20 September 2021). Under the Agreement, the Company agreed to issue Cipherpoint deferred consideration shares in the Company (Shares), with the quantum to be based on the total contract value of annual recurring and perpetual licence sales of products acquired, as determined by 31 March 2022. The deferred consideration value due to Cipherpoint by 31 March 2022 was determined to be \$187,025. In lieu of settling the deferred consideration by the issuance of Shares (as contemplated by the Agreement), the parties agreed to settle the deferred consideration obligation by a 42% discounted cash payment of \$107,264.

Global COO and US President Kurt Mueffelmann stated: “We are looking forward to a strong, record-breaking FY23. The foundational work that we have done over the recently concluded fiscal year, the most recent \$7.0M award, and increased pipeline through product innovation and alliance adoption will provide the key layers for success going forward. Combining significant revenue growth with a move toward cash-flow neutrality should position our shareholders for beneficial gains in the time to come.”

Investor Webinar

archTIS will host a quarterly results webinar on 26 July 2022 at 11:00am AEST (Sydney/Melbourne), 9:00am AWST (Perth), 25 July 2022 9pm EDT (New York, NY - USA) to update investors on its quarterly results.

Register at: https://us02web.zoom.us/webinar/register/WN_Vam-U0n-RZiH_booSr4tjQ

Authorised for issue by order of the Board of Directors.

ENDS

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About archTIS Limited

archTIS Limited (ASX: AR9, OTCQB:ARHLF) is a global provider of innovative software solutions for the secure collaboration of sensitive information. The company's award-winning data-centric information security solutions protect the world's most sensitive content in government, defence, supply chain, enterprises and regulated industries through attribute-based access and control (ABAC) policies. archTIS products include Kojensi, a multi-government certified platform for the secure access, sharing and collaboration of sensitive and classified information; and NC Protect and the cp. suite of products for enhanced information protection for file access and sharing, messaging and emailing of sensitive and classified content across Microsoft 365 apps, Dropbox, Nutanix Files and Windows file shares. For more information visit archtis.com or follow [@arch_tis](https://twitter.com/arch_tis).

Appendix 4C

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

Name of entity

archTIS Limited

ABN

79 1230 986 71

Quarter ended ("current quarter")

30 June 2022

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	592	2,510
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(127)	(487)
(c) advertising and marketing	(186)	(623)
(d) leased assets	(106)	(211)
(e) staff costs	(2,528)	(9,716)
(f) administration and corporate costs	(936)	(3,873)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	2
1.5 Interest and other costs of finance paid	(3)	(53)
1.6 Income taxes paid	-	(2)
1.7 Government grants and tax incentives	102	1,672
1.8 Other (GST)	-	-
1.9 Net cash from / (used in) operating activities	(3,191)	(10,781)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	(250)
(c) property, plant and equipment	(1)	(27)
(d) investments	-	-
(e) intellectual property	(107)	(1,507)
(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:		
	(g) entities	-	-
	(h) businesses	-	-
	(i) property, plant and equipment	-	-
	(j) investments	-	-
	(k) intellectual property	-	-
	(l) other non-current assets	-	-
2.3	Cash flows from loans to other entities:	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Payments to settle liabilities on settlement including transaction costs	-	-
2.6	Net cash from / (used in) investing activities	(108)	(1,784)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	6,944
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	75
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(665)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
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	-	6,354

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	9,827	12,739
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,191)	(10,781)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(108)	(1,784)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	6,354

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(7)	(7)
4.6	Cash and cash equivalents at end of period	6,521	6,521

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	6,521	9,827
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)	6,521	9,827

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
116
-

Note: Amounts included at item 6.1 relate to payments to directors of the Board.

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

- 7.1 Loan facilities
- 7.2 Credit standby arrangements
- 7.3 Other (please specify)
- 7.4 **Total financing facilities**

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	-	-
7.2	50	21
7.3	-	-
7.4	50	21

7.5 Unused financing facilities available at quarter end

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- 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.

Unsecured corporate credit card facility of \$50,000 (annual interest rate 20.24%) with Westpac Banking Corporation.

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	(3,191)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	6,521
8.3	Unused finance facilities available at quarter end (Item 7.5)	29
8.4	Total available funding (Item 8.2 + Item 8.3)	6,550
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	2.05

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

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:

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:

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:

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: 26 July 2022

Authorised by: 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.