



PENTANET REPORTS UPWARD ON-NET RUN RATE TREND AND ANOTHER QUARTER OF SOLID CLOUD GAMING GROWTH

KEY HIGHLIGHTS H1FY24

- H1 consolidated revenue increased by 7% on PcP to \$10.4m
- Consolidated EBITDA breakeven maintained for H1
- Q2 consolidated revenue increased by 5% on PcP to \$5.2m
- H1 consolidated gross profit increased by 22% on PcP to \$4.9m
- Q2 consolidated gross profit increased by 17% on PcP to \$2.4m
- Net cash from operating activities up by 218% QoQ to \$0.5m in Q2FY24
- Increase in cash receipts from customers by 6% on PcP to \$5.2m for Q2FY24
- Gaming subscription revenue growth up 51% QoQ to \$0.4 million
- CloudGG paid membership growth up 52% QoQ
- CloudGG membership growth of 18% QoQ to over 490,000

Pentanet Managing Director, Mr Stephen Cornish, said, "In the telecommunications business, we're starting to see a return to on-net growth with an improvement in overall churn, following recent pricing changes across the nbn® sector of the market. Our efforts and resources are focused on increasing the on-net run rate and continuing to build on the positive upward trend observed over the six-week installation window since the launch of the new higher-speed on-net plans. We aim to maintain this upward trajectory in on-net growth while decreasing churn through a more competitive and diverse product offering.

"The recent introduction of the new nbn price card, effective December 1, 2023, has allowed us to realign our off-net prices more closely with the competitive landscape. We can now expand our off-net offering and anticipate top-line revenue growth and a slowdown in off-net churn."

The gaming segment maintained positive EBITDA and achieved an encouraging 52% QoQ paid membership growth, up from 26% in the prior quarter. As the platform continues attracting new members, our focus has shifted towards enhancing monetisation strategies for the 490k-strong audience since launch and sustaining growth in paid user numbers."

"Our strategic initiatives in both the telecommunications and gaming segments are yielding positive results, with the growth of the gaming segment and the new suite of competitive on-net and off-net plans that position us well for driving growth in telecommunications. We are optimistic about the growth prospects and look forward to maintaining this positive momentum."

OPERATIONAL UPDATE

Telecommunications

In Q2, the focus was on returning to growth and minimising churn. Gross on-net subscriber sales increased by 24% QoQ, driven by increased sales and marketing activity following the 5G Fixed Wireless launch in late October 2023. Gross off-net subscriber sales decreased by 35% QoQ, as operational efforts and marketing resources were directed to increase the higher-margin on-net subscriber base. The on-net net adds run rate showed improvement within the six-week window since launch, with on-net customers now constituting 40% of total subscribers (39%: Q1FY24).

The Q2FY24 churn rate decreased marginally to 1.43% per month, primarily affected by customer relocations. This figure is expected to decrease with improved product plans in market and ongoing retention initiatives.

Blended ARPU increased to \$93 (Q1FY24: \$92). On-net ARPU decreased marginally to \$87 (Q1FY24: \$88), impacted by new on-net plans more aligned with the current competitive landscape. The on-net gross margin remained strong at 90%. With the new nbn wholesale pricing, the off-net gross margin increased to 21% (Q1FY24: 19%).

The neXus greenfield deployment strategy has commenced based on the finalised network topology design for optimal performance and redundancy. The Pentanet neXus wireless mesh network is poised to be a key future growth strategy for the business, leveraging the company's IP, stock on hand, and superior performance expected from the new design.

The Company is well-positioned to return to net subscriber growth with the Pentanet product suite now aligned with the competitive landscape and expanding offerings in both on and off-net services.

GeForce NOW Cloud Gaming

Paid memberships increased by 52% QoQ, with subscription revenue up 51% QoQ to \$0.4 million. The average revenue per user (ARPU) has consistently increased for three consecutive quarters, reaching \$13. The overall growth on the platform is driven by a more diverse membership offering with the introduction of the 'Ultra' membership tier, marketing efforts, new content additions, and additional growth from launch of GeForce NOW Powered by CloudGG on the Optus SubHub platform.

With the GeForce NOW Powered by CloudGG cloud gaming subscription service maintaining positive EBITDA, the objective remains to grow the number of paying subscribers on the platform and expand new revenue-generating activities to monetise the over 490,000 captured audience of CloudGG members to date.

FINANCIAL UPDATE

Revenue

H1 consolidated revenue increased by 7% on PcP to \$10.4 million. Telecommunications segment revenue is up 3% on PcP to \$9.5 million driven by a 5% increase in recurring revenue to \$9.1 million. The increase in recurring revenue was due to increases in fibre revenue, up 45% on PcP, and on-net revenue, up 3% on PCP.

H1 GeForce NOW subscription revenue increased by 75% on PcP to \$0.7 million and 51% QoQ to \$0.4 million, in line with strong paid memberships growth up by 83% on PcP and 52% QoQ.

Gross Profit

The H1 consolidated gross profit increased by 22% on PcP, reaching \$4.9 million and reflecting a gross margin of 47%, up 13% on PcP.

The telecommunications segment's H1 gross profit increased 8% on PcP, reaching \$4.6 million and reflecting a gross margin of 48%, up from 46% in the PcP. This improvement can be attributed to the successful off-to-on-net conversions campaign with the launch of the new 5G Fixed Wireless plans.

The H1 gaming segment gross profit experienced a significant increase of 212% on PcP, reaching \$0.3 million, in line with an 83% growth on PcP in paid GeForce NOW cloud gaming memberships. The Company now has a solid base of paid memberships, effectively covering the fixed monthly recurring costs incurred in the early stages when the service was launched. Consequently, the gross profit margin for the gaming segment reached 30% for H1FY24, a 159% improvement on PcP.

Expenses

H1 overhead costs decreased 22% on PcP to \$5.4 million. This reduction was primarily driven by a 43% decrease in marketing expenses. Additionally, there was a 28% decrease in general company overheads, mainly impacted by reduced office lease costs in Q4FY24 and a 14% reduction in employee-related costs.

Most pleasingly, the Company's telecommunications and gaming segments both recorded a third quarter of breakeven EBITDA as a result of these key financial improvements.

Q2 CASH FLOW

Q2 cash receipts from customers increased by 6% on PcP to \$5.2 million, in line with revenue growth.

Net cash from operating activities reflected a notable increase of 218% QoQ to \$0.5 million. The increase was due to a 17% reduction in operating cash payments QoQ, mainly influenced by a 38% decrease in product manufacturing and operating costs resulting from the timing of wholesale payments. Staff costs increased by 17% QoQ due to the additional fortnightly payments in November 2023.

The significant QoQ reduction of 64% in net cash in investing activities was mainly helped by the previous \$1.6 million payment of the Company's 15-year licence for the 5G spectrum in the 26GHz band included in Q1FY24. Cash flow from investing activities of \$0.9 million was mainly impacted by capital invested in customer premises equipment (CPE's) for on-net run growth and annual lease payments of \$0.3 million.

The Company closed the quarter with a cash balance of \$6.3m and available financing facilities of \$9.1 million to fund future capital expansion for its 5G and neXus rollouts and the purchase of additional NVIDIA RTX 3080 servers.

USE OF FUNDS AND RELATED PARTY TRANSACTIONS

In accordance with ASX Listing Rule 4.7C.1, the major expenditure items, including product manufacturing and operating cost, staff cost and other non-current asset payments, have been addressed in the report.

In accordance with ASX Listing Rule 4.7C.3, payments in the December 2023 quarter to related parties (and their associates) of \$334,440 included in Item 6 in Appendix 4C consisted of directors' fees and director associate fees, rent paid and received and accounting services paid to associates of directors.

This announcement has been authorised for release by the Managing Director of Pentanet Limited, Mr Stephen Cornish.

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About Pentanet

Pentanet is a Perth-based, growth-focused telco delivering high-speed internet to a growing number of subscribers by providing next-generation internet speeds. This is achieved through Pentanet's market-leading private wireless network, the largest in Perth, as well as reselling fixed-line services such as nbnTM and Opticomm.

The Company's flagship wireless network has benefits for both customers and investors, offering an outstanding customer experience and a fixed wireless product that is technically superior to most of the nbnTM with attractive margins for investors. This sets Pentanet apart from most broadband providers, which typically only resell the nbnTM.

Pentanet is also part of the rollout of the next wave of subscription-based entertainment services – cloud gaming. The Company's Alliance Partner Agreement with NVIDIA allowed Pentanet to be the first to bring their GeForce NOW technology to Australia in 2021. Since launch, the platform has amassed over 490,000 users.