



27 April 2023

ASX Announcement: DXN

## March 2023 Quarterly Report

The Board of pre-fabricated modular Data Centre specialist, DXN Limited (“DXN” or “the Company”), is pleased to provide its quarterly report and Appendix 4C for the three months ended 31 March 2023.

### Highlights

- The appointment of Mr. Tim Hannon and Mr. Brendan Power on the 27 March 2023 as non-executive directors of DXN brings additional industry and corporate experience to the Board. This further bolsters the Board’s credentials following the appointment of Mr. Peter McGrath during the previous quarter.
- The appointment of Mr. Peter McGrath as Chairman of the Board on 30 March 2023.
- As per the announcement on 3 April 2023, DXN signed an order with an Australian mining entity worth approximately A\$1million for the supply, build and installation of a modular data centre.
- During the March quarter DXN management focused on reducing staff, overhead, and corporate costs through a series of initiatives culminating in a reduction of these costs from the previous quarter of A\$400k.
- Following the announcement of 28 November 2022 where 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), DXN and Flow are jointly developing an Asia-Pacific sales pipeline for its module manufacturing business.
- Cash position at 31 March 2023 - A\$1.753million.

### Operating Update

#### *Modular Data Centre Manufacturing*

During the March quarter DXN successfully completed the Anglo American modular data centre design order that. The customer has subsequently placed the Module build order, as announced to the market on 3 April 2023, and which is scheduled to be delivered and installed by DXN in October 2023.

DXN continues to provide paid consulting services to Flow for its EGCSA contract.

DXN has been working closely with Flow as they jointly expand the Asia-Pacific sales pipeline for its module manufacturing business. DXN anticipates that Flow will commence placing orders for modules in the coming quarter(s).

#### **DXN Limited**

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## Data Centre Operations

DXN's data centres continue to operate in line with expectations, with revenues for the March quarter of A\$700k (previous corresponding quarter A\$704k).

During the March quarter DXN's major international cloud and bare-metal customer, located in its Sydney data centre (SYD01), has further expanded its footprint with additional racks.

## Summary of payments

During the March quarter the Company's payments include the following:

- product manufacturing and operating costs of A\$590k;
- staff costs of A\$910k;
- administration and corporate of A\$511k;
- leased assets of A\$405k.

## Operating Cash Flow

DXN had a negative operating cash flow for the March quarter due primarily to a lack of new modular sales in the quarter. As previously announced to the market, DXN signed a new customer order on 3 April 2023, and anticipate module orders from Flow in the coming quarter(s).

## Cash Position

As of 31 March 2023, DXN had a cash balance of \$1.753million.

## Related Party Payments

The aggregate amount of payments to related parties and their associates included in the March quarter totaled \$51k. These payments consisted of director's fees, salaries, and superannuation for non-executive directors. All payments were on normal commercial terms.

## Outlook

Over the previous three years DXN's revenue performance has been underpinned by strong sales in the Modular Manufacturing business, highlighted by revenue growth from \$1.4million in FY19 to A\$13.1million in FY22. The Data Centre Manufacturing business is also a profitable Operating Segment – with profit before tax of A\$1.08million in FY22, up from A\$0.85million in FY21.

As the DXN team continues to support Flow Digital, underpinned by the EGDLA focused on the APAC market, as well as potential new modular manufacturing opportunities within Australia (primarily in mining and edge data centres), we anticipate a positive revenue response in the FY24 financial year.

In the March quarter, DXN commenced cost saving initiatives that have already realised significant savings of \$600k (annualised). The savings include staff, board and operational changes. This initiative will continue, including a review of construction costs internally aimed at converting some fixed costs to variable.

Finally, DXN has continued to make progress in the sale of its data centre asset(s) coupled with other strategic initiatives and will inform the market of further updates as they become available.

-ends-

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Release authorised by the Board.

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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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## 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 March 2023

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	1,394	6,884
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(590)	(3,452)
(c) advertising and marketing	-	-
(d) leased assets	(405)	(1,384)
(e) staff costs	(910)	(3,124)
(f) administration and corporate costs	(511)	(1,762)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	8
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	5	1,094
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,014)</b>	<b>(1,737)</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)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 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>-</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	-	(172)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(11)	(30)
3.7	Transaction costs related to loans and borrowings	(114)	(342)
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>(124)</b>	<b>1,581</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	2,891	1,925
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,014)	(1,737)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(2)

Appendix 4C  
Quarterly cash flow report for entities subject to Listing Rule 4.7B

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(124)	1,581
4.5	Effect of movement in exchange rates on cash held	-	(14)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>1,753</b>	<b>1,753</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	1,753	2,891
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,753</b>	<b>2,891</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1	Aggregate amount of payments to related parties and their associates included in item 1	51
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>6.1 - Includes director's fees, salaries and superannuation for non-executive directors.</i></p>		

<b>7. Financing facilities</b>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
<i>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.</i>		
7.1 Loan facilities	4,000	4,000
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
<b>7.4 Total financing facilities</b>	<b>4,000</b>	<b>4,000</b>
<b>7.5 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. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (item 1.9)	(1,014)
8.2 Cash and cash equivalents at quarter end (item 4.6)	1,753
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	1,753
<b>8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	<b>1.73</b>
<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: Yes. The Company has recently announced a new module manufacturing customer with revenues of approx. A\$1 million. Further, DXN expects to receive inflows of orders with its international distribution partner, Flow Digital, in line with the exclusivity agreement that was executed in November 2022. The Company has also instigated a series of cost-saving initiatives to reduce staff costs and product manufacturing costs. Based on the above factors, the Company anticipates improving operating cash flows in the coming quarters.	
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: No. Currently the Board has no plans to raise additional capital via placement or otherwise. Any sale of the Company's data centre assets will provide cash injections. Negotiations are ongoing and the Board will provide further updates as they become available.	

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: Yes. The Company expects to be able to continue its operations as it anticipates new module manufacturing orders in the coming months, on the back of the recently announced new customer providing DXN with new module manufacturing work. Negotiations are ongoing as the Company looks to realise the best return for the proposed sale of its data centre assets.

*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.*

## 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: 27 April 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.