

archTIS March 2022 Quarterly Report

Historic licensing revenues for period leads to record gross margin supported by stable operating expenses

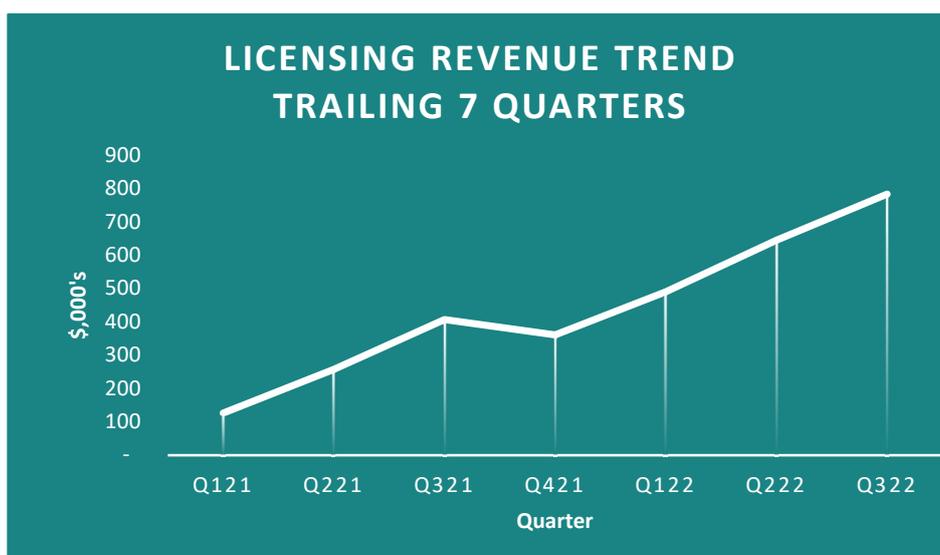
archTIS Limited (ASX:AR9, OTCQB:ARHLF, archTIS or the **Company**), a global provider of innovative software solutions for the secure collaboration of sensitive information, is pleased to provide an update its Quarterly Activities Report and Appendix 4C Cash Flow Report for the quarter ended 31 March 2022 (**Reporting Period** or **Quarter**).

Q3 FY22 Highlights*

Record-breaking quarterly licensing revenue up 92% on PCP	Annual recurring revenue (ARR) up 50% on PCP	Quarterly Gross Margin of 78.5%
Strong cash position at quarter end of \$9.8M	Consistent operating expenses across prior 3 quarters	Positive Q4 Sales outlook supports accelerated ARR

*Prior Comparative Period (PCP)

During the Reporting Period, the Company delivered the highest quarterly licensing revenue in its history of \$783k; up 92% from the Prior Comparative Period (PCP). The record-breaking licensing revenue delivered 78.5% gross margin; another historical high for the company.



Daniel Lai, Managing Director stated, “I am pleased to announce this quarter’s results with record licensing growth, high gross margins and operating expense stability. archTIS continues to deliver on its strategic plan of driving top-line, higher gross margin licensing while opportunistically leveraging key service revenue engagements to support the growth and distribution of our ABAC technology across the globe. Coming out of COVID-19, we are experiencing increased pipeline maturity through direct sales, Microsoft IP Co-sell and channel partnerships. These factors will drive immediate sales opportunities for the traditionally strong Q4 selling cycle and thus drive rapid ARR growth and increased margins.”

Quarterly Financial Summary (unaudited)

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

	FY22		FY21
(A\$'000)	Q3		Q3
Licencing Revenue	783		407
Services Revenue	75		735
Equipment Revenue	-		113
Total Revenue	858		1,255
Annual Recurring Revenue	2,067		1,382
% Increase on prior comparative period	50%		
Gross Margin	78.5%		62.8%
OPEX (after capitalising development costs)	2,693		1,688

The licensing revenue growth was highlighted by ARR of \$2.1M which was a 50% increase from the PCP and was supported by the recognition of a one-time licensing fee through a partner opportunity. Overall revenue was up 7% from the prior quarter but was down 32% from the prior quarter as management leverages more profitable licensing sales while opportunistically aligning services-based revenue streams.

The Company maintained operating expenses at a similar level to previous quarters with net operating cash outflows for the Quarter of \$2.7M that were mainly comprised of staff and contractor costs (\$2.4M), administrative and corporate costs (\$0.2M), 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 \$9.8M of available cash.

Customer Wins, Partnerships and Schedule Awards

The company delivered new, expanded and renewals of products across all geographical regions and vertical sectors in the quarter including:

- Global financial institution for the creation of information barriers using NC Protect.
- Multinational manufacturing company for the protection of intellectual property across their R&D teams using NC Protect.
- Leading US health insurance provider to identify and secure protected health information (PHI) using NC Protect.
- Expansion of Kojensi SaaS licensing by SAP to communicate with national defence agencies across the globe.
- Global defence aviation provider selected Kojensi SAAS for defence industry collaboration.
- Managed services provider using NC Protect for outsourcing for state government intelligence agency.
- Global defence prime using Kojensi SAAS continued expansion across defence projects.

During the quarter, the Company announced it has added its NC Protect products to the GSA Federal Supply Schedule 70. archTIS' advanced information protection solutions for the Microsoft 365 suite and SharePoint on-premises will now be widely available to the U.S. public sector through channel partner TechSolnZ LLC (refer to ASX announcement dated 17 February 2022). The expansion of archTIS' U.S. Federal partner network via inclusion on the GSA schedule, and other U.S. government contract vehicles, demonstrates the Company's commitment to servicing and growing its presence in the U.S. public sector while allowing for easier procurement of offerings to the US Federal government.

Post quarter end, archTIS announced that it has been invited to participate in a systems integration consortium led by KPMG for the Australian Department of Defence (refer to ASX announcement dated 11 April 2022). 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 OneDefense consortium aims to improve the data maturity and security of the Australian Defence Force.

The Company continues to see more opportunities around a data-centric approach to security. archTIS' experience and attribute-based access control (ABAC) methodology will continue to play a key role in forming strategic advantages with information for the warfighters and the Defence organisation that supports them. The selection demonstrates archTIS' domain expertise and key technology differentiation of ABAC through a Zero-trust environment which is being adopted by government agencies and large enterprises on a global basis.

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 through 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. Payment was made post-Quarter end and is therefore not reflected in the attached Appendix 4C.

In addition, under the Agreement, previously paid escrow of \$200,000 was released by the Company that was being held pending release to Cipherpoint upon novation of certain key customer contracts to the Company prior to 31 March 2021. All the specified contracts were novated, and these funds were released prior to the end of the Quarter.

In February, archTIS’ NC Protect and Kojensi solutions won 8 Gold Product Awards in the 2022 Cybersecurity Excellence Awards in the categories of Access Control, Application Security, Data-Centric Security, Data Security Platform, Data Leakage Prevention (DLP), and Insider Threat Solution, and a Silver Industry Solution Award for Government.

Nick Main was appointed as the new Chief Security Officer (CSO) to support the Company’s security strategy and practices across its infrastructure, people, and products (refer to ASX announcement dated 7 February 2022).

Kurt Mueffelman, Global COO and US President, stated, “We continue to execute on the plan delivered to the market and are confident of the strategy. Combined with industry tailwinds and increased levels of funding for global cybersecurity needs, archTIS continues to see building demand for our products and should see the fruits of those efforts by fiscal year-end. The IP Co-sell partnership with Microsoft continues to drive significant levels of interest for defence and intelligence agencies as well as corporations looking for enhanced data security in their protected and top-secret cloud, hybrid and on-premises environments. Our 8x award-winning ABAC security approach has been recognized by industry, partners and customers for offering unique, must-have capabilities required to secure the world’s most sensitive information.”

Outlook

As the Company and the world-wide economy exits from the global pandemic, a strong year-end June quarter supports accelerated ARR growth from the prior fiscal year, higher margins and opportunistic services contracts that position the Company's technology across a longer-term play in government and enterprises on a global basis. Operating expenses are expected to maintain at levels consistent with prior quarter trends while cash burn is being decreased by increased sales contracts.

Investor Updates

archTIS will host a quarterly results webinar on 28 April 2022 at 11:00am EST (Sydney/Melbourne), 9:00am WST (Perth) to update shareholders on its quarterly results.

Register at: https://us02web.zoom.us/webinar/register/WN_fE4EmXYbToWe7JhuDH3uAA

Authorised for issue by order of the Board of Directors.

ENDS

For further enquiries please contact:

Company enquiries

Daniel Lai
CEO and Managing Director, archTIS
E: investors@archtis.com

Irena Mroz
CMO, archTIS
E: irena.mroz@archtis.com

Media enquiries

AUS Media & Capital Partners
E: archtis@mcpartners.com.au

US Capital Markets
E: beverly.jedynak@viriathus.com

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).

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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")

31 March 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	264	1,918
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(125)	(360)
(c) advertising and marketing	(156)	(437)
(d) leased assets	(19)	(105)
(e) staff costs	(2,399)	(7,188)
(f) administration and corporate costs	(296)	(2,937)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	1
1.5 Interest and other costs of finance paid	(16)	(50)
1.6 Income taxes paid	-	(2)
1.7 Government grants and tax incentives	21	1,570
1.8 Other (GST)	-	-
1.9 Net cash from / (used in) operating activities	(2,725)	(7,590)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	(250)
	(c) property, plant and equipment	(2)	(26)
	(d) investments	-	-
	(e) intellectual property		(1,400)
	(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	Payments to settle liabilities on settlement including transaction costs	-	-
2.6	Net cash from / (used in) investing activities	(2)	(1,676)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	165	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	(144)	(665)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
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	21	6,354

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	12,530	12,739
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,725)	(7,590)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2)	(1,676)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	21	6,354
4.5	Effect of movement in exchange rates on cash held	3	-
4.6	Cash and cash equivalents at end of period	9,827	9,827

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	9,827	12,529
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)	9,827	12,529

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	117
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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

7. Financing facilities		Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<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>			
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	50	4
7.3	Other (please specify)	-	-
7.4	Total financing facilities	50	4

7.5 **Unused financing facilities available at quarter end** 46

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)	(2,725)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	9,827
8.3	Unused finance facilities available at quarter end (Item 7.5)	46
8.4	Total available funding (Item 8.2 + Item 8.3)	9,873
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	3.6

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: 28 April 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.