25 February 2022

Record revenue growth of 54% driven by product and geographic diversification

Spirit Technology Solutions ("Spirit" ASX:STI), a leading provider of modern and secure digital workplaces, is pleased to report its financial results for the six months ended 31 December 2021 ("H1 FY22").

Key Highlights:

- **Record revenue sales growth:** Sales revenue of $65.9M, up 54% YoY.
- **Solid H1 performance:** Positive underlying EBITDA[2] of $4.2M achieved during lockdowns of sales teams, installers and seasonally slower first quarter. (Underlying EBITDA excludes $2.5M of profit from consumer asset sale).
- **Bank facility renewal & increase:** Spirit has received formal credit approval to extend and increase the existing CBA debt facility by a further three years to 1 July 2025. The facility has also been permanently increased to $32.0M (from $25.0M).
- **Capital available:** As at 31 December 2021, Spirit had $17.4M of cash and debt through its bank facility.
- **Resilient business model:** Increasing proportion of recurring/contracted revenue to 52% of total revenue in H1 FY22, up from 48% of total revenue in H1 FY21.
- **Strong demand for telco and cyber:** Record sales in November (TCV: $12.2M) and December (TCV: $13.6M) underpins revenue growth in H2 FY22 and beyond.

H1 FY22 Results

	H1 FY22	H1 FY21	YoY%
Sales Revenue	$65.9M	$42.8M	54%
EBITDA[1]	$5.5M	$3.4M	62%
Underlying EBITDA[2]	$4.2M	$4.4M	(5)%
Net Profit After Tax (NPAT)	$3K	$508K	(99)%
Cash	$10.4M	$12.9M	-

In H1 FY22, Spirit delivered record sales revenue growth of 54% to $65.9M driven by product and geographic diversification. In H1 FY22, cyber security services accounted for 24% of total revenue, up from 5% YoY. In addition, voice services accounted for 23% of revenue in H1 FY22, up from 7% YoY. In H1 FY22, recurring/contracted revenue accounted for 52% of revenue, up from 48% in H1 FY21.

Sol Lukatsky, Managing Director, commented on the results, *"Over the past year, we have successfully executed upon our strategic plan to shift our focus from fixed wireless assets towards digital solutions with sustainable recurring revenue streams at attractive margins. The acquisitions of Intalock and Nexgen increased our product and geographic diversity, and we are pivoting our investment into technology solutions for workplaces. The strong revenue growth in these first half results show the resilience of our business model in the difficult business environment over the past six months."*

Margin pressure continued in H1 FY22 with underlying EBITDA[2] of $4.2m, down 5% YoY. Cost pressures resulted from maintaining staff levels through the multiple state lockdowns in addition to scaling investment in corporate functions. However, we are partially offsetting the cost pressures with price rises across the business.

Spirit is pleased to advise that it has formal credit approval from CBA to extend the existing debt facility by a further three years to 1 July 2025. The facility has also been increased to $32.0M (from $25.0M) on a permanent basis.

Introducing Spirit 2.0

Spirit is currently undertaking a substantial internal transformation project, Spirit 2.0, with a mission statement to be: *Australia's leading provider of modern and secure digital workplaces.*

Under Spirit 2.0, internal operations will be aligned around three core business units and a separate corporate function. The simplified operating structure will be:

- Nexgen brand targeting small business market, primarily offering data and voice services to small businesses with employees in the range of 5-100;
- Spirit brand (merging Spirit IT&T and Essential Services) targeting mid-market businesses, offering a comprehensive range of telco services including data, voice, cloud solutions and managed services to mid-market businesses with employees in the range of 100-500.
- Intalock brand targeting Corporate & Enterprise markets, offering specialist cyber managed services including professional services, security operations and specialist cyber software to Corporate and Enterprise customers, with >500 employees.

These new product and target markets are now clearly defined, which will enable a focus on product cross-sell, particularly within the Spirit business unit and across both Spirit and Intalock.

Fixed Wireless Infrastructure Divestment Update

Spirit continues to be in an exclusive period of due diligence with the preferred buyer of its fixed wireless tower assets after receiving and considering multiple all cash offers. The divestment would lead to a material return of capital to Spirit, however there is no guarantee this transaction will be completed.

Outlook

As previously indicated our first half revenue was affected by business closures and COVID restrictions. From February we are seeing a return to more normal trading conditions. Assuming no further COVID restrictions we expect our second half revenue to be on a growth trajectory and in the order of $75M, thereby the full year to be circa $140M.

Our profitability has been impacted by ongoing corporate scaling, investing in a mid-tier sales team, wage inflation and chip shortages causing higher IT hardware costs. We have started to implement price rises across our portfolio alongside the investment in bolstering our sales team which is gaining market traction. It is expected that the benefits of this will be realised over the next six months. Alongside these current initiatives, the Company is working on a broader range of restructuring initiatives as part of its Spirit 2.0 transition plan over the ensuing 18 months and targeting a progressive lift in EBITDA margin targets. We expect our EBITDA margin to be in the order of 6%-7% this financial year.

Sol Lukatsky, Managing Director, said, *"Spirit has enormous upside, it's actual intrinsic value is yet to be realised. The operating businesses are all in high growth markets which are going through structural changes as employees demand best in breed digital workplace solutions at home or in the office. Employers will need to invest in their workplace technologies, to ensure they retain their talent and increase productivity. Spirit is positioned at the heart of this market opportunity."*

[1] EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for depreciation, amortisation, interest and tax. EBITDA includes $2.5M of profit from consumer asset sale.

[2] Underlying EBITDA is EBITDA adjusted to exclude business acquisitions, divestment & integration costs, net fair value loss on remeasurement of contingent consideration on business combinations, business restructuring costs and share-based payments. Underlying EBITDA for the half-year ended 31 December 2021 also excludes profit on divestment of consumer assets.

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This announcement is authorised for release to the market by the Board of Directors of Spirit Technology Solutions Ltd.

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