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ASX Announcement
28th February 2022

Damstra Technology
(ASX: DTC)

DAMSTRA H1 FY22 RESULTS

Damstra Holdings Limited (ASX:DTC) (**Damstra** or the **Company**), a leading Australia-based global provider of integrated workplace management solutions, is pleased to announce its financial results for the six months ending 31 December 2021 (**H1 FY22**).

Commenting on the results, Chief Executive Officer, Christian Damstra, said: "Excluding Newmont, our business grew by 16% during the first half, and while our EBITDA performance was below our expectations, the second quarter was EBITDA positive. With COVID restrictions continuing to ease across our clients' operations, activity accelerated towards the end of Q2, and we believe this trend will continue for the rest of the financial year. We see our key metrics improving in many areas of the business and this, along with the capital raise we successfully completed in December, provides a strong foundation for growth in the second half and beyond."

Key Highlights

- Revenue of $13.2m up 16% vs. PCP excluding Newmont
- Net client retention at 104%[1] and client churn <1%[1]
- ANZ construction and mining businesses accelerating, with 96,000 users at 31 December 2021 and revenue growth greater than 30% year-to-date
- Excluding international cash costs of $4m p.a., ANZ business is EBITDA and operating cash flow positive
- Completed $20m capital raise in December to support sales capability, investment in the Enterprise Protection Platform (EPP) and international growth
- FY22 revenue guidance of $30m - $34m reaffirmed; EBITDA[2] margin guidance of 2-5% (5-10% in H2 FY22)

Financial Results Overview

Revenue in Q2 FY22 was up 16% on Q1, supported by strong growth in our ANZ construction and mining businesses. EBITDA[2] in H1 FY22 was -$0.2m compared to $2.5m in H1 FY21. The result was impacted by the loss of one of our major clients, resulting in a revenue and gross margin decline, which was only partially offset by the lower cost base. Despite this, we remained focused on investing in our international markets and team as our pipeline of opportunities continues to build.

During the period we implemented a cost optimisation project and have identified savings of over ~$1m to date. These cost savings are primarily related to hosting costs, office rationalisation, software optimisation and client configuration and will not impede Damstra's future growth opportunities. EBITDA[2] was $0.4m in Q2 compared to -$0.6m in Q1, with operating cash outflow reducing from $9.4m in Q1 to $7.6m in Q2.

This demonstrates the potential leverage in the business, as we can grow our base revenues at a higher rate than our cost base. Our strategy is to increase revenue in the second half of FY22, with costs increasing at a lower rate due to cost optimisation and resources already in place to implement new revenue streams internationally.

Damstra's cash cost in North American and the UK is running at ~$4m p.a. (excluding overhead allocation) and is not yet generating a financial return. This is a conscious decision by the management team to pursue growth opportunities in these markets and is reflected in the strong sales pipeline. Breaking this cost out demonstrates

1. Presented on a proforma like-for-like basis excluding Newmont revenue
2. Before IPO costs, share based payments, acquisition costs, impairment and other non-recurring costs

Suite 3, L3, 299 Toorak Road, South Yarra VIC 3141

that the base ANZ business is generating positive EBITDA at margins greater than 10%, and that ANZ operating cash would be positive on a standalone basis.

A non-cash impairment of goodwill was recognised in the half, which equates in quantum to the additional goodwill of $40.5m recognised from the Vault acquisition in 2021 from the increase in share price from the date of announcement to the date of completion.

Operating Cashflow

Damstra held $18.7m of cash and cash equivalents as at 31 December 2021. For the half, operating cash outflow was $2.1m and capitalised R&D costs were $2.9m, resulting in a combined outflow of $5.0m.

Damstra will generate operating leverage through H2 FY22 as highlighted by the 2% reduction in costs in Q2 vs. Q1, with cash benefits expected to be realised from cost optimisation projects. One-off costs including M&A transaction costs and a one-off US tax charge for staff relocation will not reoccur in H2 FY22.

Client Activity

During the half, particularly later in the second quarter, we have continued to see underlying positive trends in our business:

- Our construction vertical continues to perform exceptionally well, with H1 FY22 revenue exceeding $2.5m at a growth rate of over 30%, driven by new projects and increased site activity as COVID restrictions ease. This trend is continuing in Q3, with users exceeding 100,000 for the first time;
- The construction market in Australia is robust and we continue to engage with new prospective clients both in ANZ and internationally to leverage our growing reputation for deploying broad technology solutions at scale. The recently acquired TIKS business also provides an opportunity to penetrate the facilities management vertical;
- Mining, our other large business vertical, was flat during the COVID period as site operations were restricted, including the removal of FIFO workers in many locations and the postponement of normal planned shutdowns. However, late in Q2 we saw a change in momentum, with onsite users increasing and January saw the strongest performance in the last 12 months;
- In the last 12 months we acquired 93 new smaller clients (excluding via acquisitions), which on a full run-rate basis are estimated to generate $0.9m in annual revenues. This reaffirms our strategy of acquiring small revenue clients alongside pursuing large enterprise clients;
- We continue to progress specific client opportunities in North America and the UK, demonstrating the extent to which clients continue to engage with Damstra on an exclusive basis;
- We recently re-signed contracts with two key clients in the telecommunications and construction sectors, with YTD growth of 21% and 40% respectively. The contract variation with our largest construction client as announced in November is now operational and was fully run-rated in January. As previously disclosed, we estimate the annual impact of this to be circa $550,000 p.a. in annual recurring revenue.

Strategic Update

Damstra's growth strategy is focussed on three areas: geographical expansion, verticals, and product.

1. Geographic expansion

Our products are now used in more than 20 countries globally and we have offices in six countries. ANZ is the core business, and we have a small footprint in Asia through our existing clients. Both businesses are operating cashflow positive on a standalone basis. Our key investment focus to date has been in North America and our sales pipeline continues to grow, with our value proposition around EPP now well understood in the market and accepted as being internationally competitive with potential clients and partners.

3. On a Total basis, including cost of sales, operating expenses and capitalised costs

2. *Verticals*

We now have over 750 clients globally, with the infrastructure, construction and mining verticals being the most significant revenue contributors and the core focus of our business. In North America, the sales pipeline is strongly skewed to mining, where our core capability exists, however we continue to evaluate other sectors opportunistically where there is a strong use case for our products.

We have exposure to retail and hospitality through clients such as Restaurants Brands Australia, where we are implementing our safety offering across the company's North American operations, and we also have exposure to government through contracts with local councils in Australia, once again focused on our safety, learning, and forms modules. We have these relationships directly and through partners such as StateCover and TechnologyOne. We see councils as a natural growth area for Damstra due to the significant workforces they deploy.

Leveraging our construction capability and with the acquisitions of TIKS, we see facilities management and particularly office management as a key vertical extension opportunity.

3. *New products*

In H1 FY22 we invested $6.6m in R&D[3] (H1 FY21 $6.0m), equating to 49.7% of revenue. We see the present gross dollar spend continuing at similar levels and as such, as revenue increases over time, spend as a percentage of revenue will reduce. While there are pressures in external markets for developer talent, we are well positioned as we can redeploy existing resources as we continue to retire legacy systems.

Our focus remains on continuing to develop our EPP to differentiate ourselves from our competitors who mainly focus on single point solutions. The key to our EPP offering is being able to seamlessly integrate all our modules, where clients can begin with a single module and implement additional modules over time, without requiring a renewed setup of existing users.

Acquisitions have played a critical role in developing the EPP and will remain a critical component of Damstra's technology strategy. The development of the Damstra safety and forms/workflows modules was accelerated by acquisitions, and the recent acquisition of TIKS added a fully functioning permit to work module.

Mr Damstra said, "The continued development of our Enterprise Protection Platform into a market-leading product has been the result of complementary efforts by our internal development team and the disciplined acquisitions we have and will continue to make. All of our technology acquisitions have been conducted with the clear aim of accelerating the development of EPP modules already under internal consideration while enhancing the functionality of the platform overall."

Outlook

The Company is pleased to reaffirm its FY22 revenue guidance of $30m - $34m.

EBITDA margin guidance was previously 15-20%, however due to the COVID-impacted H1 FY22 performance and a rebasing of the business, we will return to positive EBITDA in the second half with an expected full year EBITDA margin of 2-5% (5-10% in 2H FY22). Damstra provides this guidance on the basis that market conditions do not materially change, such as no re-emergence of COVID restrictions and resulting disruption to client and market activity. The assumptions to our revenue guidance noted in the investor presentation dated 2 December 2021 remain unchanged.

Christian Damstra commented: "While Newmont had a significant impact on our first half results, we are pleased to have rebased the business and continue to see positive trends emerging. We are encouraged to see client activity accelerating and having personally met and engaged with all our largest clients over the past few months, I am confident in the strength of our relationships and the pipeline of new opportunities. We have multi-year contracts in place with our major clients and no renewals are due in FY22, while only three are due in FY23. This, coupled with growth from our existing clients and expected new client wins, provides a strong base for continued revenue growth internationally. We are confident in our pipeline and while there have been delays in securing new business wins, we expect to convert some of these in the second half."

Investor Conference Call

A briefing for investors and analysts will be held by Christian Damstra (CEO), Johannes Risseeuw (Executive Chair) and Andrew Ford (CFO) at **09:30am (AEDT)** on 28 February following the release of the half-year financial results.

To register for the webinar, please use the following link:
https://zoom.us/webinar/register/WN_rJHxvcdcS0eNyGpitKwvtQ

The Company's half year financial results materials and an archive of the webcast will be available via the Company's website at: https://www.damstratechnology.com/investors

Authorised for release to ASX by the Board of Damstra Holdings.

Ends

Enquiries

Investors	**Media**
Katja Voegele	Ryan Thompson
+61 411 628 839	+61 423 151 378
k.voegele@damstratechnology.com	rthompson@citadelmagnus.com

About Damstra

Damstra is a global leader in enterprise protection software. Its Enterprise Protection Platform (EPP) integrates an extensive range of modules and products that allows organisations to mitigate and reduce unforeseen and unnecessary business risks around people, workplaces, assets, and information.

Integral to the Damstra EPP, Damstra's Workforce Management, Learning Management and Connected Worker solutions combine to ensure Protected People. In creating workplaces that are Safe, Damstra's Access Control, Digital Forms and Safety Solutions are utilised. Assets are connected into operations, through integrated Asset Management enabling Asset mobilisation and offerings in RFID and IOT. And lastly Accessible Information, Reporting BI tools and Predictive Analytics are critical to ensuring customers are making the right decisions with the right information.

For more information, please visit https://www.damstratechnology.com or visit our LinkedIn page https://www.linkedin.com/company/damstra-technology

Forward-Looking Statements

This ASX release includes certain forward-looking statements that are based on information and assumptions known to date and are subject to various risks and uncertainties. Forward-looking statements are based on:

- assumptions regarding the Company's financial position, business strategies, plans and objectives of management for future operations and development and the environment in which the Company will operate; and

- current views, expectations, and beliefs as at the date they are expressed, and which are subject to various risks and uncertainties.

Actual results, performance or achievements could be significantly different from those expressed in, or implied by, these forward-looking statements. Such forward-looking statements are not guaranteeing of future performance and involve known and unknown risks, uncertainties, and other factors, many of which are beyond the control of Damstra. These factors may cause actual results to differ materially from those expressed in the statements contained in this announcement.

The Company disclaims any responsibility for the accuracy or completeness of any forward-looking statement. The Company disclaims any responsibility to update or revise any forward-looking statements to reflect any change in the Company's financial condition, status or affairs or any change in the events, conditions, or circumstances on which a statement is based, except as required by law. The projections or forecasts included in this announcement have not been audited, examined, or otherwise reviewed by the independent auditors of the Company.

You must not place undue reliance on these forward-looking statements.

***Unless otherwise specified, all amounts are provided in AUD and an unaudited basis and pro forma basis.**