**ASX Announcement**
25th August 2022

**Damstra Technology**
(ASX: DTC)



# Damstra – on track to become cash flow positive in H2 FY23

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 year ended 30 June 2022 (**FY22**).

Commenting on the results, Chief Executive Officer, Christian Damstra, said:

"FY22 has in many ways been a challenging year for Damstra; impacted by COVID, cycling off some specific client issues and bedding down past acquisitions, all of which resulted in an unsustainable cash burn profile. What has been pleasing is how we have addressed these issues with an unrelenting focus to develop a clear pathway forward. The improvement in cashflow in the fourth quarter of FY22 is a clear demonstration of this where operating and investing cash outflow reduced to $1.2m, compared to an average cash outflow of $3.4m in the previous three quarters. We have aggressively pursued a cost optimisation program, with an increased target of $8m, while continuing to grow the business, and proving to ourselves once again that our business model can deliver real leverage as we continue to scale. With revenue in the second half of FY22 25% higher than the first half, and of critical importance, securing key international clients in North America late in Q4 that underpin growth in FY23, we are on track to becoming cash flow position in the second half of FY23."

**Financial Highlights**

- Revenue of $29.3m[1] up 18%[1] vs. pcp;
- EBITDA of $0.5m or 1.7%;
- Operating/investing cash outflow Q4 FY22 of $1.2m, a 65% improvement on the average of Q1-3 FY22 ($3.4m);
- Second half revenue of $15.9m, 25%[2] up on the first half;
- Cost optimisation target increased to $8m with end of June 22 run rate achieved of $3.8m (48%). Projected to be at full run rate the end of Q2 FY23;
- Projecting to be free cashflow[3] positive in the second half FY23.

**Client Highlights**

- Secured key North American clients, such as Barrick and Capstone Copper. Contracts are SaaS based with no hardware. Both signed Global Master Services agreements with global rollout opportunities;
- Net client retention of 108%;
- Client churn 2%;
- Client numbers 953 vs 836 at end of FY21.

[1] Includes revenue associated with equity accounted joint venture (FY22: $0.3m, FY21 $0.3m) and excludes Newmont (FY22 (1H): $0.7m, FY21: $3.1m).
[2] Includes revenue associated with equity accounted joint venture and excludes residual revenue from Newmont in 1HFY22 ($0.7m).
[3] Free cashflow includes operating, investing, and financing activities but excludes acquisitions, drawdown/repayment of debt and other funding transactions.

**Financial Results Overview**

Damstra achieved full year revenue of $29.3m, up 18% on pcp[4]. Following the easing restrictions of COVID, we have seen customer activity increase with revenue in the second half of FY22 growing at 25%[5] compared to the first half.

Revenue was supported by strong growth in our Australian construction and mining businesses, and in late Q4 we saw the first revenue contribution from North America. While the TIKS acquisition has contributed to FY22 growth, the revenue contribution was below expectations. Notwithstanding this short-term under-performance, we have seen real cross sell opportunities emerge, demonstrated by the global arrangement with CBRE which was our first integrated offering with the TIKS product and Damstra modules.

At the end of FY22, ARR stood at $29.0m, which underpins revenue heading into FY23. In addition, we have identified ~$2.5m of revenue growth opportunities with existing clients.

Gross margins for FY22 were 70% (FY21: 78.6%), impacted by the TIKS client base having a lower gross margin profile. With the benefits of the cost optimisation project and increased revenue in FY23, we expect that gross margins will increase over time.

Proforma (or underlying) EBITDA[6] was $0.5m, with the second half contributing $0.7m after a result of ($0.2m) in the first half.

In our statutory accounts we reported a loss after tax of $67.2m, of which $56.0m was reported in our half year results. This was principally due to a $41.3m non-cash impairment of goodwill and other assets recognised in the first 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.

**Cash flow and Costs**

While overall costs for FY22 were higher than FY21, meaningful comparison is difficult due to the inclusion of the cost bases of acquired businesses at various points across the two years. Our focus is on delivering cost savings of $8m to reduce our cost base and we are taking highly disciplined approach to cash management to improve the underlying trend in cash flow.

In Q4 FY22, our operating and investing cash outflow was $1.2m, a significant improvement on previous quarters (Q1: $2.6m, Q2: $3.0m Q3: $4.7m, an average of $3.4m). This is an improvement of $2.2m (65%) in cash outflows in Q4, compared to the average of Q1 to Q3.

Pleasingly, this outcome was ahead of the $1.5m cash outflow guidance provided in the Quarterly Activities Report in respect of Q3 FY22, demonstrating that the business now has greater visibility and better control over cash flow outcomes.

Cash on hand at 30 June 2022 was $10.1m.

[4] Includes revenue associated with equity accounted joint venture (FY22: $0.3m, FY21 $0.3m) and excludes Newmont (FY22 (1H): $0.7m, FY21: $3.1m).
[5] Includes revenue associated with equity accounted joint venture and excludes residual revenue from Newmont in 1HFY22 ($0.7m).
[6] EBITDA before impairment of goodwill and other assets, share based payments, restructuring costs and acquisition and other costs.

During the course of FY22 we increased our cost optimisation target from $5m to $8m, with key features as follows.

- The starting cost base assumption was the cost base as at February 2022;
- At the end of June 22, we had delivered 48% of the cost savings target ($3.8m annualised);
- At end of July 2022, this increased to 73% ($5.8m annualised);
- We are projecting to hit full run rate at end of December 2022 ($8.0m annualised);
- Cost savings are inclusive of staff salary increases in FY23.

In addition to the benefits of a lower, more efficient cost base, increasing revenue will provide a leverage benefit with costs not increasing in proportion to revenue growth. This will reduce costs as a percentage of revenue and allow for margin expansion. With a proportion of our subscription revenue paid in advance, the increased revenue, and cash receipts, along with increased profitability from the leverage benefit, will further increase our ability to improve cash generation.

Total R&D expenditure (including costs capitalised) was $13.6m in FY22, representing 46.8% of revenue. However, the underlying trend in investment relative to our sales revenue is down, with second half R&D expenditure at 44.3% of revenue compared to 49.7% in the first half. This is in line with our expectation that R&D costs will not increase in the same proportion as revenue. 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 as our EPP is further developed.

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.

**Client Activity**

Our products are now used in more than 20 countries globally and for the first time are now available in 15 different languages showing the globalisation of business and modules. While ANZ is presently the core business, we have a small footprint in Asia, and have now established a core North American base. International revenue (including New Zealand) was 13% of total revenue in FY22, but this will increase in FY23 due to recent international clients wins.

We now have over 950 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 where there is a strong use case for our products.

Four key client metrics at the end of FY22 are stated below. As a collection of metrics, they are demonstrating a return of growth in our existing client base and a solid base to leverage as we head into FY23. The continual development of EPP validates this growth as numerous clients are now using multiple modules, and we see this as a key short term and long term grow lever for our business.

- Net client retention of 108% (FY21: 100%) reflects a return to growth of existing clients after the removal of COVID restrictions and expansions across new sites and projects within our clients' portfolio's;
- Client churn of 2% (FY21 <1%). While is an increase on FY21 due to the inclusion of acquired Vault customers, this remains a low churn outcome and demonstrates the relative "stickiness" of clients once acquired;
- As at June 22, recurring revenue was $29.0m which underpins revenue heading into FY23;

- Client numbers now stand at 953 vs 836 at end of FY21. Net clients increased by 117 during the financial year, driven by organic new clients acquired and clients acquired from the TIKS acquisition. The increase in our client base further de-risks the business by reducing client concentration.

The most significant client activity during FY22 was the acquisition of a number of North American clients that are anticipated to underpin international growth in FY23. All contracts are SaaS arrangements with no hardware requirements and require minimal upfront investment. The recent success in North America validates the Company's significant investment and Enterprise Protection Platform (**EPP**) product positioning which has evolved over the last 24 months. It reinforces the effectiveness of the strategy of offering single or multiple integrated models under the EPP to address particular client's needs without requiring bespoke software.

Two recent North American clients are described below, and with other clients we have in North America we have now built a strong base to accelerate North American growth. The characteristics of the North American business is skewed to mining clients where our core competency lies but we do see opportunities in other sectors. With North America clients, scale, and ability to deploy on an international basis is critical.

In May 2022, we signed a three-year master services agreement covering Barrick Gold's global operations, with an initial contract value of at least USD$1.2m and scope for significant expansion. Barrick is one of the world's largest gold and copper mining companies with operations in 13 countries, across 26 mine sites.

  - Implementation has commenced and is progressing well at three initial sites: Nevada Gold Mine in Carlin, USA; Kibali Mine in the Republic of Congo; and Pueblo Viejo Mine in the Dominican Republic;
  - We are currently in discussions for future rollouts at additional locations within FY23.

In June 2022, we signed a three-year agreement with Capstone Copper Corp, an international copper miner headquartered in Canada, with operations in North America, Mexico, and Chile.

  - Capstone will implement Damstra's EPP with the Workforce & Contractor Management, Security, Health, Safety, Training, Compliance & Incident Management modules. Rollout has commence at its Pinto Valley mine in Arizona;
  - With Capstone, Damstra will displace one of its international competitors, which further validates the competitiveness of Damstra's EPP on an international scale.

In ANZ, the construction vertical has more than 100,000 active users showing the scale and breath of our business across Australia in particular. We continue to see a growing pipeline of opportunities in this vertical and we are growing with our existing clients and winning new clients. It is important to highlight that we specifically target long-life civil construction projects and have no exposure to the residential or office construction sectors.

Another growing adjacent vertical into which Damstra is pivoting is facilities management and commercial real estate services. In this area, we signed a global two-year agreement in June 2022 with CBRE, one of the world's largest commercial real estate services and investment firms, to provide its EPP integrated work order and permit to work modules for one of CBRE's global clients. Leveraging our construction capability and with the acquisitions of TIKS, we see facilities management as a key vertical extension opportunity.

**Outlook**

The Company is pleased to provide the following guidance for FY23.

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 guidance are provide in the investor presentation dated 25 August 2022.

| (AUD$m) | Lower | Upper |
|---|---|---|
| Revenue | $32m | $34m |
| EBITDA % | 14% | 18% |
| Free cashflow | ($2.5m) | ($0.5m) |

**Investor Conference Call**

A briefing for investors and analysts will be hosted by Christian Damstra (CEO), and Andrew Ford (CFO) at **09:30am (AEDT)** on 25 August following the release of the full - year financial results.

To register for the webinar, please use the following link:

https://cdandco.zoom.us/webinar/register/WN_wvu73xnXS-2pSlfsMxIozA

The Company's full 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**

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**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.