

ASX Announcement

27th January 2023

Damstra Technology

(ASX: DTC)

Q2 FY23 Quarterly Report and Appendix 4C

Damstra Holdings Limited (ASX:DTC) (**Damstra** or the **Company**), the Company who protects and connects your world via its Enterprise Protection Platform (EPP), provides an update on the company's operations for the second quarter of FY23 ended 31 December 2023 (**Quarter** or **Q2**).

Highlights

- Quarterly Revenue of \$7.6m growth at 11%¹ vs. pcg;
- FY23 Half year revenue up 18%¹ v pcg;
- EBITDA² of \$1.4m with EBITDA margin of 19%'s vs. 5% pcg;
- Positive operating cashflow of \$1.9m vs pcg of negative (\$0.3m), 3rd consecutive quarter of positive operating cashflow;
- Operating and investing cash outflow of (\$570,000)³ vs pcg of (\$1.5m);
- Q2 free cash outflow⁴ of (\$1.2m) vs pcg of (\$3.5m);
- In December the business delivered positive free cash;
- Cost optimisation target of \$8m achieved with end of December 22 run rate of \$8.2m (103%)

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

"Q2 FY23 now clearly demonstrates our structurally lowered cost base and continuing improvement in our cash flow profile. We have achieved in December our planned \$8m cost out target and now have an annual run rate of \$8.2m which equates to ~\$680,000 of monthly cost savings".

"Our key cash flow metrics all continue to improve, with operating cash flow of positive \$1.9m, operating and investing cash outflow of (\$570,000). It is important to highlight the structural improvement in our cash flow which can be best demonstrated by free cash outflows being \$1.2m for the quarter compared to the average quarterly outflow of \$3.4m in FY22, which is a 65% improvement".

"This demonstrates that we have structurally lowered our cost base when coupled with increasing revenue. In addition, our Q2 EBITDA was positive, with EBITDA margin now double digits, which demonstrates the business has now returned to profitability and we look to build upon this for the remainder of FY23".

¹ Excludes Newmont (Q2 FY23 \$nil, Q1 FY22 \$0.2m)

² EBITDA before share based payments and restructuring and other costs

³ Excluding acquisitions and debt

⁴ Free cashflow includes operating, investing, and financing activities but excludes acquisitions, drawdown/repayment of debt, other funding transactions and one-off restructuring costs (Q1FY23 \$0.2m)

Operating Results

Our key business focus in the last period has been on costs and cash flows, and in all these metrics we have seen material improvement. To highlight the structural improvement in our overall operating position, below we highlight;

1. Free Cash outflow
2. Operating cash

Free Cash flow

In Q2 FY23, our free cash outflow was \$1.2m, a \$0.6m or 33% improvement on the prior quarter (Q1 FY23) and a 65% improvement on the average \$3.4m in Q1-4 FY22. This 65% improvement demonstrates a positive structural shift in our cash outflow profile.

In Q2 for the December operating month the business achieved a positive cashflow outcome.

Metric	Q2 FY23	Q1 FY23	Q4 FY22	Average Quarter FY22
Free cash outflow	\$1.2m	\$1.8m	\$1.6m	\$3.4m

Operating Cash

In regard to operating cash, we have now achieved three consecutive quarters of positive operating cashflow. During FY22 our average quarterly operating cash was negative (\$0.9m).

Metric	Q2 FY23	Q1 FY23	Q4 FY22	Average Quarter FY22
Operating Cash (operating activities)	\$1.9m	\$0.3m	\$1.4m	(\$0.9m)

Costs

During the quarter a milestone regarding costs was achieved, in that we have now delivered our annualised cost savings target of \$8m. In December, we hit a run rate of \$8.2m of cost savings which delivers the business on an ongoing basis monthly cost savings of ~\$680,000 per month. This, combined with continuing revenue growth, is driving our increasingly lower cash outflow profile.

We do see scope for further cost savings which are not people related, these are focussed on the retirement of legacy systems, hosting associated costs, and software optimisation. These will be addressed during 2H FY23, at this stage we have not set a formal target for these savings.

Financial

Underlying the improved financial position, the business also moved to double digit EBITDA margin of 19% and achieved a positive EBITDA of \$1.4m for Q2.

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. With this platform in place, increases in revenue and corresponding gross margin, will be reflected in EBITDA and operating cashflow.

Building on our Q2 results, and with the now delivered cost savings target that now underpin the cost base in Q3 and Q4, if revenue targets are achieved in the remainder of FY23 we will achieve becoming free cash positive in the second half of FY23.

Cash on hand at the end of December 2022 was \$8.1m, after \$5m in funds was drawn from the Company's credit facility used to finalise the deferred payment for the TIKS acquisition of \$3.5m. All payments for the TIKS acquisition are now completed.



Client Activity

Our products are now used in more than 20 countries globally and are now available in 15 different languages showing the globalisation of business and modules. International revenue was 13% of total revenue in FY22, this % will increase in FY23 due to the implementation of new North American client wins.

Our key client metrics of net client retention and churn as below are now stable

Metric	Q2 FY23	Q1 FY23	Q2 FY22 (PCP)	Variance (to Last Quarter)	Variance (to PCP)
Net Client retention %	103%	104%	105%	(1.0%)	(2.0%)
Client churn	2.3%	2.6%	0.6%	0.3%	(1.7%)

(note: above client metrics exclude Newmont.)

- Net client retention of 103% reflecting continued revenue growth of existing clients
- Client churn of 2.3% (Q1 FY23: 2.6%). Slight improvement in an already low churn environment and demonstrates the relative “stickiness” of clients once acquired

Q2 client activity has focussed predominantly on the successful global implementation of North American clients. To highlight the progress in North American, we have achieved a new milestone of generating over \$AUD1m of revenue in the 1H for FY23 and we look forward to building upon the scale we now have in our North American business and validates our past investment in this market.

In this regard we sign a new three-year agreement with Barrick Gold of North American Inc which signifies the formal start of Phase 2 rollout with Barrick after successful implementation of Phase 1. This agreement covers 6 sites in Nevada Gold Mine Region in North America.

Implementation has already commenced; and covers the Cortez, Turquoise Ridge, Phoenix and Long Canyon mine sites all in the Nevada Gold Mining Region, which is one of the largest gold mining complex's in the world. This agreement is the formal start of Phase 2 with Barrick, after the implementation during 2022 of Nevada Gold Mine in Carlin, USA; Kibali Mine in the Republic of Congo; and Pueblo Viejo Mine in the Dominican Republic.

In an Australian context, we have been progressing the retirement of some legacy systems (EIFY and Scenario) due to the advancement of EPP platform. This will enable some long term clients to access the full range of EPP modules, with one our construction clients this will enable the go live on 5 new major infrastructure projects in NSW and Queensland in 2H of FY23.

During Q2 we implemented price increase for ~50% of our clients with minimal client churn, the full financial impact of this will occur in Q3 FY23. Due to minimal impact on client churn we are reviewing other pricing options for another 25% of our client base to being implemented in 2H FY23.



Outlook

The Company's guidance for FY23 provided on the 25th August 2022 remains unchanged. The assumptions to our guidance were provided in the investor presentation dated 25 August 2022.

FY23 Guidance	
Revenue	\$32m - \$34m
EBITDA Margin	14% – 18%
Free Cash Flow	(\$2.5m) – (\$0.5m)

Payments to related parties of the entity and their associates

Included in section 6.1 of the Appendix 4C for the quarter ended 31 December 2022 payments of \$274,000 were made to related parties of Damstra. These amounts relate to Directors' fees, salaries, and allowances paid to Directors and their associates.

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

Ends

Enquiries

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D A M S T R A
CONNECT + PROTECT YOUR WORLD

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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.



Appendix 4C

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

Name of entity

Damstra Holdings Limited [DTC.ASX]

ABN

74 610 571 607

Quarter ended ("current quarter")

31 December 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers (incl GST)	8,632	17,273
1.2 Payments (incl GST) for		
(a) research and development		
(b) product manufacturing and operating costs	(2,222)	(4,977)
(c) advertising and marketing	(43)	(129)
(d) leased assets		
(e) staff costs	(2,956)	(5,993)
(f) administration and corporate costs	(1,413)	(3,675)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (Restructuring costs – staff redundancies & leave payments)	(134)	(358)
1.9 Net cash from / (used in) operating activities	1,864	2,141
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities		
(b) businesses	(3,500)	(3,500)



Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(c) property, plant and equipment	(425)	(720)
	(d) investments		
	(e) intellectual property	(2,010)	(3,524)
	(f) other non-current assets		
2.2	Proceeds from disposal of:		
	(g) entities		
	(h) businesses		
	(i) property, plant and equipment		
	(j) investments		
	(k) intellectual property		
	(l) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (contingent consideration relating to prior year acquisition)		
2.6	Net cash from / (used in) investing activities	(5,935)	(7,744)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		
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		
3.5	Proceeds from borrowings	5,000	5,000
3.6	Repayment of borrowings	(62)	(121)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		



Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
3.9	Other (provide details if material) <ul style="list-style-type: none"> Leased assets – equipment Leased assets – offices Interest received Interest and other costs of finance paid 	- (314) 30 (442)	- (522) 66 (782)
3.10	Net cash from / (used in) financing activities	4,212	3,641

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	7,992	10,095
4.2	Net cash from / (used in) operating activities (item 1.9 above)	1,864	2,141
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(5,935)	(7,744)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4,212	3,641
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	8,133	8,133

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	8,133	8,133
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)	8,133	8,133



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

\$274

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

6.1 above is comprised of director fees and expenses paid to 6 directors for the period 1 July – 31 December 2022

7. Financing facilities

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.

Total facility
amounts at quarter
end
\$A'000

Amount drawn at
quarter end
\$A'000

7.1 Loan facilities

15,000

15,000

7.2 Credit standby arrangements

7.3 Other (please specify)

- Merchant prepayment
- Insurance funding
- Asset finance
- Bank guarantees

-

-

-

-

-

-

370

370

7.4 Total financing facilities

15,370

15,370

7.5 Unused financing facilities available at quarter end

-

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.

- \$15m Revolving Loan Note Facility with interest only repayments ("Loan Facility")



8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	1,864
8.2	Cash and cash equivalents at quarter end (Item 4.6)	8,133
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	8,133
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	N/A

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

- 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: N/A

- 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: N/A

- Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A



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.

On behalf of the Board

Date: 27 January 2023.....

Authorised 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.

