ASX Announcement
24th February 2023

Damstra Technology
(ASX: DTC)

DAMSTRA H1 FY23 RESULTS

Damstra Holdings Limited (ASX:DTC) (**Damstra** or the **Company**), the Company who protects and connects your world via its Enterprise Protection Platform (EPP), announces its financial results for the six months ending 31 December 2022 (**H1 FY23**).

Key H1 FY23 Highlights

- Record revenue for the Half of $14.9m[1], up 18%[2] vs pcp;
- EBITDA[3] of $2m with EBITDA margin of 13.4%; H1 FY22 was EBITDA loss of $0.2m;
- Gross Profit of $11.6m, up 19.4% of vs pcp;
- Gross Margin of 78.3%, up 490bbs vs pcp;
- Record Cash receipts of $17.3m, up 17.3% vs pcp;
- Positive operating cash flow of $2.1m, H1 FY22 negative $2.1m;
- R&D (inclusive of capitalised) reduced to 39.5% as % of revenue, vs 49.7% pcp;
- Cost optimisation target of $8m exceeded with end of December 22 run rate of $8.2m (103%).

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

"H1 FY23 is an extremely pleasing set of results demonstrating that we have structurally changed the trajectory of the business. On all our key metrics we are showing real progress, posting record first half results for revenue and cash receipts, a step change in gross margin, and moving the business to positive EBITDA. This EBITDA outcome has been driven by increased gross profit and margin, higher revenue and delivery of cost savings."

"Our major achievement during the period was at the end of Q2 in December our planned $8m cost out target was exceeded, and we now have an annual run rate of $8.2m which equates to ~$0.7m of monthly cost savings. This will reoccur for the remainder of H2 FY23 as during H1 we were continually implementing these savings."

Financial Results

The company achieved a record H1 revenue of $14.9m. The main drivers of the revenue increase were; new North American clients, continued growth in construction, and strong performance of our mining clients. Also included within the results was the first real contribution from our facilities management vertical.

Gross Margin percentage has increased strongly during H1 FY23, increasing to 78.3% an improvement of 490bbs. In the previous half gross margin was 73.4%. This has been driven by cost savings initiatives reducing the cost of sales, and changes in revenue mix, while increasing revenue also had an impact as not all costs are variable.

Gross Margin should continue to expand with increasing revenue and the full impact of cost savings that were achieved at the end of Q2 F23.

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[1] Include contribution from JV
[2] Excludes Newmont
[3] EBITDA before share based payments and restructuring

Gross Margin (profit) was $11.6m for the half up some 19% on the previous corresponding period of $9.7m. This is an improvement of $1.9m.

EBITDA for the period was $2m, compared to a ($0.2) loss in the previous corresponding period. The EBITDA Margin was 13.4% vs negative (1.6%) in the previous corresponding period. This is $2.2m improvement in EBITDA.

Operating Expenses

	H1 FY22		H1 F23	
	Revenue	% of rev	Revenue	% of rev
Sales and marketing	$4.8m	36.4%	$4.7m	31.6%
R&D (excluding capitalised)	$3.6m	27.7%	$2.7m	18.2%
G&A	$5.7m	42.9%	$5.6m	37.8%

The improvement in our cost base is best seen by costs as % revenue. In all cost areas; S&M, R&D, and G&A the company has reduced gross costs but also reduced cost as % of revenue vs pcp. This has been achieved by the impact of cost savings initiatives, integration of past acquisitions and continued revenue growth.

Costs

During the H1 FY23, the company achieved a milestone regarding costs, in that we exceeded our cost savings target of $8m. In December, we hit a run rate of $8.2m of cost savings which deliver the business, on an ongoing basis, cost savings of ~$0.7m per month.

The full impact of the $8.2m cost savings was progressively implemented during the half. To understand the impact of cost savings, in June FY22 cost savings achieved were ~$0.3m for the month this has now more than doubled to ~$0.7m per month. This, combined with continuing revenue growth, will continue to drive a lower cost profile and improved profitability in future reporting periods.

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.

Growth in operating Cashflow

The company recorded positive operating cashflows of $2.1m for the H1 FY23 compared to negative $2.1m for the previous period. This was a $4.2m improvement.

In regard to operating cash flow, we have now achieved three consecutive quarters of positive operating cashflow. During FY22 our average quarterly operating cash flow was negative ($1.0m).

R&D

H2 FY23 R&D (inclusive of capitalised R&D) was 39.5% with $5.9m spent. What is most pleasing about this outcome is we have reduced R&D costs as a percentage of revenue down from 49.7% H1 FY22 but have also reduced the gross dollars on R&D in the half by some $0.7m.

We see R&D as a % of revenue continuing to decrease due to increasing revenue, also we are in process of retiring some legacy products and finalising some past acquisition integration. With all of these combined we expect to see a further reduction in gross $ expenditure and a further reduction in R&D as a % of revenue.

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

Structural improvement in Free Cash Flow

Free cash flow; as defined includes all operating investing, and financing activities but excludes acquisition, drawdown/repayment of debt and one-off restructuring. In this context, free cash outflow was ($3m) for H1 FY23.

H1 FY22 free cash outflow was ($6.7m). This is a $3.7m improvement between the halves.

With past acquisition costs and costs associated with implementing costs savings behind us, free cash flow is now transparent. This can be best demonstrated 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 flow profile.

In Q2 FY23 our monthly average free cash outflow was $0.4m, this outcome was achieved in the context that full run rate cost savings were only achieved in December.

Building on our Q2 results, and with the now delivered cost savings target that will underpin the cost base in Q3 and Q4, if revenue targets are achieved in the remainder of FY23 we can 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 25 countries globally and are now available in 15 different languages showing the globalisation of business.

Our North American business for H1 FY23 has achieved the milestone of $1m of revenue, due to the implementation of new recent client wins. In the broader context of international revenue, 21% of revenue is now generated outside of Australia.

During the half we signed a new three-year agreement with Barrick Gold of North American Inc, which signifies the formal start of Phase 2 rollout with Barrick after the 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 complexes in the world. Implementation of Nevada Gold Mine in Carlin, USA; Kibali Mine in the Republic of Congo; and Pueblo Viejo Mine in the Dominican Republic is now complete and fully operational. We are in further discussion with them on the rollout plans for Africa.

In an Australian context, we have been progressing the retirement of two specific legacy systems due to the advancement of the EPP platform. This will enable a number of long term clients to access the full range of EPP modules, resulting in internal efficiencies and additional cost savings in R&D and operational support.

In our facilities management vertical, the CBRE rollout is progressing well, and we are in present discussion with them in regard to a Global off take arrangement which will be formalised shortly.

In regard to our construction vertical, we see a strong pipeline of activity in terms of new projects and also the adoption of additional modules for existing clients. The pipeline in H2 FY23 is materially stronger than H1 FY23.

It is important to highlight Damstra's clients are predominantly on civil construction with its infrastructure focus, we have no exposure to the residential sector.

During the half we implemented price increases for ~50% of our clients with minimal client churn. Due to the minimal impact on client churn, we are reviewing other pricing options for another 25% of our client base to be implemented in H2 FY23.

Client churn is at 2.5% which is higher than the corresponding period of 0.6%, is not material and due to churn at the smaller client level.

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 and remains consistent with statements made at the FY22 results.

Underpinning comments as part of H1 F23 results;

- EBITDA Margin in H1 of 13.4% achieved
- Gross Margins have improved 490bbs to 78.3%
- In December, $8.2m of annualised cost savings were achieved which delivers the business, on an ongoing basis, cost savings of ~$0.7m per month
- Q2 free cost outflow was ($1.2m), a 65% improvement on the average ($3.4m) in Q1-4 FY22
- H2 revenue in Damstra has historically been seasonally higher than H1
- Continual resilience in our two largest verticals be it mining and construction. Pipeline in H2 is larger than H1
- That client churn does not materially increase from the 2.5% achieved in H1, Q2 FY23 reduction to 2.3%

Investor Conference Call

A briefing will be held by Christian Damstra (CEO), Johannes Risseeuw (Executive Chair) and Paul Burrows (CFO) at **09:30am (AEDT) on Friday 24 February** following the release of the half-year financial results. To register for the webinar, please use the following link:

https://cdandco.zoom.us/j/86826616619

The Company's half year financial results materials 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

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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 used. 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.