

ASX Announcement

28th April 2023

Damstra Technology

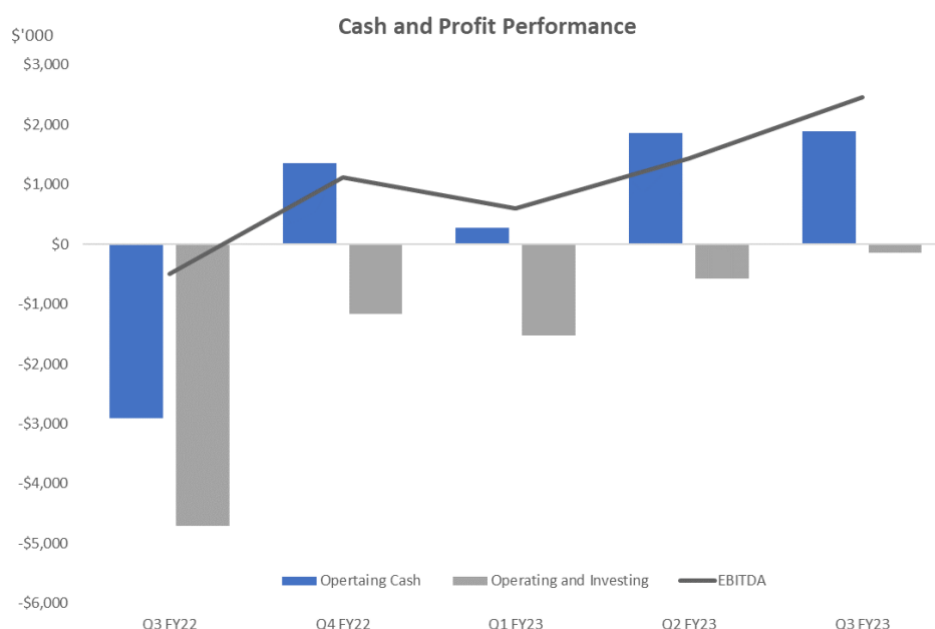
(ASX: DTC)

Q3 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 third quarter of FY23 ended 31 March 2023 (**Quarter** or **Q3**).

Highlights

- Operating and Investing cashflow of (\$0.1m) vs pcip of negative (\$4.7m);
- Positive operating cashflow of \$1.9m vs pcip of negative (\$2.9m);
- 4th consecutive quarter of positive operating cashflow;
- Q3 EBITDA² of \$2.5m with EBITDA margin of 33% up \$3m v pcip;
- North American revenue exceeds \$1.7m on YTD basis;
- FY23 YTD year revenue of \$22.4m up 9% v pcip¹;
- Quarterly Revenue of \$7.5m;
- ARR of \$28.5m up 4% v Q2FY23 and consistent v pcip;



¹ Revenue excludes Newmont.

² EBITDA before share based payments and restructuring.

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

“Q3 FY23 continues to demonstrate the material structural improvement in our cashflows, with new milestones achieved such as our 4th consecutive month of positive operating cashflow; operating and investing cashflow at near breakeven; and the continued trend of reducing free cash outflow”.

“The starkest illustration of the change in our business can be measured in operating and investing cash outflow. This quarter was near breakeven (\$0.1m), which is a \$4.6m improvement on a pcg basis”.

“While revenue growth was not as hoped, we are pleased by the continued revenue growth in North America and also in our civil construction vertical, especially in March, recording a material uptick in activity. I have also had the pleasure of recently engaging with many of our Top 20 clients, receiving positive feedback on Damstra's EPP”.

“Based on present revenue performance and achieved cost savings, we expect to go positive operating and investing cashflow in Q4 FY23. Free cash outflow at a minimum will be better than Q3 FY23 performance and will come close to free cash flow breakeven. We remain steadfast in our commitment to achieving this outcome”.

Operating Results - Cash

As with many other technology companies, the key focus has been on cash outcomes. Our business performance now shows an ongoing trend of improvement, demonstrating that changes are structural and one-off costs to achieve these outcomes are behind us.

Operating Cash

We have now achieved four consecutive quarters of positive operating cashflow. During FY22, our average quarterly operating cash was negative (\$0.9m). The last two quarters of \$1.9m of positive operating cash reaffirm the achievement of this structural change.

Metric	Q3 FY23	Q2 FY23	Q1 FY23	Q4 FY22	Q3 FY22	Average Quarter FY22
Operating Cash (operating activities)	\$1.9m	\$1.9m	\$0.3m	\$1.4m	(\$2.9m)	(\$0.9m)

Free Cash flow³

In Q3 FY23, our free cash outflow was (\$0.8m), and as can be seen in the table below, the free cash flow outcome has consistently improved. This improvement in quarterly outcomes can be best demonstrated by comparing to the average quarterly FY22 free cash outcome of negative (\$3.4m).

The Q3 result is of \$4.8m improvement on a pcg basis (Q3 FY22).

Metric	Q3 FY23	Q2 FY23	Q1 FY23	Q4 FY22	Q3 FY22	Average Quarter FY22
Free cash outflow	(\$0.8m)	(\$1.2m)	(\$1.8m)	(\$1.6m)	(\$5.6m)	(\$3.4m)

³ Free cashflow includes operating, investing, and financing activities but excludes acquisitions, drawdown/repayment of debt, other funding transactions and one-off restructuring costs.



Financial

As previously reported, our Q3 FY22 EBITDA Margin was (6%), H1 FY23 was 13.4%, for this quarter (Q3 FY23) this has continued to improve with a 32.9% EBITDA Margin achieved. Actual EBITDA was \$2.5m.

Metric	Q3 FY23	Q2 FY23	Q1 FY23	Q4 FY22	Q3 FY22
EBITDA	33%	19%	8%	14%	(6%)

Driving the EBITDA improvement was a Gross Margin of 79%, which continues the improvement vs FY22. Gross profit generated was \$5.9m.

The financial results have been underpinned by new client and product profitability especially in the Americas, as well as via the achievement of our cost savings program, which is now running at \$8.5m on an annualised basis vs the original target of \$8m. We continue to implement new productivity and cost savings initiatives that are focused on the retirement of legacy systems, hosting associated costs, and software optimisation.

We maintain a close working relationships with our debt facility provider, Partners for Growth (PFG). The \$15m facility has an expiry date of 30 June 2024 and discussions have commenced to extend the facility beyond this term.

Client Activity

We have had significant activity in the Americas, and we are progressing well with Barrick Gold Phase 2 rollout covering 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. We are discussing with Barrick Phase 3 rollout, which includes expansion across their African and Middle East mine sites which we expect to finalise before the end of Q4 FY23.

Another North American Client Capstone Copper is operational, and we are looking to finalise implementation plans for our entry into Latin America (Mexico and Chile) during this quarter for the immediate rollout.

We have had continuing success in North America with an increasing number of clients and have continuing discussions with other large scale companies focussing on the mining and construction verticals.

In a revenue context, our North American business continues to grow with YTD software revenue now exceeding \$1.7. We expect this growth to continue, generating ongoing new implementations and recurring revenue from the pipeline of opportunities that exist.

We continue to expand our facilities management relationship (contractor management/permit to work solution) with CBRE; and now have Macquarie Bank, QBE, ANZ, and QBE as clients all in the progressive implementation stage. We are presently in the final stages of agreeing to a Global Master



Services Agreement with CBRE with their North American Head Office and once finalised, we will update the markets accordingly.

In Asia, we are implementing a 12 month trial with our Solo product for ~200 users, with PSA. PSA Singapore (Port of Singapore Authority) operates the world's largest container transshipment hub.

Notwithstanding overall macro-economic conditions, we have seen in March a material increase in user registration in the civil construction vertical, with March on a pcq basis up over 100%. This has been driven by the progressive implementation of larger long dated infrastructure projects, such as the North East Link in Victoria, and the Waterfront Project in Brisbane.

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

Metric	Q3 FY23	Q2 FY23	Q1 FY23	Q3 FY22
Net Client retention %	102%	103%	104%	108%
Client churn	2.7%	2.3%	2.6%	2.2%

(note: above client metrics exclude Newmont.)

Product

Damstra continues to develop its EPP platform, and we have launched a beta version of our new company portal which will be rollout in Q4 to all clients. Apart from fundamental improvement in the UX/UI experience for all users, the portal itself will enable internal Damstra efficiencies by increasing user self-serve ability. Once fully rolled out, we expect to see further cost reductions due to streamlined processes and increased cross sell opportunities to the larger Contractor focused modules, including Damstra Learn and Damstra Forms.

We are progressing the retirement of some legacy systems (EIFY and Scenario) and the movement of clients onto the EPP platform. While this will reduce support and R&D costs, the change will also enable some long term clients to access the full range of EPP modules, improving our ability to cross sell.



Outlook

The Company's guidance for FY23 provided on the 25th of August 2022 is below.

After finalisation of the Q3 results and completing the FY23 full year reforecast, we have revised our guidance.

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

Revised Guidance	
Revenue	\$29.5m - \$31m
EBITDA Margin	20% - 25%
Free Cash Flow	(\$4.2m) – (\$3.6m)
Q4 Free Cash flow	(\$0.4m) – \$0.2m

Revenue guidance has been reduced largely driven by expected client wins in Asia that have not eventuated as planned, and two specific clients in Australia that have not yet rolled out as expected. Only one of these opportunities is lost, the others are deferred. This revenue change has had a direct impact on free cash flow.

We have increased EBITDA margin guidance due to performance on a YTD basis now exceeding past guidance, this has been driven by the successful impact of cost savings and profitability profile of new clients wins, especially in North America.

Q4 guidance on a free cash flow basis has been provided due to the importance of this financial metric.

Payments to related parties of the entity and their associates

Included in section 6.1 of the Appendix 4C for the quarter ended 31 March 2023 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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DAMSTRA
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 March 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers (incl GST)	7,682	24,955
1.2 Payments (incl GST) for		
(a) research and development		
(b) product manufacturing and operating costs	(1,933)	(6,910)
(c) advertising and marketing	(34)	(163)
(d) leased assets		
(e) staff costs	(2,466)	(8,459)
(f) administration and corporate costs	(1,357)	(5,032)
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)	-	(358)
1.9 Net cash from / (used in) operating activities	1,892	4,033

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities		
(b) businesses	-	(3,500)



Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
	(c) property, plant and equipment	(309)	(1,029)
	(d) investments		
	(e) intellectual property	(1,726)	(5,250)
	(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	(2,035)	(9,779)

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
3.6	Repayment of borrowings	(268)	(389)
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 (9 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 	- (246) 43 (478)	- (768) 109 (1,260)
3.10	Net cash from / (used in) financing activities	(949)	2,692

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	8,133	10,095
4.2	Net cash from / (used in) operating activities (item 1.9 above)	1,892	4,033
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,035)	(9,779)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(949)	2,692
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	7,041	7,041

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	7,041	7,041
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)	7,041	7,041



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 March 2023

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

-
-
-
358

-
-
-
358

7.4 **Total financing facilities**

15,358

15,358

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)	1,892
8.2	Cash and cash equivalents at quarter end (Item 4.6)	7,041
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	7,041
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:

1. 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

2. 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

3. 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

Authorised by: The Board.....

Date: 28 April 2023.....

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.

