



ASX Announcement
19th October 2023

Damstra Technology
(ASX: DTC)

Q1 FY24 Quarterly Report and Appendix 4C

Damstra Holdings Limited (ASX:DTC) (**Damstra** or the **Company**) today reports its first quarter trading update for the quarter ending 30 September 2023 (**Q1 FY24**).

Cash Highlights

- Free cash flow¹ (\$0m), vs pcg negative (\$1.8m)
- Operating cash flow \$2.0m, vs pcg of \$0.3m
- 6th consecutive quarter of positive operating cash flow
- Operating cash flow margin of 26%, vs pcg of 4%

Q1 FY24 Financial Highlights

- Total revenue of \$7.8m, up 6% on pcg basis
- Quarterly recurring revenue up 12% on a pcg basis
- Gross Margin 79%, vs pcg of 76%
- EBITDA² of \$2.5m, up over 4x vs \$0.6m on pcg basis
- Total costs³ down \$1.2m (15%) on a pcg basis (88% of revenue vs pcg 109%)
- Improved client churn 1.9%, down 0.7 ppt vs 2.6% on pcg basis

The table below sets out Damstra's key financial metrics.

For the Quarter of	Q1 FY23	Q1 FY24	YoY %	YoY \$	Q4 FY23
Total operating revenue (\$m)	\$7.4	\$7.8	6%	\$0.4	\$7.4
Gross profit (\$m)	\$5.6	\$6.1	10%	\$0.5	\$5.8
Gross margin (%)	76%	79%	2.9pp	nm	79%
Pro forma EBITDA ² (\$m)	\$0.6	\$2.5	305%	\$1.9	\$2.7
Pro forma EBITDA margin (%)	8%	32%	23.8pp	nm	37%
Operating Cash Flow (\$m)	\$0.3	\$2.0	(86%)	\$1.7	\$3.0
Free Cash Flow ¹ (\$m)	(\$1.8)	(\$0.0)	nm	\$1.8	\$0.5
Total Costs ³ as % of Revenue (%)	109%	88%	(21.0pp)	nm	84%
Client Churn (%)	2.6%	1.9%	(0.7pp)	nm	1.8%

Commenting on the financial results for Q1 FY24, Chief Executive Officer, Christian Damstra, said:

"Our Q1 results demonstrate the sustainability of our business after the major transformational activity we undertook in FY23. The simplest way to view our results is that our total costs are down 15%, but our revenue is up 6%, and importantly the underlying recurring revenue is up 12%. We are proud that our business can grow on a fundamentally altered cost base".

"To further de-risk the business, we undertook another round of cost optimisation targeting \$3m of cost savings. These have been implemented as announced during August 2023⁴. This will underpin free cash generation and help us to reach our goal of total costs being 80% of revenue".

"Our recent client successes have resulted from clients moving to a broader EPP offering and new client wins. These recent successes are beginning to be reflected in our recurring revenue. When looking at the progress from the prior period during Q1 FY23, we implemented a number of these clients that are now generating recurring revenue and contributing to our growth. It should also be noted that at present, we have a large implementation pipeline, and we expect this to impact revenue during FY24 positively".

¹ Free cash flow is defined as cash flows from operating activities less cash flows used for investing and financing activities, excluding cash used for acquisitions, repayment of debt and non-recurring restructuring costs.

² Pro forma EBITDA refers to Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') adjusted for non-cash share-based payments, acquisition costs, other non-recurring restructuring costs and impairment expenses.

³ Total costs include cost of sales, operating expenses and capitalised research and development costs.

⁴ ASX Announcement dated 17th August 2023.



Client Highlights

The business is busy enabling our recent client wins by configuring clients who are upgrading to the EPP as well as implementing new client acquisitions. Currently, we have some 20+ client projects in various stages of progress.

These projects include clients in the mining segment, where we are seeing a continuing relentless demand to digitise and reduce compliance risk. Major mining projects include the Barrick Africa rollout and the implementation of ANZ mining clients such as Coronado, Foxleigh, Stanwell, Batch Fire and Newhope.

Additionally, we are expanding the number of services and/or EPP modules used by existing long standing clients, such as John Holland Group, where there are eight active projects, Laing O Rourke, CPB, and NBN, where we have implemented a new module upgrade.

With our Solo product, one of our large health clients is looking to extend the present contract and expand usage to their client base.

New client contract wins, which are now moving to implementation, include two new clients with the North East Link Project in Victoria, Sydney Water and Melbourne Water.

Another strategic client focus is to convert sub-contractors of our existing clients to become direct clients of Damstra. This initiative is where a company is using a Damstra module as a sub-contractor of an existing client but may not be using Damstra products in their broader businesses. Given the size and volume of these sub-contractor organisations, we see this new segment as a dormant potential new client base for Damstra. In Q1 FY24, three sub-contractors have become direct clients. These clients are generally in the range of \$20-\$50k p.a., so while not individually significant, the scale of this new segment has the potential to impact revenue over time materially. We have identified a core opportunity list of 100 sub-contractors we are pursuing.

While not a client-specific activity, Damstra has been invited and is now an active part of Oracle Innovation Lab in Chicago, in addition to Sydney, where we regularly demonstrate our products to Oracle clients.

Future pipeline

Client interest in our products and sales pipeline remains strong. The following in-flight opportunities have significantly progressed, with successful outcomes expected.

- Two Australian mining clients are in the final process of tender evaluation.
- New international mining client with operations in Queensland and New South Wales, where we have gone through a competitive tender process resulting in the scope increasing from their mining operations only to all their business divisions.
- Major Australian construction company. The tender process is now complete, and we have been advised we are the successful tender. We already have operating locations with this client in one of their divisions and are targeting companywide implementation in 2nd half of FY24.
- Global Facilities Management company who are moving to execute a Global SaaS agreement. These contract discussions are continuing as the scope is confirmed and the size of the opportunity is finalised.
- Major Australia utility. An opportunity to expand on our existing minor commercial arrangement and move to a companywide MSA.
- Finalising the LATAM rollout with existing clients, which will be a new market region for the business.

As the above developments progress and once contracts are executed, we will advise the market accordingly.



Financial Highlights

Revenue

Revenue was \$7.8m, up 6% on Q1 FY23. Recurring revenue for the quarter was up 12% on pcpc as Q1 FY23 included a higher proportion of non-recurring hardware and implementation revenue, demonstrating that sustainable revenue growth has returned to the business.

Client churn has now stabilised with Q1 FY24 churn at 1.9%, an improvement of 0.7 percentage points (pp) compared to Q1 FY23 of 2.6%.

Cash

Damstra continues its rebound in free cash flow generation. Free cash flow for the quarter was break-even (\$0m), a \$1.8m improvement on a pcpc basis.

Free cash flow margin (free cash flow divided by operating revenue) was 0% for Q1 FY24, improved by 25 pp on Q1 FY23, which was negative (25%). If interest costs were excluded, our free cash margin would be 6%.

Operating cash flow for Q1 FY24 was \$2m (which included \$0.5m one-off charge for cost savings implementation), a \$1.7m improvement on Q1 FY23, where operating cashflow was \$0.3m. We have now achieved 6 consecutive quarters of positive operating cash flow. From an operating cash flow margin perspective – a common SaaS metric – we achieved a margin of 26%, vs pcpc of 4%.

Profitability

The Company is now generating sustained and improving profitability, with EBITDA of \$2.5m, \$1.9m higher than \$0.6m in Q1 FY23. EBITDA margin was 32%, up 24 pp on Q1 FY23. The strong increase in EBITDA reflects the operating leverage within the business of increasing revenues and decreasing costs.

Gross Profit increased by 10% to \$6.1m, with Gross Margin improving by 3 pp YoY to 79% (Q1 FY23: 76%). This turnaround was achieved through the cost optimisation program, which reduced costs of goods (COGs), changes in revenue mix, and the impact of price increases.

Costs

During FY23, our cost reduction program delivered ~\$9m of annualised savings, and in FY24, we implemented further cost optimisations. The additional \$3m cost savings target has now been implemented. One-off cash costs associated with realising these savings amounted to ~\$0.5m in August 2023. The run rate impact of these \$3m cost savings will be fully reflected in Q2 FY24 results onwards.

From a total cost perspective, Q1 FY24 is down 15% on a pcpc basis. Strategically, this underpins sustainable free cash flow generation and demonstrates the impact of the cost initiatives the business has undertaken in the last 18 months.

Total costs as % of revenue for Q1 FY24 was 88%. Compared to a Q1 FY23 of 109%, which is 21 pp improvement. For context, the FY23 profile was 98% of revenue. The 88% cost-to-revenue metric in Q1 FY24 demonstrates that our aspirational goal of 80% is obtainable.

R&D costs continue to reduce as a percentage of revenue and will be fully disclosed in our HY results. This has been driven by increases in revenue with no additional R&D staff required due to past investments in R&D and the retirement of legacy systems.

Payments to related parties of the entity and their associates

Included in section 6.1 of the Appendix 4C for the quarter ended 30 September 2023, payments of \$226,000 were made to related parties of Damstra. These amounts relate to Directors' fees, salaries, and allowances paid to Directors and their associates.



Reminder of AGM Details

Time: 10:00 am (AEDT)

Date: Wednesday, 25th October 2023.

Place: Online via Automic's Investor Portal

Shareholders who wish to participate in and vote at the Meeting online can access the Meeting as follows:

1. Open your internet browser and go to investor.automic.com.au
2. Login with your username and password or click "**register**" if you haven't already created an account. **Shareholders are encouraged to create an account prior to the start of the meeting to ensure there is no delay in attending the virtual meeting.**
3. After logging in, a banner will display at the bottom of your screen to indicate that the meeting is open for registration, click on "**Register**" when this appears. Alternatively, click on "**Meetings**" on the left-hand menu bar to access registration.
4. Click on "**Register**" and follow the steps.
5. Click on the URL to join the webcast where you can view and listen to the virtual meeting.
6. Once the Chair of the Meeting has declared the poll open for voting click on "**Refresh**" to be taken to the voting screen.
7. Select your voting direction and click "**confirm**" to submit your vote. **Note that you cannot amend your vote after it has been submitted.**

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.



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")

30 September 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers (incl GST)	8,965	8,965
1.2 Payments (incl GST) for		
(a) research and development		
(b) product manufacturing and operating costs	(2,240)	(2,240)
(c) advertising and marketing	(17)	(17)
(d) leased assets		
(e) staff costs	(2,508)	(2,508)
(f) administration and corporate costs	(2,175)	(2,175)
1.3 Dividends received (see note 3)		
1.4 Interest received	37	37
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Government grants and tax incentives	253	253
1.8 Other (Restructuring costs – staff redundancies & leave payments)	(288)	(288)
1.9 Net cash from / (used in) operating activities	2,027	2,027

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(281)	(281)
(d) investments		
(e) intellectual property	(1,619)	(1,619)
(f) other non-current assets		



Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment		
	(d) investments		
	(e) intellectual property		
	(f) 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	(1,900)	(1,900)

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		
3.6	Repayment of borrowings	(45)	(45)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
	• Leased assets – equipment	-	-
	• Leased assets – offices	(235)	(235)
	• Interest received	-	-
	• Interest and other costs of finance paid	(452)	(452)
3.10	Net cash from / (used in) financing activities	(732)	(732)



Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	7,446	7,446
4.2	Net cash from / (used in) operating activities (item 1.9 above)	2,027	2,027
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,900)	(1,900)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(732)	(732)
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	6,841	6,841

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	6,841	6,841
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)	6,841	6,841

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

\$226

6.1 above is comprised of director fees and expenses paid to 6 directors for the period 1 July 2023 – 30 September 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.

7.1 Loan facilities

7.2 Credit standby arrangements

7.3 Other (please specify)

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

7.4 Total financing facilities

Total facility amounts at quarter end \$A'000	Amount drawn at quarter end \$A'000
15,000	15,000
-	-
-	-
-	-
398	398
15,398	15,398

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)	2,027
8.2 Cash and cash equivalents at quarter end (Item 4.6)	6,841
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	6,841
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?

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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.

Authorised by: By the Board

Date: 19 October 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.