

31 January 2024

Appendix 4C Release – Quarter to 31 December 2023

Sovereign Cloud Holdings Limited (“**SOV**” the “**Company**”), trading as “**AUCloud**”, is pleased to provide its activity update for the quarter ended 31 December 2023 (“**Q2 FY24**”).

Key Financial Metrics – Q2 FY24

- AUCloud's enhanced sales and marketing capabilities generated \$2.9m in contracts signed in Q2 FY24. Non-Government accounts accounted for the majority of new customer contracts as we focus on growth from the enterprise market. AUCloud also signed a large Government Agency onto our Sovereign Cloud solution with onboarding of that customer expected to be completed in February 2024.
- In Q2 FY24 total revenue decreased compared to Q1 principally due to the agreement with Arqit transferring from fixed licence fees to a consumption model as communicated in the previous 4Cs. The associated costs for Arqit similarly moved to be variable, delivering a reduction commensurable to the reduced revenue.
- Wages and operating costs remain stable, with negative operating cash flow of \$2.7m, the lowest in over 2 years. We completed a major customer upgrade for VMware NSX for vSphere to NSX-T; improving the security posture for all customers.
- The company launched new cyber security solutions and we continue to explore how we can most effectively grow through building, partnering or acquiring capabilities in the cyber security sector.

	Q2FY24	Q1FY24	Change		Q2FY23	Change	
	(A\$m)	(A\$m)	(A\$m)	%		(A\$m)	%
Total Revenue (TR)	1.5	2.5	(1.0)	(40%)	1.4	0.10	7%
Annual Recurring Revenue (ARR)	6.0	6.5	(0.5)	(7.7%)	4.3	1.70	40%
Net ARR Contracts Signed	2.9	3.1	(0.2)	(6.4%)	1.1	1.80	163%
Salary & Wages	2.9	2.9	-	-	3.2	(0.3)	(9%)
Operating Expenses	0.74	0.69	(0.05)	(7.2%)	0.82	(0.08)	(10%)
Net Operating Cash Outflow	(2.6)	(3.5)	0.90	26%	(7.5)	4.90	65%



Quarterly Cash Flow

The Company incurred negative operating cash flow of \$2.7 million before financing activities, compared to \$3.5 million Q1 FY24. There was zero CAPEX in Q2 FY24, and with the repayment of debt, the Company is now debt free.

Included in item 6.1 of the Appendix 4C are payments to related parties and their associates of \$269,000 for director fees, excluding reimbursements of out-of-pocket expenses.

Strategic Review

AUCloud had \$4.7 million in cash reserves as at 31 December 2023.

Based on AUCloud's most recent quarterly cash outflow of \$2.7m, the Company has 1.7 quarters of funding available at the current burn rate.

The Board is conscious that AUCloud's current cash reserves are likely to prove inadequate given the cash burn rates that are expected to prevail in the short term.

The Board has recently appointed Ord Minnett to conduct a strategic review of AUCloud. The priority of the strategic review is to explore the optimal recapitalisation of AUCloud to fund future growth.

Whilst the Board has identified growth opportunities in both cyber security and cloud solutions, it can provide no assurances as to potential success of the recapitalisation.

The Company will keep the market informed of material developments consistent with its ASX disclosure obligations.

ASX Announcement (SOV)



Peter Maloney

Managing Director

31 January 2024

END

This ASX announcement was authorised for release by AUCloud's Board of Directors.

Appendix 4C

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

Name of entity

Sovereign Cloud Holdings Limited

ABN

80 622 728 189

Quarter ended ("current quarter")

December 2023

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	1,814	4,473
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(691)	(3,039)
(c) advertising and marketing	(114)	(390)
(d) leased assets	-	-
(e) staff costs	(2,882)	(5,913)
(f) administration and corporate costs	(862)	(1,429)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	60	128
1.5 Interest and other costs of finance paid	(2)	(5)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (IPO costs expensed)	-	-
1.9 Net cash from / (used in) operating activities	(2,677)	(6,175)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) * \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
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 (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	500
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	-	(216)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(115)	(353)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-

For personal use only

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) * \$A'000
3.9	Other (ROU Repayments)	(365)	(730)
3.10	Net cash from / (used in) financing activities	(480)	(799)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	7,823	11,640
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,677)	(6,175)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(480)	(799)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	4,666	4,666

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	4,603	7,760
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Bank Guarantee)	63	63
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	4,666	7,823

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	269
6.2	Aggregate amount of payments to related parties and their associates included in item 2	0
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

7.	Financing facilities <i>Note: the term “facility” includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A’000	Amount drawn at quarter end \$A’000
7.1	Loan facilities	-	-
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	Total financing facilities	-	-
7.5	Unused financing facilities available at quarter end		0
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.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(2,677)
8.2	Cash and cash equivalents at quarter end (item 4.6)	4,666
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	4,666
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.74
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>		

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

8.6.1 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:

The Board is conscious that AUCloud's current cash reserves are inadequate given the ongoing rate of cash burn that is expected to prevail in the short term. The Company has decreased the negative operating cash flow consistently for the past 6 quarters, and we expect that trend to continue as we focus on growing revenue and ensuring the cost base is aligned to the current strategy.

8.6.2 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:

The Company has engaged Ord Minnett to undertake a strategic review of the business, with a focus on the optimal recapitalisation of AUCloud.

The Strategic Review commenced in December 2023, however there can be no assurances as to the potential success of the recapitalisation.

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

Answer:

Yes, dependent on the results of the ongoing recapitalisation.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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.

Date: 31 January 2024

Authorised by: The Board of Directors

(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.

Further information, please contact:

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About AUCloud

AUCloud is an Australian owned and operated Cyber Security Managed Security Service Provider (MSSP) and Sovereign Cloud Service (IaaS) specialist that supports Australian Governments, Critical National Industries (CNIs) with the latest sovereign cloud infrastructure, backup and cyber security threat defence and response services. AUCloud solutions enable customers to benefit from sovereign data protection with the scale, automation, elasticity and lower costs typically associated with global cloud offerings.

AUCloud's Sovereign Cloud Service (IaaS) and Cyber Security Solutions are underpinned by a range of security certifications, including "Certified Strategic" on Digital Transformation Agency's Hosting Certification Framework (HCF), assessed to the PROTECTED controls of the Australian Signals Directorate's (ASD) Information Security Manual (ISM) through to the Australian Cyber Security Centre's Cloud Assessment and Authorisation Framework (CAAF), inclusive of the Information Security Registered Assessors Program (IRAP) certification and ISO 27001. This provides AUCloud's customers with confidence that their data is secure and that services are delivered to the highest standards.