

archTIS June 2023 Quarterly Report

Strong Q4 Results Delivers on Annual Outlook Objectives

archTIS Limited (ASX:AR9, OTCQB:ARHLF, archTIS or the **Company**), a global provider of data-centric software solutions for the secure collaboration of sensitive information, is pleased to provide an update on its Quarterly Activities Report and Appendix 4C Cash Flow Report for the quarter ended 30 June 2023 (**Reporting Period** or **Quarter**).

Q4 FY23 Highlights*

Achieved adjusted annual outlook targets 37% revenue growth \$9.5M cash receipts 51% reduction in cash outflows	Increased Licensing Revenue of \$0.8M Up 14% PCP	\$4.1M 6 month POC Provides a strong start to FY24 with additional purchasing capability
Expanding ARR of \$3.6M Up 11% PCP	Strong Customer Cash Receipts of \$2.1M	Product Innovation Integration into Microsoft PowerBI & Janusseau Documents

* Prior Comparative Period (PCP) / Prior Quarter (PQ)

FY23 Achievement of Market Guidance

The Company will provide a full-year update upon the completion of the annual audit in late August. The Company is pleased to provide the interim (unaudited) report that the following market guidance metrics have been achieved for FY23:

1. **Revenue growth of 30% - 40% from the prior year:** Actual revenue growth achieved for the year was \$6.4M a 37% increase from the PCP.
2. **Reduced cash burn by 50% from the prior year:** Achieved average cash outflow across the 4 quarters of \$5.2M compared to \$10.6M the prior year, a decrease of 51%.
3. **A minimum of \$9.5M cash receipts for the year:** Cash receipts were \$9.5M for the year with \$3.7M of accounts receivable received subsequent to the close of the quarter.

Daniel Lai, Managing Director and CEO of archTIS, stated, “archTIS Q4 results demonstrated momentum in delivering on our strategy to be the preferred provider of policy enforced Data-Centric Security (DCS) products to Defence and Defence industry. The pleasing aspect of the quarter has been that our Defence services engagements has created new opportunities for expanding the usage of our data-centric security products, as demonstrated by the recent \$4.06M Defence proof of concept deal. This contract provides a foundation for improving annual recurring revenue, cross-sell opportunity and gross margins in FY24. Additionally, the overseas NC Encrypt wins solve encryption and data sovereignty issues for both DHL and the Bank of Finland which demonstrates the appeal of our products in multiple vertical markets and validates our product acquisition investments. Most importantly, it has allowed archTIS to deliver on our stated FY23 market guidance and reduce our cash burn as we drive to become cash flow positive. Solid performance by the entire team sets archTIS up for growth in FY24.”

Quarterly Financial Summary (unaudited)

The table below shows some of the financial highlights for the quarter:

	FY23	FY22
(A\$'000)	Q4	Q4
Licencing Revenue	790	691
Services Revenue	1,136	667
Equipment Revenue	321	-
Total Revenue	2,247	1,358
% Increase on prior comparative period	65%	
Annual Recurring Revenue	3,622	3,257
% Increase on prior comparative period	11%	
Gross Margin	44%	64%
OPEX (after capitalising development costs)	1,385	2,939

During Q4, total revenue was \$2.2M, an increase of 65% from the prior comparative period (PCP) and up 26% from the prior quarter (PQ). The revenue was split across licencing of \$0.8M and services of \$1.1M. The Australian Department of Defence continues to invest in the expansion and enhancement of Kojensi and NC Protect as well as a number of international customer wins which resulted in \$3.6M ARR, an increase of 11% from the PCP with net customer churn under 1% per quarter.

Gross margins increased by \$0.1M from PCP. Gross margin percentage decreased to 44% from 64% PCP. The lower gross margin percentage was associated with increased services, increased third-party service resources and hardware procurements to deliver the various Australian Department of Defence contracts. The services are opening up opportunity to drive future licensing sales. Licensing margins remain strong at approximately 85%.

Operating costs for the quarter were \$1.4M. The significant decrease in costs reflects a reduction of 53% from \$2.9M PCP and 17% from \$1.7M in the prior quarter. The drop in operating expenses reflects the Company's cost reduction initiatives announced in November 2022 (refer ASX announcement dated 17 November 2022) and management's commitment to becoming cash flow positive.

The Company ended the quarter with \$3.2M of available cash. Cash receipts from customers for the quarter totalled \$2.1M. Annual receipts from customers was \$7.6M a 204% improvement from \$2.5M the prior year. The Company closed the year with \$4.3M in trade and other receivables, thus improving the Company's future cash position. Subsequent to the close of the quarter, the Company collected approximately \$3.7M of open receivables.

The Company's net operating cash outflows for the quarter was \$1.56M, mainly comprised of product manufacturing and operating costs (\$1.2M), advertising and marketing costs (\$0.2M), staff costs (\$2.1M), administration and corporate costs (\$0.2M) and receipts from customers (\$2.1M). The net operating cash outflow was due to significant payments being received in the July timeframe and a higher cost of goods sold associated with services projects. For the full year, the Company decreased its net cash used from operations by 51% from \$10.5M to \$5.2M. Further cost action reductions continue to be undertaken to drive the company forward to becoming cash flow positive in FY24.

The payments included in section 6.1 of the attached Appendix 4C relate to Director's fees and wages of \$0.1M.

Continued Customer Wins and Expansions

New and expanded contracts and product renewals across all geographical regions and vertical sectors in the quarter confirm the Company strategy of being the preferred platform for sharing information across Government, Defence and defence Industry, being the premium provider of policy enforced access management products to the global defence market and being the global thought leader in data-centric security (DCS) architecture. A sampling of customer wins in the quarter include:

- Australian Department of Defence for \$4.06M, for software licences and services to conduct a proof of concept (PoC) to modernise their workplace environment. archTIS will deploy NC Protect, Microsoft and third-party software products to evaluate their productivity, compliance and security gains for the Defence office environment and its users. Defence is an existing NC Protect client.

- Babcock Australia Pty Ltd (\$241,200) to license Kojensi. Kojensi is a government-accredited software as a service (SaaS) platform that is designed to share and collaborate on sensitive and classified information between Government agencies, industry and industry supply chain.
- An Australian university (\$270,000) to extend NC Protect's data-centric access controls from unstructured data (Microsoft documents) in SharePoint to structured data (data held in databases) managed by Power BI.
- A US defence firm that develops spacecraft and situational awareness software to protect space assets selected NC Protect for Microsoft's GCC High Cloud environment to meet US DoD compliance requirements for CMMC and CUI.
- The Bank of Finland (\$235,291) and DHL (\$353,332) upgraded their cp.Protect licenses to NC Protect and NC Encrypt for independent encryption key management for their Microsoft 365 applications and SharePoint on-premises environments to maintain digital sovereignty and add data-centric protection to combat insider threats.
- Skool4Kidz, an existing referenced account, purchased an additional 190 NC Protect for Microsoft 365 licenses through the company's ASEAN distributor i-Sprint Innovations.

Product and Partner Update

The Company is working toward an international launch of Kojensi in mid-September.

archTIS continues to engage in several Proof of Concepts (POC) in multiple geographies with key alliance partners including Microsoft and Thales, validating NC Encrypt for encryption and key management to solve data sovereignty requirements across M365 environments.

The Company partnered with Australian-based classification provider Janusnet to offer a product integration between NC Protect and Janusnet Documents, a pure-play classification product. Customers can now easily combine Janusnet's robust data classification capabilities with NC Protect's dynamic access and protection policies to protect sensitive government and defence data and meet compliance requirements. Janusnet's products are used by the governments of Australia, New Zealand, the United States, and the United Kingdom.

archTIS' product innovation continues to be recognised by the industry earning a finalist nomination in the Australian Cyber Security Awards for Data/Server Security Company of the Year. The Company was invited to present at the Australian Sovereign Cyber Capability Unlocked Breakfast on 22 Jun 2023 in Canberra to demonstrate the company's cyber capabilities to global supply chain organisations and defence prime contractors.

Kurt Mueffelmann, Global COO and US President of archTIS, stated, "As we set our sights on FY24, archTIS looks back at a solid year of revenue growth, improved cash flow and customer successes that well positions us for the coming year. While the market is beginning to reward our revenue growth and operating improvements, we thank our employees, customers and shareholders for their continued support."

Investor Updates

archTIS will host a quarterly results webinar on 27 July at 11:00am EST (Sydney/Melbourne), 9:00am WST (Perth), 26 July 2023 at 9pm EDT (New York) to update the market on the quarterly results.

Register at: https://us02web.zoom.us/webinar/register/WN_3N35ZLBUQWu91uLuc00UCw

Authorised for issue by order of the Board of Directors.

ENDS

For further enquiries please contact:

Company enquiries

Daniel Lai
CEO and Managing Director, archTIS
E: investors@archtis.com

Irena Mroz
CMO, archTIS
E: irena.mroz@archtis.com

Media enquiries

AUS Media & Capital Partners
E: archtis@mcpartners.com.au

US Capital Markets
E: beverly.jedynak@viriathus.com

archTIS Interactive Investor Hub

<https://investors.archtis.com/>

The archTIS Investor Hub is an online portal for investors to read and interact with our announcements and updates. Investors can ask questions and add comments, which our team will respond to where possible.

About archTIS Limited

archTIS Limited (ASX:AR9, OTCQB:ARHLF) is a global provider of innovative software solutions for the secure collaboration of sensitive information. The company's award-winning data-centric information security solutions protect the world's most sensitive content in government, defence, supply chain, enterprises and regulated industries through attribute-based access and control (ABAC) policies. archTIS products include Kojensi, a multi-government certified platform for the secure access, sharing and collaboration of sensitive and classified information; and NC Protect and the cp. suite of products for enhanced information protection for file access and sharing, messaging and emailing of sensitive and classified content across Microsoft 365 apps, Dropbox, Nutanix Files and Windows file shares. For more information visit archtis.com or follow @arch_tis.

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Appendix 4C

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

Name of entity

archTIS Limited

ABN

79 1230 986 71

Quarter ended ("current quarter")

30 June 2023

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities			
1.1 Receipts from customers		2,089	7,649
1.2 Payments for			
(a) research and development		-	-
(b) product manufacturing and operating costs		(1,196)	(2,800)
(c) advertising and marketing		(143)	(697)
(d) leased assets		(67)	(263)
(e) staff costs		(2,092)	(9,248)
(f) administration and corporate costs		(214)	(1,741)
1.3 Dividends received (see note 3)		-	-
1.4 Interest received		32	48
1.5 Interest and other costs of finance paid		(2)	(8)
1.6 Income taxes paid		-	(17)
1.7 Government grants and tax incentives		36	1,858
1.8 Other (GST)		-	-
1.9 Net cash from / (used in) operating activities		(1,557)	(5,219)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	(95)	(112)
	(b) businesses	-	-
	(c) property, plant and equipment	72	72
	(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	Payments to settle liabilities on settlement including transaction costs	-	-
2.6	Net cash from / (used in) investing activities	(23)	(40)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	16	2,243
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	11	(249)
3.5	Proceeds from borrowings	-	1
3.6	Repayment of borrowings	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	27	1,995

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,801	6,521
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,557)	(5,219)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(23)	(40)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	27	1,995
4.5	Effect of movement in exchange rates on cash held	(3)	(12)
4.6	Cash and cash equivalents at end of period	3,245	3,245

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	3,245	4,801
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)	3,245	4,801

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
117
-

Note: Amounts included at item 6.1 relate to payments to directors of the Board.

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)
- 7.4 **Total financing facilities**

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
1,500	1
50	9
-	-
1,550	10

7.5 Unused financing facilities available at quarter end

1,540

- 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.

Unsecured corporate credit card facility of \$50,000 (annual interest rate 20.24%) with Westpac Banking Corporation.

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	(1,557)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	3,245
8.3	Unused finance facilities available at quarter end (Item 7.5)	1,540
8.4	Total available funding (Item 8.2 + Item 8.3)	4,785
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	3.07

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:

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:

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:

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: 27 July 2023

Authorised by: 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.