

archTIS December 2023 Quarterly Report

Strong Q2 and Record 1h24 Results Position Company for Continued Revenue Growth while becoming Cash Flow Positive

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 31 December 2023 (**Reporting Period** or **Prior Quarter [PQ]**).

Highlights

- Quarterly revenue up 144% from the prior comparative period (PCP), with licensing revenue up 40% and services revenue across key strategic accounts up 507%.
- Gross margin percentage decreased to 44% from 57% PCP; however, the gross margin dollar value improved by 89% relative to the PCP.
- Net operating cash inflows were \$0.7M, an improvement of 384% versus PQ and 165% versus PCP, enabling the Company to end the quarter with \$3.7M of available cash
- Operating expenses decreased by 40% PCP to \$1.2M.
- Continued customer wins across BAE Systems Australia Ltd (BAESA), Australian Naval Infrastructure Pty Ltd (ANI) and KPMG with key strategic wins across global Defence and Defence industry entities.

Daniel Lai, Managing Director and CEO of archTIS, stated, “During the December quarter, archTIS continued to improve financial metrics across revenue and annual recurring revenue (ARR) while reducing overall expenditures. The results place us in a strong position to meet our commitment to becoming cash flow positive for FY24. Our recent wins with BAESA and ANI demonstrate continued execution on our goal of becoming the preferred provider of policy-enforced Data Centric Security products and platforms to Defence and the Defence Industry.”

Quarterly Financial Summary (unaudited)

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

	FY24	FY23
(A\$'000)	Q2	Q2
Licencing Revenue	1,174	838
Services Revenue	1,457	240
Equipment Revenue	4	-
Total Revenue	2,635	1,078
% Increase on the prior comparative period	144%	
Annual Recurring Revenue (ARR)	3,587	3,477
% Increase on the prior comparative period	3%	
Gross Margin	44%	57%
Underlying Operating Expenses (after capitalising development costs)	1,222	2,027*

* Q2 FY23 operating expenses were \$1,281,638 after a year-to-date adjustment in relation to the estimated FY23 R&D tax benefit and an adjustment to expense accruals following the business restructuring.

During Q2, total revenue was \$2.6M, an increase of 144% from the PCP. The revenue was split across licencing of \$1.2M, which grew 40% and services in key strategic accounts of \$1.5M, which expanded by 507% PCP. ARR was \$3.6M, a 6% increase from the PQ and 3% from the PCP.

The gross margin percentage decreased to 44% from 57% PCP, slightly lower than the PQ; however, the gross margin dollar value was up 89% from PCP. The lower gross margin percentage was associated with increased services, including those of third-party resources to deliver to our key accounts various Australian Department of Defence contracts. These strategic services continue to drive more mature pipeline opportunities for future licensing sales at increased margins.

Operating costs for the quarter were \$1.2M. The significant decrease in costs reflects a reduction of 40% from \$2.0M PCP. The drop in operating expenses reflects the Company's continued cost reduction initiatives and management's commitment to becoming cash flow positive during the current financial year.

The Company ended the quarter with \$3.7M of available cash in the bank. The Company's net operating cash inflows for the quarter were \$0.7M, an improvement of 384% versus PQ and 165% versus PCP. Cash components were mainly comprised of customer receipts of \$3.1M, R&D tax incentive and grant receipts from the ATO and Austrade respectively of \$2.2M (refer to

ASX announcement dated 13 December 2023), staff costs of \$2.4M, administration and corporate costs of \$1.5M, product manufacturing and operating costs of \$0.6M, and advertising and marketing costs of \$0.1M. The payments included in section 6.1 of the attached Appendix 4C relate to Directors' fees and wages of \$0.1M.

During the first half of FY24 compared to the first half of FY23, the Company continued to experience record financial metrics across the board, including revenue growth of 142%, underlying operating expenses decreasing 40%, EBITDA improving 90% and receipts from customers up 89%.

Continued Customer Wins and Expansions

During the quarter, archTIS continued strong customer adoption across key vertical markets and geographies. A sampling of customer wins during the quarter include:

- BAESA, the largest defence prime to the Australian Department of Defence, signed a total contract value of \$528,000 (including GST) for archTIS to build a new technology product demonstrator for secure collaboration and data integration capability. archTIS was engaged to securely collaborate across multiple data sets within key stakeholders, suppliers and customers on a need-to-know basis. Successfully delivering this capability during the quarter has opened expanded channel opportunities across to the supply chain and Australian Defence.
- ANI signed a total contract value of \$342,540 (including GST), of which \$112,200 is ARR to license Kojensi SaaS. ANI now solves key collaboration challenge across the supply chain for navy ship building facilities;
- During the first half of the financial year, archTIS delivered \$889,000 (including GST) of services to KPMG as part of the Defence 1DD program. As the program moves to its next phase, focus will shift to identifying and implementing advanced access control management capabilities. This will lead to the increased positioning of archTIS' products;
- A global defence firm that manages and operates extensive testing and evaluation capabilities for air, land, sea and target systems selected Kojensi SaaS for collaboration associated with AUKUS;
- Two European reseller partners chose NC Protect and NC Encrypt for independent encryption key management for their Microsoft 365 applications and SharePoint on-premises customer environments to maintain digital sovereignty and add data-centric protection to combat insider threats;
- An Austrian global supplier of communication and information systems selected Kojensi SaaS to share official sensitive information with other defence industrials across Australia;
- A US-based global leader in insurance, risk management and consulting services upgraded to NC Protect from cp.Protect to ensure policy-based dynamic access and encryption across trading entities, and;
- SAP and a Korean defence firm procured additional Kojensi SaaS licenses to securely collaborate across their supply chains.

Corporate Update

archTIS extended its capital funding programs through the non-dilutive receipt of an R&D tax incentive payment of \$2.1M from the ATO and the increased extension of a market rate lending facility with the Commonwealth Bank of Australia (CBA) for \$2.0M (refer to ASX announcement dated 13 December 2023).

Kurt A. Mueffelmann, Global COO / US President of archTIS, stated, “archTIS is well poised for a strong second half of the year as we drive toward becoming cash flow positive. Our continued technology and product innovations for policy-enforced access management and data-centric security have expanded our opportunities within the global defence industry. We have a line of sight into continued revenue growth through a strong sales pipeline while driving capital efficiencies through ongoing expense management.”

Investor Updates

archTIS will host a quarterly results webinar on Tuesday, 30 January 2024, at 11:00am AEDT (Sydney/Melbourne), 8:00am AWST (Perth), and 29 January 2024 at 7:00pm EDT (New York) to update the market on the quarterly results.

Register at:

https://us02web.zoom.us/webinar/register/WN__0wvd_BhSEa4ojeEoYZjeQ

Authorised for issue by order of the Board of Directors.

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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 for enhanced information protection for file access and sharing, messaging and emailing of sensitive and classified content across Microsoft 365 apps, SharePoint on-premises, NetApp ONTAP, Nutanix Files and Windows file shares. For more information, visit archtis.com or follow [@arch tis](https://twitter.com/archtis) on Twitter.

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")

31 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	3,084	7,908
1.2	Payments for		
	(a) research and development	2,180	2,154
	(b) product manufacturing and operating costs	(562)	(2,852)
	(c) advertising and marketing	(77)	(132)
	(d) leased assets	(55)	(112)
	(e) staff costs	(2,366)	(4,339)
	(f) administration and corporate costs	(1,515)	(2,206)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	32	57
1.5	Interest and other costs of finance paid	(2)	(4)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	(26)	(26)
1.8	Other (GST)	-	-
1.9	Net cash from / (used in) operating activities	693	448
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(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	Payments to settle liabilities on settlement including transaction costs	-	-
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)	-	-
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	-	-
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 (6 months) \$A'000
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,000	3,245
4.2	Net cash from / (used in) operating activities (item 1.9 above)	693	448
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)	-	-
4.5	Effect of movement in exchange rates on cash held	2	2
4.6	Cash and cash equivalents at end of period	3,695	3,695

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	3,695	3,000
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)	3,695	3,000

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
133
-

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
2,000	1
100	24
-	-
2,100	25

7.5 Unused financing facilities available at quarter end

2,075

- 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 facilities at market interest rates of \$50,000 with Westpac Banking Corporation and \$50,000 with Commonwealth Bank of Australia.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	693
8.2 Cash and cash equivalents at quarter end (Item 4.6)	3,695
8.3 Unused finance facilities available at quarter end (Item 7.5)	2,075
8.4 Total available funding (Item 8.2 + Item 8.3)	5,770
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	8.32

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: 30 January 2024

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 – e.g., 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.