

ASX RELEASE

28 October 2021

## Q1 FY2022 Trading Update & Outlook

- Divestment of Services Division completed, delivering a cash return of \$41.9m
- Group Revenue of \$15.0m for the 3 months to 30 September 2021, down 7.7% on FY2021 quarterly average<sup>1</sup>
- Group Gross Margin of 38% compared to 49% for FY2021, reflecting lower IMOD licence fees and lower margins from Services Division
- Group EBITDA of \$2.0m reflecting lower sales and gross margins
- FFT Q1 FY2022 sales revenue excluding IMOD was up 23% on FY2021 quarterly average
- IMOD and BQT as well as converting FFT orders into sales all impacted by COVID-19 factors, including delivery delays, travel restrictions, NSW lockdowns and delayed decision making
- Technology Division backlog of \$6.5m, up 51% on Q4 FY2021
- Strong financial position with consolidated net cash of \$21m cash and no debt
- **1H FY2022 Guidance<sup>2</sup>:** Group Revenue of \$20.2m to \$21.2m and Group EBITDA of \$2.2m to \$2.5m

**NB: All figures compare 3 months to 30 September unless otherwise indicated; unaudited financial information (A\$m)**

Ava Risk Group Limited (ASX: AVA) (“Ava Group” or “the Company”) today provides a trading update for the three months to 30 September 2021 and 1H FY2022 guidance. Ava Group is a global leader in risk management services and technologies through its Future Fibre Technologies (FFT) and BQT Solutions (BQT) divisions and its recently divested international secure logistics services via Ava Global.

Ava Group CEO Rob Broomfield said: “With the easing of COVID-19 restrictions in certain geographies, Ava Group’s Technology Division, specifically FFT, saw a strong rebound in order intake and general sales activities across the fourth quarter of FY2021 and the first quarter of FY2022. BQT has seen reduced orders and revenue based on the NSW lockdowns during the same period. Combined with consistent performance of the Services Division, this has enabled us to deliver solid financial results for the three months to 30 September 2021.

“Notwithstanding the record order intake during the period, the Technology Division was still impacted in certain geographies by ongoing international travel restrictions, resulting in delays to a number of major security-related contracts, along with certain Aura-IQ orders. Delays in international freight also impacted recognised revenue for some orders already received. With an exceptional backlog of orders and a strong pipeline of growth opportunities, we are well positioned to benefit from pent-up demand for our products and services as vaccination programs are

<sup>1</sup> Quarterly average of FY2021 used to normalise the impacts from large contracts, foreign exchange and COVID-19 related delays

<sup>2</sup> 1H FY2022 guidance assumes no change to the exchange rate at 30 September 2021 with A\$1 equal to US\$0.74. 1H FY2022 guidance only includes an estimated contribution from the Services Division until 18 October 2021, reflecting the divestment date.

rolled out and travel returns.

“Our Technology Division continues to execute its growth strategy and has now validated market adoption of after-market annual maintenance contracts, which are one of our three pillars of recurring revenue growth. This validation is delivering a substantial increase in our addressable recurring revenue streams and positions us as an industry leader, offering our customers hardened cyber assurance solutions along with machine learning software upgrades.

“Building on the significant milestones achieved in FY2021, we are excited about the opportunities to provide our customers with the most advanced and affordable security and risk management solutions.”

### Group Financial Summary

For the three months to 30 September 2021, Ava Group had total revenue of \$15.0m. The Technology Division improved its core revenue, excluding IMOD (\$7.7m) and DoD (\$2.7m), by 10% on the quarterly average for FY2021. The Services Division also performed well with revenue up 9% on the quarterly average.

The Group demonstrated continued positive operating leverage with ongoing cost discipline and the realisation of operational efficiencies in prior years continuing to drive healthy margins.

**Table 1: Group Financial Summary (unaudited financial information)**

| \$Am                      | Q1 FY2022 | ¼ Ave 12 mths<br>FY2021 | Var    | Var %   |
|---------------------------|-----------|-------------------------|--------|---------|
| <b>Group Revenue</b>      | 15.0      | 16.3                    | -1.3   | -7.7%   |
| <b>COGS</b>               | 9.3       | 8.3                     | +1.0   | +11.7%  |
| <b>Gross Profit</b>       | 5.7       | 7.9                     | -2.2   | -28.1%  |
| <b>Operating Expenses</b> | 3.7       | 3.9                     | -0.2   | -5.7%   |
| <b>Group EBITDA*</b>      | 2.0       | 4.0                     | -2.0   | -100.0% |
| <b>Gross Margin</b>       | 38%       | 49%                     | -11pts | -10.8%  |
| <b>EBITDA Margin</b>      | 13%       | 25%                     | -11pts | -11.3%  |

\*Group EBITDA includes expenses related to the divestment of the Services Division (\$0.3m) and a \$0.4m impact on unrealised foreign exchange gain for Q1 FY2022.

### Technology Division - Future Fibre Technologies (FFT) and BQT Solutions (BQT)

For the three months to 30 September 2021, the Technology Division recorded sales revenue of \$3.8m, a 17% decrease on Q4 FY2021. There is a growing sales pipeline driven by increased demand for the provision of remote services and technology to access devices and deliver upgrades and maintenance support. FFT’s Q1 FY2022 order intake was up 43% on Q4 FY2021. FFT’s Q1 FY2022 sales revenue was down 30% on the FY2021 quarterly average and up 23% on the average when excluding IMOD licensing. BQT was affected by lockdowns in NSW and Victoria. With lockdowns ending, management expects a rebound in BQT sales from Q2 FY2022 due to pent up demand.

**Table 2: Non IMOD Technology Division Financial Summary (unaudited financial information)**

| \$Am                 | Q1 FY2022 | ¼ Ave 12 mths<br>FY2021 | Var  | Var %  |
|----------------------|-----------|-------------------------|------|--------|
| Sales Revenue*       | 3.8       | 4.2                     | -0.4 | -8.4%  |
| COGS                 | 1.3       | 1.6                     | -0.3 | -16.1% |
| Gross Profit         | 2.5       | 2.6                     | -0.1 | -3.8%  |
| Operating Expenses** | 2.2       | 2.5                     | -0.3 | -11.1% |
| EBITDA               | 0.3       | 0.1                     | +0.2 | +140%  |
| Gross Margin         | 66%       | 63%                     | 3pts | +3.1%  |
| EBITDA Margin        | 3%        | 3%                      | 5pts | +4.9%  |

\*Excludes contribution from IMOD licencing (FY2021: \$7.7m)

\*\*Excludes expenses related to the sale of the Services Division (\$0.3m).

Whilst some markets, including the US, are showing signs of improving demand, ongoing global logistics and customs delays are impacting the timing of order fulfilment and revenue recognition. At 30 September 2021, the Technology Division had a backlog of \$6.5m which included \$2.3m related to the IMOD contract.

The Group continues to receive significant commercial interest in Aura IQ, a new conveyor health monitoring solution, with multiple Proof of Value trials in place with mining houses and bulk material handling facilities. Q1 FY2022 saw further commercial progress with successful site acceptance completed and final IT integration approvals underway with a large global mining company. To better position the delivery model and overcome restrictions and delays caused by COVID-19 related travel restrictions, Ava Group has been increasing engagement with an ecosystem of partners. Management is pleased to report that the Group now has multiple partners working with local mine sites to progress site surveys (required for contracts and deployment). Contract and deployment negotiations are continuing with end users and mining services providers, and Ava Group expects to sign multi-year agreements in 1H FY2022 which will generate annual recurring revenues in 2H FY2022, subject to IT integration approval.

Looking ahead to 1H FY2022, the Technology Division is forecasting \$8.7m to \$9.3m in revenue and will be EBITDA positive, excluding any contribution from IMOD backlog of \$2.3m. With the reopening of borders and several growth initiatives underway, the Technology Division is well positioned for growth in 2H FY2022:

- Strong sales pipeline, growing backlog and increasing customer demand
- Generation of meaningful revenue from the partial conversion of the \$50m sales pipeline (3-year value) for the Aura-IQ systems which are being commercialised via the “Proof of Value” program
- Expansion of sales capacity and revenues in the USA commenced with new America’s VP onboard
- Leveraging a go-to-market strategy with Dorma Kaba to deliver material sales in the US
- Increase in post-COVID-19 sales to Assa Abloy in Europe under our existing signed contract
- Further IMOD style licensing transactions
- Further sales for powerline monitoring solutions via the Group’s low cost, high profit, industry partner model
- Increase in contracts from the large install base of thousands of systems to expand annual maintenance and remoting servicing solutions and grow annual recurring revenues.

## Services Division - AVA Global Logistics (Divested 18 October 2021)

The Services Division delivered a strong performance in the three months to 30 September 2021. Despite the impact of the pandemic on the air freight sector, Ava Global was able to expand the suite of services available to its customer base. The Company responded to COVID-19 restrictions by offering a range of innovative bespoke cargo and charter aircraft solutions which ensured the delivery of currency, precious metals and other valuable goods for customers. Recent consolidation within the secure global logistics market is also creating opportunities for Ava Global to secure new customers and increase its share of addressable spend.

Q1 FY2022 revenue of \$11.1m was 9% higher on the FY2021 quarterly average with gross margin decreasing by 4%. The reduction in gross margins reflects a shift in its product mix. The Services Division continues to build a market-leading position in the international valuable logistics sector and is a trusted partner of a number of major companies in the precious metals and wholesale banknote markets.

### Divestment of Services Division:

As confirmed via the ASX on 19 October 2021 (further to the announcement made on 17 August 2021), Ava Group has completed the sale of its non-core Services Division, Ava Global, pursuant to a Sale and Purchase Agreement with TTG Bidco Limited, an entity backed by funds advised by Phoenix Equity Partners Limited (United Kingdom):

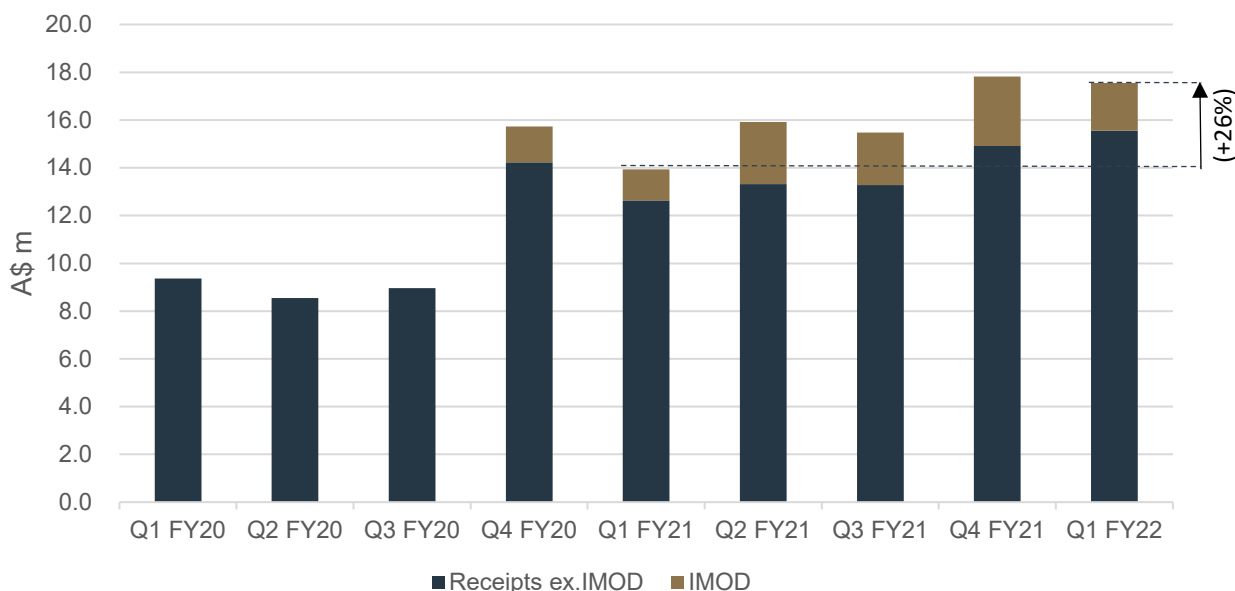
- Sale price of US\$46.4 million (A\$62.6 million) with received net cash proceeds of US\$31.1 million (A\$41.9 million) after closing adjustments, and payment of management incentives including FY2021 accrued bonuses
- Net cash investment return to Ava Risk Group of circa 587%
- Ava Risk Group now comprises of leading security sensing solution provider Future Fibre Technologies, and high security access control and electronic locking provider BQT Solutions

Financial results from the Services Division will be reported and consolidated in the financial statements for the period until 18 October 2021 (the date that the divested was finalised). 1H FY2022 guidance includes an estimated contribution from the Services Division for a period until 18 October 2022.

## Cashflow

Since FY2019, the Group has focused on the implementation of processes and systems to improve customer collections. Chart 1 shows that while the IMOD project has contributed to the growth in customer receipts since Q4 FY2020, it was not the only factor. Receipts growth came from a range of different products and services across the three businesses. In Q1 FY2022, Ava Group receipts increased by 26% on pcp and by 23% if the IMOD contract is excluded.

**Chart 1: Strong growth in customer receipts across Technology and Services divisions**



### Strong Group Cash Position

The Company has achieved significant growth in operating cashflow and as at 30 September 2021 had consolidated cash of circa \$21m and no debt, having paid \$7.3m in dividends to shareholders during FY2021.

**Table 3: Group Cash**

| \$Am                      | Q1 FY2022 | Q1 FY2021 | Var  | Var % |
|---------------------------|-----------|-----------|------|-------|
| Cash at Bank 30 September | 20.9      | 17.3      | +3.6 | 20.8% |

As announced on 30 August 2021, following the completion of the divestment of the Services Division, Ava Group is expected to hold \$40.2 million in excess capital. The Board's intention is to use the excess capital to undertake the following capital management strategies:

1. Capital Return to Shareholders: \$39.7 million (circa 16 cents per share); and
2. On-Market Buy Back: \$1.0 million, which has commenced (refer to ASX announcements for updates)

The proposed capital return is subject to the Company obtaining a favourable Class Ruling from the Australian Taxation Office ("ATO") in respect of the classification of the proposed capital return and obtaining shareholder approval. The formal proposal for shareholder approval, and other important particulars, are contained in the Notice of Meeting that was released via the ASX on 27 September 2021. The Annual General Meeting ("AGM") is scheduled to be held at 11:00am (AEDT) on Thursday, 28 October 2021. To participate in the AGM you can log in to the meeting by entering the following URL in your browser: [web.lumiagm.com/370-999-345](http://web.lumiagm.com/370-999-345)

**Table 4: Pro-Forma Group Cash**

The below table shows the pro-form effect of the divestment of the Services Division, on market buy back and capital return:

| \$Am                            |             |
|---------------------------------|-------------|
| Group Cash at Bank 30 September | 20.9        |
| Services Division Cash          | (5.3)       |
| Divestment Proceeds             | 41.9        |
| <b>Sub Total</b>                | <b>57.5</b> |
| Buy Back                        | (1.0)       |
| Capital Return                  | (39.7)      |
| <b>Pro-Forma Cash</b>           | <b>16.8</b> |

### 1H FY2022 Guidance and Outlook

Ava Risk Group CEO Rob Broomfield said: “Following the successful divestment of our Services Division, management is now fully focused on the continued execution of our growth strategy for our world leading Technology Division. As highlighted by our results in Q1 FY2022, we continue to build on the momentum of Q4 FY2021. With a growing pipeline of sales opportunities and orders received, we are well positioned for growth in current and future years.”

Management guidance for 1H FY2022 is for Group Revenue of \$20.2m to \$21.2m and Group EBITDA of \$2.2m to \$2.5m, excluding any contribution from the IMOD backlog of \$2.3m.

ENDS

**Approved for release by the Board of Directors.**

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### About Ava Group

Ava Risk Group is a global leader in providing security technologies and services to protect critical assets and infrastructure. Its Technology Division manufactures and markets ‘smart’ fibre optic sensing systems (Future Fibre Technologies) and high security access control and electronic locking products (BQT Solutions). Its products and services are trusted by some of the most security conscious commercial, industrial, military and government clients in the world.

## Forward Looking Statements

Information in this release is for general information purposes only. Certain statements in this document regarding the Company's financial position, business strategy and objectives, contain forward-looking statements (rather than being based on historical or current facts) and as such, are not able to be verified.

All forward-looking statements are based on the current views of the Company's management as well as reasonable assumptions made by, and information currently available to the Company's management. Forward-looking statements are inherently uncertain and must be read accordingly. There can be no assurance that some or all of the underlying assumptions will prove to be valid. If assumptions are invalid this is likely to have an impact on the accuracy of the statement itself.

All data presented in this document reflects the current views of the Company with respect to future events. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions relating to the operations, results of operations, growth strategy and liquidity of the Company. Forward looking statements are also subject to external matters outside the control of the Company.

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