



18 February 2020

SOFTWARE GROWTH AND SUCCESSFUL NOVENTUS INTEGRATION UNDERPINNED CITADEL'S INCREASED FIRST HALF REVENUE

Software segment revenue up 18.9% to \$18.9 million

Services segment revenue up 25.0% to \$41.5 million*

Full Year outlook for revenue and EBITDA growth reaffirmed

Canberra, Australia – The Citadel Group Limited (ASX: CGL) is pleased to announce its results for the six months ended 31 December 2019 (H1 FY20), that saw it deliver strong revenue growth from Software, following investments made to develop and enhance software and platform capabilities.

Commenting on the H1 FY20 results, Citadel's CEO Mark McConnell said: "Our strategic focus is to drive a shift in the business mix to increase the proportion of revenue and earnings from our Software segment, to provide long term recurring revenue streams. Our first half result reflects our dedication to growing our Software segment, as well as the successful integration of Noventus, which is performing above our expectations."

H1 FY20 delivered a return to strong revenue growth

(\$ million)	H1 FY20	H1 FY19	% Change
Enterprise Revenue	9.3	6.0	55.0%
Health Revenue	9.6	9.9	(3.0%)
Total Software Revenue	18.9	15.9	18.9%
Advisory Revenue*	23.3	15.8	47.5%
Technology Revenue	18.2	17.4	4.6%
Total Services Revenue	41.5	33.2	25.0%
Total Revenue**	61.1	49.1	24.4%
Gross Profit	25.2	23.3	8.2%
<i>Gross Profit margin</i>	<i>41.2%</i>	<i>47.5%</i>	
Gross Profit margin excluding Noventus	46.2%	47.5%	
EBITDA	12.5	13.2	(5.3%)
<i>EBITDA margin</i>	<i>20.5%</i>	<i>26.9%</i>	
Interim dividend (cps)	4.8	4.8	(0.0%)

* Includes \$10.9m of revenue from Noventus acquisition in H1FY20 (PCP: nil)

**Includes \$0.7m of revenue not directly related to a segment



Recent contract wins will enhance Citadel's recurring revenue profile

During H1 FY20, Citadel continued to win contracts across its four key verticals and delivered a significant improvement in the mix of its base business, in line with the Company's strategic direction.

- **Software segment operational highlights:**

- 10-year contract extension with Queensland Health to 2029
- Upgrade of Queensland Health to latest version of Auslab Evolution™
- Contract signed with Melbourne Genomics Health Alliance for hosting and managed services for the clinical genomics platform
- Commenced large program of work for business intelligence and analytics across the Austender platform for Government procurement
- Launched goTRIM Pro™ in Q2.

- **Services segment operational highlights:**

- Early extension of Defence contract to July 2021
- Successful integration of Noventus into Services business – performing substantially ahead of expectations
- 3-year managed services contract for AV/VC support with University of Melbourne – now working with three of the Group of Eight (G8) universities
- Additional work orders from Defence and Inner Agencies commenced in Q2 FY20 – run rate expected to continue to improve through H2 FY2020
- AVAssist™ launched in Q2, a SaaS enabled offering extending Citadel's AV/VC help desk.

"We continued to drive a shift to Software recurring revenue during H1 FY20, delivering an 18.9% increase in Software Revenue over the prior corresponding period to \$18.9 million, underpinned by a 55% increase in Enterprise Software Revenue. While our high margin Health Software revenue declined slightly, due to a lower number of non-recurring licence fees in H1 FY20, recent contract wins position Citadel for a return to strong sustainable growth in this segment from H2 FY20," added Mr McConnell.

Investments support increasing software revenue

"Citadel has invested in its Software and platform capabilities to generate recurring revenue, which has underpinned a return to growth. We are focussed on developing secure cloud-based software solutions that have large addressable markets, and a high degree of contracted, recurring revenue models. Accordingly, we invested 10% of our Software Revenue back into R&D and launched two key products during the first half, AVAssist™ and goTRIM Pro™, and plan to launch Citadel Share™ in H2 FY20.

"We continue to see substantial opportunities to leverage our strong IP and leading products in international markets, both directly and via exclusive channel partnerships, which is a long-term strategic focus for the Group," added Mr McConnell.

For personal use only



Financial performance reflects increased focus on scalable software solutions and product contracts

Total Revenue was up 24.4% to \$61.1 million, including a revenue contribution from Noventus of \$10.9 million. Revenue run rate in the second quarter was tracking 19% ahead of the first quarter, reflecting additional work flowing through from Defence and National Security and Gruden, which has built positive momentum in early H2 FY20.

Citadel's Gross Margin of 41.2% (46.2% excluding Noventus) (H1 FY19: 47.5%) reflects the shift towards recurring Software revenues that have lower margins than managed services contracts but longer durations, and the impact of the acquisition of Noventus which operates at lower (circa 17%) gross profit margins. This resulted in EBITDA of \$12.5 million, which includes \$800k of abnormal restructure and other one off expenses, which has largely offset \$1.1m of positive impact of the changes as a result of implementation of AASB16. A group-wide restructure has taken place in February 2020, resulting in \$2.1 million of annualised savings. Some of the annualised savings will be reinvested back into the business in H2 to fund new growth strategies.

Balance sheet and capital management

Citadel ended the period with \$12.3 million in cash (30 June 2019: \$14.0 million), with the reduction in Trade & Other Payables of \$3.1 million, reducing operating cash flow. Debt increased by \$7.6 million to \$19.6 million, reflecting the funding of the acquisition of Noventus (including working capital requirements), resulting in \$7.3 million net debt at 31 December 2019.

Reflecting the Group's earnings profile, cash position and ongoing investment in scalable growth initiatives, the Directors declared a fully franked interim dividend of 4.8 cents per share. The interim dividend has an ex-dividend date of 25 February 2020, record date of 26 February 2020 and payment date of 27 March 2020.

Positive outlook for H2 FY20, with FY20 outlook reaffirmed

Commenting on Citadel's outlook for H2 FY20, Mr McConnell said:

"Citadel has a trusted pedigree in information security, developed from years of delivering Software and Services to Government and blue-chip companies. Having established over 150 long term relationships, and invested in R&D to develop secure, cloud-enabled solutions for our clients, we are well positioned to continue building on the strong momentum achieved over H1 FY20.

For personal use only



“With a solid first half performance behind us, I am pleased to be able to reaffirm the outlook statement provided with our FY19 result last August, that Citadel is expected to deliver revenue and EBITDA growth in FY20, supported by low double-digit organic revenue growth, with pre Noventus margins broadly consistent with FY19.”

- ENDS -

For further information please contact:

Corporate: Mr Mark McConnell, CEO

Tel: +61 2 6124 0800

Mark.mcconnell@citadelgroup.com.au

Investors: Ronn Bechler

Tel: +61 400 009 774

ronn.bechler@marketeye.com.au

Media: Tristan Everett

Tel: +61 403 789 096

tristan.everett@marketeye.com.au

About The Citadel Group

Citadel is a software and services company. We specialise in managing information in complex environments through integrating know-how, systems and people to provide information on an anywhere-anytime basis. We are a leader in the development and delivery of managed technology solutions. The majority of our revenues are derived from software solutions and long term managed services contracts.

For personal use only