

20 March 2020

UPDATE: COVID-19 and FY2020 Guidance

Ava Risk Group Limited (ASX: AVA) (Ava Group or Company) today provides the following market update with respect to previously provided guidance and the current implications of the COVID-19 pandemic.

Open for Business

Ava Group's Technology Division (Future Fibre Technologies and BQT Solutions) and Services Division (Ava Global) are open for business. We are monitoring the health of our employees and to date we do not have any confirmed or suspected cases of COVID-19 within our workforce. We've taken action to educate our employees and implement additional measures including reducing the need for people to come into our offices across the globe, based on local conditions. At the same time, we know that customers rely on our products and services, and we are committed to continue production to deliver orders, and to providing maintenance support to keep deployed systems running smoothly. A number of staff continue to work in our main offices, because certain jobs can only be done onsite, like those who assemble, test and maintain our products.

Cash at Bank and Working Capital

As at 29 February 2020, Ava Group held A\$3.3m in cash at bank and had no external debt or borrowings. In addition, Ava Group has access to a A\$1.0m unutilised credit facility to further support any short term working capital requirements, and holds an unconditional bank guarantee for US\$2.1m (A\$3.7m) with regard to amounts owing under the IMOD project. As such the Company believes it has sufficient working capital available to meet its business operating requirements.

Emerging Risks

Like every business, there are risks outside of our control. Whilst we do monitor these risks in the ordinary course of business, and implement strategies to reduce the potential effect that they have on our business, the evolving COVID-19 pandemic is creating additional challenges, and in some cases, uncertain outcomes. Some of our operating risks have moved from low risk to medium/high risks, and their economic effect on our business, and our FY2020, are uncertain and still being quantified.

Technology Division (1H FY2020 circa 55% of Revenue):

(a) **IMOD:** We were expecting a majority of revenue for the \$18m Indian Ministry of Defence ("IMOD") project (previously announced) to be invoiced in FY2020 and the remainder in FY2021. Our in-country manufacturing partner has advised us that they currently expect program delays, and believe that this may impact the previous schedule by up to three months. At this stage, Ava Group is expecting revenue for the IMOD project in Q3 FY2020 to be approximately A\$2.1m, however we are unable to provide a forecast for Q4 FY2020 until further clarity is provided by our manufacturing partner in India in due course.

- (b) Inventory:** Both FFT and BQT hold sufficient inventory to meet current forecast demand for FY2020. As a low volume manufacturer, with very large suppliers, we have not experienced any significant delays in our suppliers' estimated production times. In the medium term, we appreciate there exists a shipping delay risk, due to the broader effect COVID-19 may have on our suppliers' manufacturing operations, and we will be monitoring this closely. We will continue to work with our suppliers to minimise the impacts from this risk factor.
- (c) Supply Chain:** Most of our components are delivered to us via airfreight from overseas based suppliers, and we ship finished goods to our customers via both airfreight and sea freight. The airline industry has announced large scale cancellations of passenger flights, which will reduce the fleet available for delivering commercial cargo. Several governments have placed restrictions on international travel, which may affect the ability of aircrew to move freely across borders. This will likely affect our ability in the medium term, to receive components in a timely manner. This may need to be addressed by forward ordering additional components, which would consequently see an increase of inventory and reduction in cash (or increase in creditors). The reduction in airfreight operations may also delay the dispatch of some orders already received. Generally, we recognise revenue ex-works (when it leaves our facility). Whilst it is very much an evolving situation, at this stage we anticipate delays of some weeks (depending on destination) could occur. We are working with our transport and logistics providers to monitor and address these risks.
- (d) Installation and Commissioning:** Various travel restrictions, quarantine and isolation measures have recently been announced by governments around the world. Such actions will likely affect our ability to provide onsite technical support to our customers and end users to undertake the installation and commissioning of our systems. In lieu of attending sites, we are offering online remote technical support capabilities to mitigate any impacts on those customers. We will continue to monitor this risk closely to determine any ongoing effect on our business.

Services Division (1H FY2020 circa 45% of Revenue):

- (a) Service Supply Chain:** Ava Global provides services utilising an extensive network of secure ground transportation and airfreight partners. The airline industry has announced large scale cancellations of passenger flights which will reduce the fleet available for transporting valuable cargo internationally. Several governments have imposed border controls further restricting the ability to import and export cargo. Whilst we are seeing unprecedented demand for our services due to recent market consolidation and increased demand for wholesale currency, these restrictions will likely affect our ability in the short term to undertake certain shipments. Whilst it is very much an evolving situation, at this stage we anticipate restrictions to remain in place for up to two months. This will delay revenues in a similar manner, and will result in some shipments (and associated revenue) being deferred, or in some cases, cancelled. We are working with our clients and partners to monitor and address these risks and to ensure we are able to meet demand once restrictions are relaxed or lifted.

FY2020 Guidance

It is clear that the COVID-19 epidemic will have an impact on our FY2020 results and that all previous guidance will need to be reconsidered. To that end, we expect that the underlying business will achieve Q3 FY2020 revenues of between A\$8.5m and A\$9.5m with an additional A\$2.1m from IMOD. The company is not in a position at this stage to provide any further guidance on FY2020 or FY2021.

Please refer to Note 1 below.

Approved for release for and on behalf of the Board of Directors by:



Leigh Davis

Company Secretary

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About the Ava Group

The Ava Group, comprising world leading technology divisions Future Fibre Technologies (FFT) and BQT Solutions (BQT) is a market leader in the provision of risk management services and technologies, trusted by some of the most security conscious commercial, industrial, military and government clients in the world.

The Group features a range of complementary solutions including intrusion detection for perimeters, pipelines and data networks, biometric and card access control as well as the secure international logistics (Ava Global) and storage of high value assets. Through decades of innovation, the Ava Group continues to build upon a comprehensive portfolio of premium services and technologies for the most complex and demanding markets.

Our business truly serves a global market, with our knowledgeable team spread across six continents, providing market and industry expertise directly to customers. With thousands of sites protected, the Ava Group is proven to deliver first class services and technologies that surpass the expectations of our partners and end users.

Note 1

IMOD Contract Background:

- *Ava Group has received and accepted a Purchase Order for US\$11.9m (A\$20.8m) of licencing income from its in-country manufacturing partner, SFO Technologies Private Limited (SFO).*
- *Ava Group has received a US\$2.1m (A\$3.7m) Bank Guarantee from SFO as security for SFO payment obligations to the Company under the contract.*
- *Post completion of the deployment of equipment into service with IMOD, Ava Group anticipates additional revenues will follow from a subsequent 7-year spares and maintenance contract for this project, which has an estimated value of a further US\$3.4m (A\$6.0m).*

Further information on the IMOD project is available via previous market announcements (see www.asx.com.au)

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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