

ASX ANNOUNCEMENT

February 2, 2023



Level 28
108 St Georges Terrace
PERTH WA 6000

ABN 98 103 348 947
ASX CNW

Cirrus delivers record 1H23 financial result

Turnaround complete, focus on accelerating earnings growth

HIGHLIGHTS

- Record H1 Revenue of \$56.7m, up 27% on 1H22
- Record H1 EBITDA (pre options) of \$2.2m, against (\$379k) Loss in 1H22. CY22 EBITDA (pre options) \$4.7m
- Record Profit before tax of \$1.3m, against (\$2.2m) Loss in 1H22
- 16% growth in services revenue and 24% growth in services gross margin against 1H22
- Record backlog of \$16.2m, up from \$12.1m at 30 June
- Strong debt-free Balance Sheet maintained, Net Cash of \$9.5m as at 31 Dec and Net Working Capital \$6.5m
- Strong 2H23 earnings outlook and pipeline

Cirrus Networks Holdings Limited (“Cirrus” or the “Company”) (ASX: CNW) has today announced its audited half year FY23 results as the Company continues its journey to become a managed service provider of choice within the Australian IT sector.

RECORD H1 REVENUE

Cirrus delivered its highest H1 consolidated revenue on record of \$56.7m, as the positive impacts continued from 1H22 restructure and renewed strategic focus on services. The result represented a 27% increase year on year. The strong revenue was generated whilst also delivering a record backlog (customer orders contracted but not delivered or recognised) carrying into 2H23 of \$16.2m up from \$12.1m at 30 June, and \$9.3m from the prior year comparative.

Record revenues continue to be earned from the Company’s high quality economically robust client base, with the largest sectors Government 49% of 1H23 revenues and major Global and Australian Resources companies representing 20%.

RECORD H1 EARNINGS

1H23 EBITDA (pre options) was \$2.2m, the Company’s best ever H1 earnings result and significantly up on the (\$379k) loss of 1H22. The strong earnings result was the culmination of improvements year on year in revenue, gross margin and gross margin % for each income type, while also maintaining a diligent focus on overhead costs which were 10% lower against prior year spend and were at the lowest H1 level in four years.

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Adjusted EBITDA Table Half Year Ended	31 Dec 2022 (\$)	31 Dec 2021 (\$)	31 Dec 2020 (\$)	31 Dec 2019 (\$)	31 Dec 2018 (\$)
NORMALISED EBITDA	2,268,438	(343,573)	1,225,288	926,738	758,815
Foreign exchange	(55,624)	(35,537)	(12,646)	(30,355)	(1,649)
EBITDA (PRE-OPTIONS)	2,212,814	(379,110)	1,212,642	896,383	757,166
JobKeeper incentive	-	-	1,634,800	-	-
One off corporate transaction fees	-	(608,053)	-	-	-
Redundancy and business restructure costs	(16,846)	(513,775)	(99,152)	(32,881)	(172,316)
Amortisation and Depreciation	(353,399)	(369,098)	(357,689)	(340,855)	(296,145)
Amortisation – Right-of-use asset	(328,888)	(388,518)	(371,769)	(345,097)	-
Net Interest	(17,252)	(35,595)	(611,137)	(280,832)	(2,250)
Share based options expense	(173,841)	83,473	(399,337)	(140,384)	(151,168)
NET PROFIT / (LOSS) BEFORE TAX	1,322,588	(2,210,676)	1,008,358	(243,666)	135,287

After a comprehensive review at the end of calendar year 2021, the business restructured reducing overhead and simplifying the organisational structure to better execute on the strategic services focus as a pathway to earnings growth. There was immediate positive effect of the changes including improved revenue, margins and significant reduction in the overhead run rate leading to a strong 2H22 result.

This momentum has continued with this 1H23 result and completes 12 profitable calendar months of 2022 which have delivered \$116m in revenue for the business and EBITDA (pre options) of \$4.7m for the 2022 calendar year.

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RECORD SERVICES CONTRIBUTION

Combined services revenue (Professional and Managed) was \$17.5m, up 16% on 1H22 and more than \$2m higher than the previous highest H1 result. Services gross margin were also a H1 record at \$4.5m, and were 24% ahead of 1H22. Professional services were the key driver for this growth with revenues up 31% and margin up 69% on 1H22.

The successful transition of the ENI managed service in November meant it only had a marginal contribution to the 1H23 result. A full half contribution from ENI in 2H23 together with the expected commencement of the Icon Water managed service in the later part of 2H23 provides a solid base for continued growth in services in 2H23 and into FY24. Furthermore there continues to be a strong pipeline of qualified opportunities and a number of tenders lodged awaiting final outcomes.

Commenting on the 1H23 result, Cirrus Managing Director, Chris McLaughlin, said:

"It is very pleasing to report this record half result and continue the momentum from 2H22. The speed and success of the business turnaround has put Cirrus in a very strong position to take advantage of opportunities that are likely to present in these uncertain economic times.

Whilst every income type improved revenues and margins it was particularly satisfying to see the growth in Services year on year as our renewed strategic focus gained traction. With our recent managed service contract wins in ENI and Icon Water having little impact on the H1 result, and with ongoing opportunities being qualified, tendered or awaiting tender outcomes, the Company expects the services growth to continue and further enhances Cirrus' evolution into a market leading and innovative national IT managed service provider of choice.

The success across all key business metrics is not possible without the dedication and drive of our wonderful Cirrus staff across all our locations. As technical experts in their field they have embraced changed, adopted an innovative mindset and delivered an uninterrupted focus on creating great client outcomes.

The success in 1H23 and significant ongoing momentum coupled with a solid debt free Balance Sheet and \$9.5m of cash puts the business in a strong position and provides confidence to deliver continued improvement in FY23 earnings."

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STRONG BALANCE SHEET AND CASH POSITION

Cirrus continues to maintain a strong Balance Sheet and diligent stewardship across working capital and cash. Net working capital improved in line with business performance closing 31 December at \$6.5m against \$4.3m at 30 June 2022 and \$2.6m at 31 December prior year. The business generated H1 cash from operations of \$445k, consistent with seasonal cash generation, and \$4m for calendar year 2022. Cirrus closed the calendar year debt free with a net cash position of \$9.5m.

This strong cash position is testimony to Cirrus' disciplined approach to cash and capital management with the Company having a 95% EBITDA to cash conversion since 2019. Calendar year 2022 EBITDA to cash conversion was 85% and our outlook for cash generation 2H23 is strong, which should normalize cash conversion for FY23. The average daily cash balance of \$9.4m for 1H23 compared to FY22 financial year average balance of \$7.3m highlights the improved business performance and cash focus.

The business also maintained \$4.6m of Deferred Tax Asset.

FY23 OUTLOOK WITH CONTINUED FOCUS ON THE STRATEGIC PRIORITIES

Following the best first half in the Company's history and significant ongoing momentum, Cirrus is well placed for continued strong growth through the remainder of FY23.

That continued growth is underpinned by 2H23 contributions from ENI and the transition of the Icon Water managed service contract along with the record backlog, positive pipeline of opportunities, disciplined overhead cost controls and strategic focus on higher margin services revenue.

Consistent with its strategic growth aspirations and supported by a strong debt free Balance Sheet and cash position, the Company continues its active pursuit of complementary acquisition targets. These will be strictly considered against their strategic merit and fundamental value, and weighed against other capital management initiatives including buy backs and capital returns.

ENDS

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The Board of Directors at Cirrus has authorized the release of this announcement.

Contact for further information		
Chris McLaughlin Managing Director	Matt Green Chief Financial Officer	08 6180 4222 investor@cirrusnetworks.com.au cirrusnetworks.com.au

ABOUT CIRRUS

Cirrus Networks Holdings Limited (ASX: CNW) is an innovative Managed Services and IT Solutions provider who engages nationally with organisations and government agencies to understand business needs and convert these to technology outcomes which result in real business value and efficiencies. We implement and manage leading solutions that are flexible, cost effective and of tangible operational benefit.

The diverse reach of Cirrus means the Company can provide a wide range of solutions across:

- Networks and Connectivity
- Data Centre and Cloud
- Storage and Data Management
- Business Continuity and Disaster Recovery
- Cyber Security
- Workspace and End User Computing
- Compute and Virtualisation
- Unified communications and Telephony
- IT Service Management, Technology Consulting and Project Management Services.

Australian sovereignty, excellent service and an innovative, holistic approach have seen Cirrus quickly grow an extensive base of blue-chip clients across industry, government and non-for-profit sectors. Cirrus was founded and is headquartered in Perth but has expanded into Canberra and Melbourne via a number of strategic acquisitions.

Cirrus is strategically focused on recurring-revenue high-margin Managed Services and in March 2021 won a transformational managed service contract with Federal Government entity Geoscience Australia in excess of \$13M. This contract provides a strong reference for Cirrus to expand its contestable market in terms of client type and contract size, and the record March 2022 Icon Water contract win along with the August 2022 ENI WA managed service win is further evidence of delivering on company strategy.

Cirrus is a rapidly growing IT solutions provider exposed to the megatrend of digitisation.

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