ASX Announcement | 20 October 2023

Spacetalk Limited (ASX: SPA)

QUARTERLY ACTIVITIES REPORT AND BUSINESS UPDATE AND APPENDIX 4C FOR THE QUARTER ENDED 30 SEPTEMBER 2023

Spacetalk Strategy Execution Resulting in Strong Revenue Growth During September 2023 Quarter

Highlights

- Annual recurring revenue (ARR) increased 35% vs pcp to $8.8m and 5% vs FY23Q4.
- Revenue from continuing operations increased 100% vs prior corresponding period[1] ("pcp") to $3.6m[2].
- MNVO subscribers' growth momentum continues with a 12% increase to 16,500 vs FY23Q4.
- Significant progress on strategy execution with new products released.
- Legacy Adventurer 1 sell out progressing well.
- $3.5m capital raise successfully completed, providing sufficient funding to execute strategy in the near term.
- SPA on track to achieve positive free cash flow in 2H24.
- Debt restructure completed, extending tenure and improving covenants.
- Cash in bank at the end of the quarter was $4.1m.

Spacetalk Limited (ASX: SPA) ("Spacetalk" or "the Company") is pleased to provide its Appendix 4C for the quarter ended September 30 (Q1 FY24) along with the following operational update.

Spacetalk Chief Executive Officer and Managing Director Simon Crowther, said:

"I am pleased with the continued progress in the execution of our strategic plan. We have delivered products that are core to our ecosystem and subscription-based strategy. The growth in revenue demonstrates a focused approach towards delivering products that support safety and security for families. I am excited about Spacetalk Mobile's continued strong growth in users since we launched in November 2022. This underpins the 35% growth in recurring revenue and sets us on the path to achieving our target of $20m - $25m ARR in 3 years.

[1] Prior corresponding period (pcp) relates to restated Q1 FY23.
[2] Revenue excludes the discontinued wearables business in the UK, Europe and North America.

We have strengthened the balance sheet and provided sufficient capital to execute our strategy in the near term. I am confident that we will continue to effectively execute our strategy for the rest of the financial year."

Financial and Operational Review

Continued growth momentum across key metrics

	1Q24	1Q23	change
Revenue from continuing operations ($m)	3.6	1.8	100% ↑
Gross profit from continuing operations ($m)	1.5	1.1	36% ↑
Gross profit margin	41%	60%	-19% ↓
Normalised gross profit margin	63%	69%	-7% ↓
Operating expenses before one off costs ($m)	2.9	2.9	0% →
Cost to income ratio	80%	157%	-76% ↓
Annual recurring revenue (ARR) ($m)	8.8	6.5	35% ↑
Normalised cash outflows from operating activities ($m)	-1.2	-2.3	48% ↓
Subscribers	65,665	59,670	10% ↑
Cash balance ($m)	4.1	3.0	37% ↑

Notes

- 1Q23 revenue has been restated to reflect the impact of correcting accounting errors. The impact of the restatement was an increase in revenue by $327k.
- Normalised cash outflows from operating activities exclude one off costs of $144k (1Q23: NIL) and cash outflows from discontinued operations of $178K (1Q23: $474k).
- Normalised gross profit margin reflects underlying gross margin, excluding the impact of Adventurer 1 sell out in Q1FY24 and Kids Watch sell out in Q1FY23.
- Comparative cash is Q4FY23 closing balance.

Summary

For the quarter ended 30 June 2023 the Group reported annual recurring revenue (ARR) of $8.8m, 35% up compared with the prior year. The increase in ARR reflects the positive results from the delivery of the strategic shift to a subscription-based business model. The Group also recorded strong revenue growth of 100% on prior year, driven by improved device revenue performance and continued growth of the MVNO revenue stream.

Combined App & MVNO subscriber growth continued during the quarter, with the 10% growth to 65,665 vs prior year driven by strong MVNO performance. MVNO subscribers grew to 16,500 at the end of the quarter, a 12% growth on closing Q4FY23. The MVNO performance significantly contributed to the 36% gross profit growth vs prior year.

The Company continues to improve cash generation, with underlying cash outflows from operating activities improving by 57% to $1.2m, reflecting the impact of revenue increase, cost management and better working capital management.

The capital raise that was successfully completed in September 2023 provides the Group with sufficient funding to complete the delivery of new products during Q2FY24 and provides liquidity to acquire inventory, with the Q2 Loop launch proving a solid platform for revenue growth. This sets the company towards its goal of achieving positive cash flow in 2H24.

Corporate debt was successfully restructured, resulted in improved covenant terms, and increase in tenure, through the alignment of term dates of both loans to 20 March 2025.

Revenue from continuing operations[3]

Revenue ($m)	1Q24	1Q23	change
Device revenue	1.5	0.3	400% ↑
MVNO	0.8	-	na ↑
Apps	0.8	1.0	-20% ↓
Schools	0.4	0.6	-33% ↓
Total	**3.6**	**1.8**	**100%** ↑

Revenue increase of 100% primarily driven by:

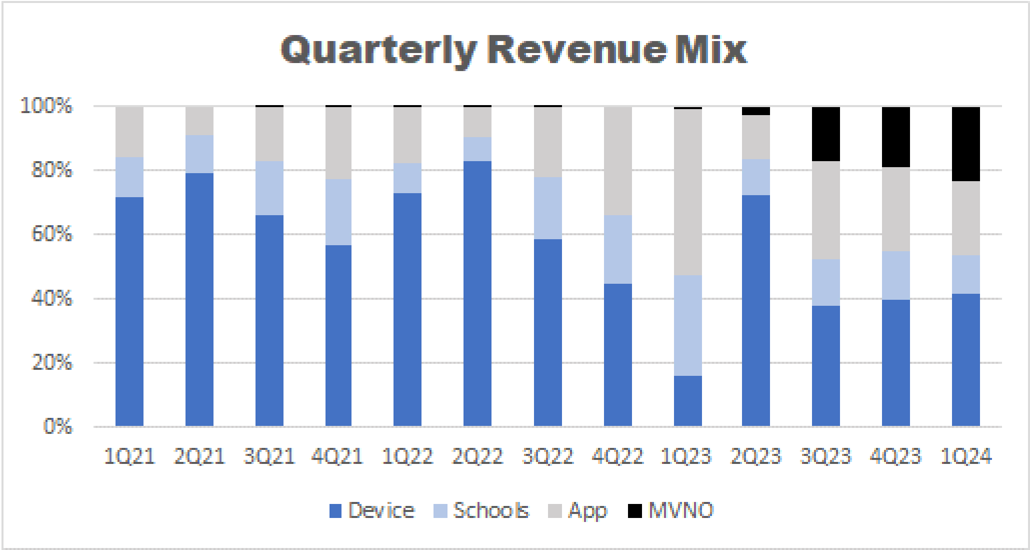
- $1.2m (400%) increase in Device revenue to $1.5m. This is due to:
  - increase in sales volume of 228% to 11,400 units. This increase was driven by better management of retail channel inventory holdings and improved collaboration

[3] Some numbers may not add because of rounding.

with retailers. Q1FY23 was impacted by large stock in channel due to overselling in the prior year.

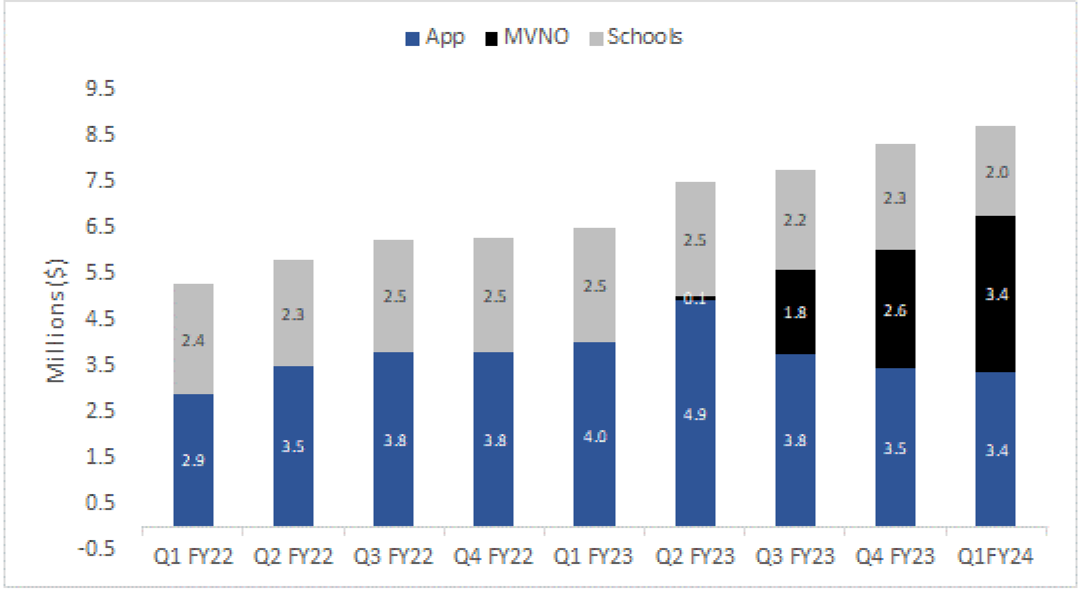
  - 40% improvement in average unit price, driven by product mix change.
    - In prior year, the Kids watch (59% of sales volume), which was discontinued in Q1FY23, was cleared at a significant loss. This loss was partially offset by the Adventurer watch sold at a premium price.
    - In Q1FY24, the sale of the higher priced Adventurer 2 (43% of sales volume), improved average price, partially offset by the clearance of legacy Adventurer inventory (57% of sales volume), which was heavily discounted, but not to the extent of the Kids watch discounting, to facilitate the launch of the Loop watch in Q2FY24.
- continued growth of the Mobile Virtual Network Operator (MVNO) revenue stream. During Q1FY24, MVNO generated $0.8m in revenue (2023: NIL), and 33% ($0.2m) higher than Q4FY23. This growth in MVNO revenue is consistent with the long-term goal to anchor Group revenue on MVNO. MVNO subscriber growth has been robust and consistent since November 2022's launch, totaling 16,500, increasing by 12% compared with Q4FY23.
- App revenue declined by $0.2m (20%) consistent with the 18% decline in subscribers. This decrease is due to a shift towards higher average revenue per user MVNO revenue. Total subscribers (App and MVNO) increased by 10% to ~66,000 compared with prior year, reflecting the strength of MVNO subscriber growth and indicating the retention of the users within the Spacetalk ecosystem.
- Schools' revenue declined by 33% to $0.4m, reflecting the decline in SMS usage during the quarter compared to prior year. Improvements in schools' technology platform and sales initiatives are expected to address the decline observed during the quarter.

Revenue Mix



- Improved revenue mix with MVNO now 23% of revenue (Q4FY22: NIL) (Q4FY23: 19%)
- Recurring revenue comprised 58% of revenue (Q1FY22: 84%) and Q4FY23: 60%. The prior year mix is skewed by the low device sales, which resulted in most revenue being generated from App & Schools.
- Early success of transforming the business to a subscription-based model drives the improvement in ARR as discussed below.

Annual Recurring Revenue (ARR)



- ARR increased by 35% compared to pcp and 5% on Q4FY23, driven by strong MVNO revenue growth.
- MVNO revenue now represents 39% of ARR vs 31% in Q4FY23 and 23% in Q3FY23.
- The decline in Schools ARR reflects the temporary decline in SMS usage and is expected to recover in the future.
- The increase in ARR reflects strong progress in the strategic shift in focus to a higher yielding subscription model.

Gross profit and margin

Gross Profit ($m)	1Q24	1Q23	change
Device revenue	-0.1	-0.2	-50% ↑
MVNO	0.5	0.0	na ↑
Apps	0.7	0.8	-13% ↓
Schools	0.4	0.5	-20% ↓
Total	**1.5**	**1.1**	**36%** ↑

Gross margin (%)			
Device revenue	-7%	-67%	61% ↑
MVNO	61%	-	61% ↑
Apps	79%	79%	0% →
Schools	91%	94%	-3% ↓
Total	**41%**	**60%**	**-19%** ↓

Gross profit of $1.5m is 36% higher than pcp primarily due to the impact of the MVNO product that was launched in Q2FY23. For each revenue stream, movements in gross profit are driven by:

- Improvement in Device loss of $0.1m, despite a 400% increase in revenue because of the impact of the planned discounted sell out of legacy Adventurer 1 inventory transferred from the UK. Adventurer 1 sell out contributed 57% of Q1FY24 sales volume.
    - when normalized for the impact of Adventurer 1 sell out, gross profit for Adventurer 2 was $0.4m from revenue of $1.0m, reflecting the improvement in Device profitability.
- MVNO delivered gross profit of $0.5m from revenue of $0.8m, vs Nil in prior year. MVNO profit is a key driver of forecast future revenue growth.
- APP gross profit decline of $0.1m (13%) is consistent with the $0.2m (12%) decline in revenue. This decrease in in line with expectations as customers migrate to the high average revenue per user MVNO product.
- Schools gross profit decline of $0.1m (20%) is due to the $0.2m decline in revenue.

Gross profit margin of 41% is 19ppts lower than pcp, driven by a change in revenue mix compared to prior year. In prior year, recurring revenue, which has significantly higher gross margin, was 84% of total revenue compared with 58% in the current quarter, resulting in a higher overall gross margin.

When normalised for clearance sell out of legacy Adventurer 1 in Q1FY24 and Kids Watch in Q1FY23, gross margin is 63% (Q1FY23: 69%).

On the revenue stream level:

- Device revenue margin of -7% reflects the impact of legacy Adventurer 1 sell out discounts, which has compressed overall category margins. As explained above, if we exclude the impact of Adventurer 1 discounting, gross margin is 37%, in line with long term average.
- MVNO margin of 61% is in line with previous quarters and App margin of 79% is in line with prior year.
- The 3ppts decline in Schools gross margin reflects the impact of revenue mix change, with low SMS volume impacting overall margins.

Operating expenses

Expenses from continuing operations are consistent with prior year at $2.9m. This has resulted in the cost to income ratio declining from 157% in prior year to 80% in current year. The Group continues to closely manage operating expenses.

The closure of overseas operations resulted in net expenses savings of $0.8m during the [illegible] compared to the prior year.

CAPITAL AND FUNDING

Capital raise.

The Group is well capitalised following the successful capital raise concluded in September 2023. The Group raised a gross amount of $3.0m from both the placement and rights issue and has an additional capacity of $0.2m from the shortfall after considering Directors and Management shortfall subscriptions. Directors and Management will contribute a combined $300k into the shortfall.

This provides the Group with sufficient funds to continue executing strategy and deliver new products to the market. The Group's overall objective is to be cash flow positive in the near term and sustainably fund its operations.

Debt capital

The debt restructuring that was completed during the quarter in August 2023 extends the tenure of Loan 2 to 20 March 2025, in line with the maturity date of Loan 1. The restructuring also improved the cash covenant from $1.25m to $1.0m from 1 January 2024. The increased flexibility allows the Group to focus on the execution of strategy in the near term.

STRATEGY

Progress on Strategy Execution –Horizon 1: One to Six months

Priority	Target date[4]	Status
Capability		
Hire key executives.	1 - 6 months	Complete
Build specialist capability to deliver strategy.		Substantially complete
Do the basics well		Complete
Sales		
Increase Young families sales, margins & lifetime value	1 – 6 months	Complete
Renewed focus on Schools & Educators segment		Ongoing
Activate Seniors & Vulnerable Families segment		Go live in Q2FY24
Deliver		
Adventurer 2 Watch	1 - 6 months	Complete
Family-focused mobile virtual network operator (MVNO) service		Due Q2FY24
Device agnostic mobile application product		Complete

[4] Target date from May 2023

Progress on Strategy Execution – Horizon 2: Six to Twenty-Four months

Priority	Target date	Status
Capability		
Deeper and broader expertise to continue strategy delivery	6 - 24 months	Ongoing
Sales		
Optimise sales, margins and customer lifetime value across segments	6 - 24 months	Ongoing
Activate Employers and Workers segment		Not started
Activate Seniors & Vulnerable Families segment		Go live in Q2FY24
Deliver		
Budget Watch	6 - 24 months	Completed in October 23
Product refreshes		Not started
New digital products for several segments		Not started
Expand		
Evaluate new segments and markets	6 - 24 months	Not started
Evaluate options for inorganic growth		Not started

Progress on Strategy Execution – Horizon 3: Twenty-four+ months

Priority	Target date	Status
Expand		
New overseas market entry	24 months+	Not started
Deliver		
Extend existing products	24 months+	Not started
Evaluate new revenue streams		Not started

Statements pursuant to ASX Listing Rule 4.7C

The financial and operational analysis above outlines key activities and developments during the quarter. Key cash flows during the quarter are described below.

Cash in hand on 30 September 2023 was $4.1m (June 30: $3.0m).

Summary cash flows in Appendix 4C

$000	**1Q24**	**1Q23**	**change**
Cash flows from operating activities before one off costs	-1,206	-2,337	-48% ↓
Non recurring one off restructuring costs and discontinued operations	-322	-474	-32% ↓
Investing cash flows	-405	-739	-45% ↓
Financing cash flows	2,947	-96	3166% ↑
Change in cash and cash equivalents	**1,013**	**-3,646**	**128%**
Impact of changes in fx rates	14	-3	-534% ↑
Opening balance	3,026	5,577	-46%
Closing balance	**4,053**	**1,928**	**110%** ↑

Cash flows from operating activities (before one off costs) improved compared with prior year due to:

- Higher revenue compared to prior year, resulting in higher receipts from customers.
- Lower investment in working capital, with a $0.3m decrease (inflow) in current year vs $0.1m increase (outflow) in the pcp. The Group continues to improve working capital management, driving better cash flow management.
- Q4FY23 cash flows affected by $0.3m non-recurring one-off costs, including overseas exit cash costs of $0.2m, and $0.1m in redundancies and consultancy costs. Prior year one off costs are related with discontinued operations.

Payments to related parties and their associates during the quarter amounted to $137k, and this related to the CEO and Directors remuneration for services provided.

Investment cash flow is predominantly product development costs.

For further information, please contact:

Spacetalk Limited (ASX: SPA)
Simon Crowther
CEO and Managing Director
T: 1300 087 423

Media & Investor Enquiries
The Capital Network
Julia Maguire
P: +61 2 8999 3699
E: julia@thecapitalnetwork.com.au

About Spacetalk Limited (ASX: SPA)

Spacetalk Limited (ASX: SPA) is a software services and smartwatch hardware product developer. As a package, the company's technology platform provides a complete digital communication solution that supports safety and security for families across their life cycles and for employees working in remote settings. The company's unique proprietary ecosystem, which has continued to evolve over time, is today recognised as a leader in family safety and the connected wearables industry.

The Spacetalk technology platform comprises both market-leading hardware and a trusted, client-controlled software platform that provides safety and security to users via the benefits of mobile technology.

The multi-functional Software-as-a-Service Spacetalk App can be customised, giving clients the ability to enable or disable individual features. Parents are empowered to block their child's access to the open internet, social media and inappropriate adult content while simultaneously blocking calls and messages from unknown senders. The app can also track the location of vulnerable family members, including children and seniors requiring constant monitoring.

Spacetalk's best-in-class software platform additionally supports children's development by facilitating engaging, confidence-building experiences that the whole family can participate in and enjoy.

Spacetalk's core hardware, its smartphone-watch, is effectively a child's first mobile phone. It offers all the benefits of a smartphone, operating on a secure, private and parent-controlled ecosystem that can be customised to reflect each family's needs and values.

To learn more, please visit: www.spacetalk.co.

For more information

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This ASX announcement has been authorised by the Board of Spacetalk Limited (ASX: SPA)

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Spacetalk Ltd

ABN	**Quarter ended ("current quarter")**
93 091 351 530	September 2023

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (3 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	4,469	4,469
1.2	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs	(1,592)	(1,592)
	(c) advertising and marketing	(208)	(208)
	(d) leased assets	(29)	(29)
	(e) staff costs	(1,699)	(1,699)
	(f) administration and corporate costs	(2,023)	(2,023)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	(124)	(124)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material) *	(322)	(322)
1.9	**Net cash from / (used in) operating activities**	**(1,528)**	**(1,528)**

* Relates to non-recurring, one off corporate restructuring costs, including redundancies and overseas exit payments.

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant, and equipment	(2)	(2)
	(d) investments	-	-
	(e) intellectual property	(403)	(403)
	(f) other non-current assets	-	-

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (3 months) $A'000**
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	Other (provide details if material)	-	-
2.6	**Net cash from / (used in) investing activities**	**(405)**	**(405)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	3,026	3,026
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	(79)	(79)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings		-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	**Net cash from / (used in) financing activities**	**2,947**	**2,947**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	3,026	3,026
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,528)	(1,528)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(405)	(405)

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (3 months) $A'000**
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,947	2,947
4.5	Effect of movement in exchange rates on cash held	14	14
4.6	**Cash and cash equivalents at end of period**	**4,053**	**4,053**

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	4,022	4,022
5.2	Call deposits	31	31
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)**	**4,053**	**4,053**

6.	**Payments to related parties of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to related parties and their associates included in item 1	137
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

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.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	5,000	5,000
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	**Total financing facilities**	5,000	5,000

7.5	**Unused financing facilities available at quarter end**	NIL

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.

Facility is a term loan with 2 tranches from Pure Asset Management with the following terms:

- secured
- First Loan interest rate 9.50% pa
- Second Loan interest rate 9.50% pa
- maturity dates
  - First Loan ($3m) 20 March 2025
  - Second Loan ($2m) 20 March 2025

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,528)
8.2	Cash and cash equivalents at quarter end (item 4.6)	4,053
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	4,053
8.5	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	2.7

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 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:

8.6.2 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:

8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?
	Answer:
	Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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: 20 October 2023 ....

Authorised by: ......By the Board...
(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 – eg 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.