

ASX Announcement | 23 January 2024
Spacetalk Limited (ASX: SPA)

QUARTERLY ACTIVITIES REPORT AND BUSINESS UPDATE AND APPENDIX 4C FOR THE QUARTER ENDED 31 DECEMBER 2023

Spacetalk Delivers 28% Annual Recurring Revenue and 272% Spacetalk Mobile Subscriber Growth During December 2023 Quarter Compared with Prior Year

Spacetalk Limited (ASX: SPA) (“Spacetalk” or “the Company”) is pleased to provide its Appendix 4C for the quarter ended December 31 (Q2 FY24) along with the following operational update.

Highlights

- Annual recurring revenue (ARR) increased 28% vs prior corresponding period (“pcp”) to \$9.5m and 7% vs Q1FY24.
- Active subscriber growth for Spacetalk Mobile (MVNO) grew 272% vs pcp and 58% vs Q1FY24 to over 26,000 active subscribers.
- Group revenue from continuing operations increased 6% vs pcp to \$5.5m.
- Continued momentum towards our target of achieving neutral free cash flow in 2H 2024.
- Significant progress on strategy execution with new products released.
- Cash in bank of \$2.9m at period end.

Growth in total group revenue for the quarter of 6% vs pcp was driven by the subscription-based revenue streams.

The December quarter results reflected the Company’s strategic shift to a subscription-based business model with the 28% increase in ARR to \$9.5m in the quarter ended 31 December 2023 and a 10% increase in combined App & Spacetalk Mobile subscribers to 70,955.

Spacetalk Mobile subscribers grew to 26,036 at the end of the quarter, a 58% growth on closing Q1FY24 and 77% growth on closing Q4FY23. The Q2FY24 ending subscriber position represents 272% growth over 12 months.

The Company continued to reduce its quarterly cash outflow. On an underlying basis, cash outflow from operating activities of \$0.6m in the December quarter compared to outflows of \$1.2m and \$0.7m in the preceding September and June quarters¹.

Reported net operating cash outflow of \$1.1m for the December quarter included a \$0.5m one-off expense from exiting overseas operations - no further material costs from this exit are expected to be incurred.

¹ Spacetalk Limited began issuing quarterly Appendix 4C cash flow statements in calendar year 2023 so there is no comparable report for the December quarter of CY2022.

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

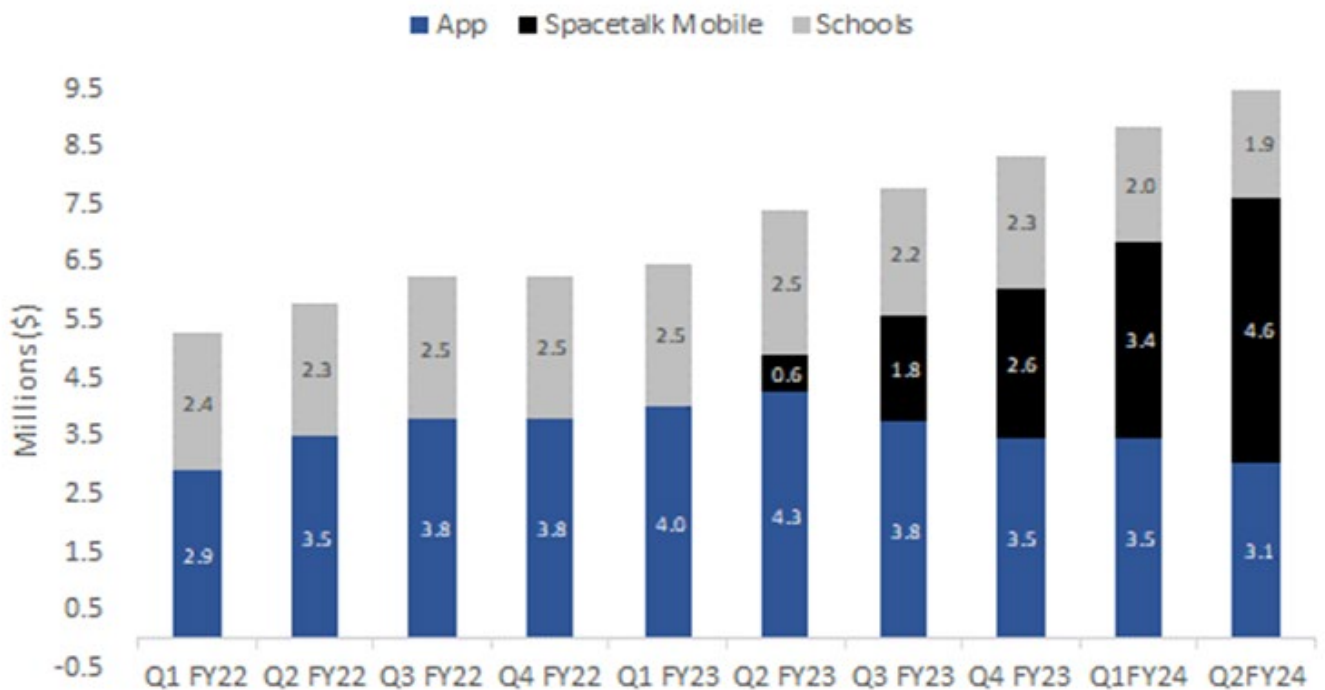
"I am delighted with the progress during Q2 of the 2024 financial year. The positive metrics reflect the focused delivery of outcomes we detailed in our strategy. Our objective is to build a unique ecosystem of interconnected products that deliver safety and security for families. Spacetalk Mobile is the key component that connects the Spacetalk suite of products and Mobile subscriber growth since launch in November 2022 is encouraging. Most importantly it demonstrates our ability to forge enduring relationships with our customers as we transition with them during their key life stages."

I am excited about the potential to grow Spacetalk and we are confident that we are on track to deliver our long-term objectives. The 28% growth in ARR to \$9.5m continues our momentum to achieving our target of \$20m - \$25m ARR in 3 years from FY23".

Annual Recurring Revenue (ARR)

ARR growth has been underpinned by the launch of Spacetalk Mobile during FY23 as a key component of the Company's strategy to shift revenue to a higher yielding subscription model.

- Spacetalk Mobile revenue now represents 48% of ARR vs 39% in Q1FY24 and 31% in Q4FY23.
- App ARR declined vs pcp as subscribers migrated to Spacetalk Mobile, where the App is bundled with the mobile service.
- A decline in Schools ARR vs pcp reflects the temporary decline in SMS usage and is expected to recover in the future, with the Company having invested in improvements in Schools' technology platform and with new sales initiatives.



December Quarter Revenue

The overall 6% increase in group revenue from continuing operations to \$5.5m featured 400% growth in Spacetalk Mobile revenue and combined 64% growth in revenue from App and Spacetalk Mobile.

- App revenue declined 11% on a standalone basis compared to pcp as customers migrated to higher average revenue per user Spacetalk Mobile
- A 9% decrease in Device revenue was the result of a 9% decrease in sales volume, resulting from the optimisation of retailer pipe fill to manage retailer inventory against demand.
- Hardware's revenue performance was positive given the overall market category decline.
- Schools' revenue declined 17% to \$0.5m, reflecting the decline in SMS usage.

Revenue (\$m)	2Q24	2Q23	change
Device revenue	3.2	3.5	-9% ↓
Spacetalk Mobile	1.0	0.2	400% ↑
Apps	0.8	0.9	-11% ↓
Schools	0.5	0.6	-17% ↓
Total	5.5	5.2	6% ↑

Revenue Mix and Gross Profit Margins

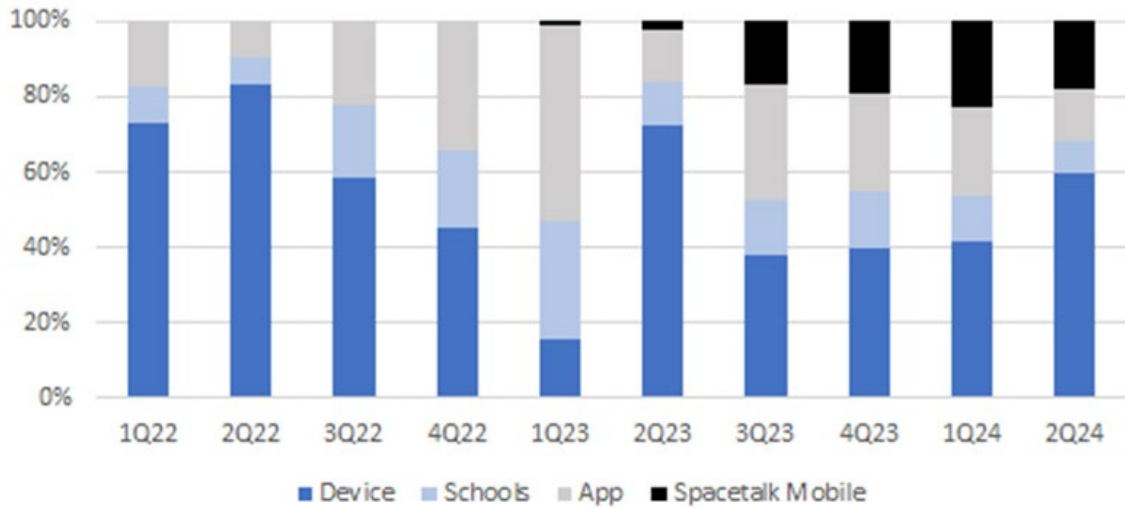
Recurring revenue comprised 40% of December quarter revenue, compared to 32% a year earlier (Q2FY23). Spacetalk Mobile and App revenue contributed 32% of revenue group revenue, compared to 21% a year earlier.

A gross profit margin to 50% in the December quarter represented a 14 percentage points increase vs pcp, primarily driven by the shift in revenue mix as well as improved unit economics:

- Improvement in Spacetalk Mobile margin to 58% compared to -71% in prior year (prior year was impacted by one off launch costs)
- Device margin improvement of 12 percentage points to 34%, driven by better product mix and controlled discounting and promotional activity, in addition to setting better commercial terms with retailers.
- App and Schools gross profit margins remained consistent with pcp, at approximately 79% and 95% respectively.

The following Quarterly Revenue Mix chart shows the progression over time, while also reflecting seasonality in hardware sales that skew the mix when comparing one quarter to the next.

Quarterly Revenue Mix



Operating Expenses

Cash-based expenses from continuing operations were flat at \$3.3m for the December quarter vs pcp. Non-cash share-based payments and costs incurred in building organisational capacity led to a 15% increase in total costs from continuing operations to \$3.9m.

Capital, Cash Flow & Funding

An additional \$364k of equity was issued during the December quarter from the shortfall from the rights issue concluded in the prior quarter.

The Company held \$2.88m cash at December 31, 2023. The Company's fully drawn debt facilities, amounting to \$5m, have a maturity date of March 20, 2025.

FY24 STRATEGY UPDATE

- | | | |
|---|---|--------------------|
| 1 | Raise funds to support strategy delivery | Complete |
| 2 | Get to cash positive | Anticipated Q4FY24 |
| 3 | Wind down US & UK operations | Complete |
| 4 | Hire org backbone (Segment Sales, Engineering, Product) | Complete |

5	Align whole business behind Spacetalk brand	Complete
6	Review MVNO commercial agreements	Complete
7	Reset & increase Australian education sales	Planned H2FY24
8	Reset & increase ANZ retail 'Kids Watch' sales	Complete
9	Reset & increase ANZ eComm 'Kids Watch' sales	Complete
10	Evaluate & launch* 'Agnostic App' (Family App)	Complete
11	Evaluate & launch* 'MVNO Family Plan'	Complete
12	Activate ANZ '24/7 monitoring' 'Life' sales channel	Planned Q3FY24
H2	Evaluate and upgrade* 'Schools Messaging Product Suite'	Complete (Additional Item - Moved Forward From H2)
H2	Evaluate & launch* 'Budget Watch'	Complete (Additional Item - Moved Forward From H2)

Statements pursuant to ASX Listing Rule 4.7C

A \$0.6m cash outflow from operating activities, before one off costs, showed the Company is continuing to progress towards its target of neutral free cash flow in 2H 2024. This underlying result reflected strong working capital management during the quarter. The improvement in product mix and the resultant increase in high margin recurring revenue, has enhanced gross margin and cash generation.

Summary of underlying net operating cash flow v reported Appendix 4C figures.

Quarter Ended (\$m)	30 Jun, 2023	30 Sep, 2023	31 Dec, 2023
Net operating cash flow before one-off costs	-0.74	-1.21	-0.59
One-off costs	-0.78	-0.32	-0.49
Reported net operating cash flow	-1.52	-1.53	-1.08

Payments to related parties and their associates during the quarter amounted to \$163k, and this related to the CEO and Directors remuneration for services provided.

Investment cash flow is predominantly product development costs.

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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)

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Appendix 4C

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

Name of entity

Spacetalk Ltd

ABN

93 091 351 530

Quarter ended ("current quarter")

December 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	5,502	9,971
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(1,617)	(3,209)
(c) advertising and marketing	(197)	(405)
(d) leased assets	(29)	(58)
(e) staff costs	(1,936)	(3,636)
(f) administration and corporate costs	(2,188)	(4,210)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(118)	(242)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material) *	(494)	(817)
1.9 Net cash from / (used in) operating activities	(1,078)	(2,606)

* 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	(28)	(30)
(d) investments	-	-
(e) intellectual property	(359)	(763)
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 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	(387)	(793)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	364	3,389
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	(21)	(100)
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	343	3,289

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,053	3,026
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,078)	(2,606)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(387)	(793)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	343	3,289
4.5	Effect of movement in exchange rates on cash held	(48)	(33)
4.6	Cash and cash equivalents at end of period	2,883	2,883

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	2,852	2,852
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)	2,883	2,883

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	163
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	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
	<i>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.</i>		
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: <ul style="list-style-type: none"> - secured - First Loan interest rate 9.50% pa - Second Loan interest rate 9.50% pa - maturity dates <ul style="list-style-type: none"> o First Loan (\$3m) 20 March 2025 o 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)	(1,078)
8.2	Cash and cash equivalents at quarter end (item 4.6)	2,883
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	2,883
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.7
	<i>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.</i>	
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.

23 January 2024

Date:

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.