

18 March 2024

Strategic Acquisitions and Equity Raising

Sovereign Cloud Holdings Limited (**AUCloud** or **Company** or **SOV**) (ASX:SOV) today announced that it has entered into binding agreements to acquire three strategically aligned businesses that will deliver the Company further product, revenue and geographic diversification, and underpins the Company's pathway to profitability in FY25.

Highlights

- Executing on the strategic review announced in June 2023, to build, partner & acquire new capabilities in cyber security and partner in the multi-Cloud and Public Cloud markets to leverage the capital invested in the existing four Sovereign Cloud platforms.
- Three strategically aligned acquisitions (**Acquisitions**) with the combined business (**MergeCo**)¹ focused on capital-light, diversified cyber security and cloud solution offering with a national footprint.
- Transformational growth driven by business combination that brings higher margin product diversification, broader geographic diversification and a scaled platform with clearly identified synergies.
- MergeCo forecast to achieve FY25F Underlying EBITDA of ~\$4.7m² on FY25F revenue of \$36.6m, with transition to positive monthly operating cash flow in 1HFY25³.
- Leadership change in February 2023 came with a proven track record of delivering M&A growth and synergies in the technology sector.
- Builds on the sales momentum in the underlying cloud solutions business that has seen the new management team deliver between 1H23 and 1H24; revenue⁴ growth of 58%, ARR⁵ growth of 41%, ARPU⁵ growth of 16%, whilst reducing expenses by 19%.
- Equity raising of a minimum \$25m (underwritten) and up to \$30m (**Offer**) to fund cash consideration under the Acquisitions, transaction costs and working capital.

Transaction Overview

The Company has entered into binding agreements for the acquisitions of:

1. 100% interest in **PCG Cyber Pty Ltd (PCG Cyber)**

- A Canberra based cybersecurity consultancy firm specialising in Australian Government security advice and operations.

¹ MergeCo represents a combined entity including AUCloud, Arado, Venn IT and PCG Cyber.

² Underlying EBITDA is post-AASB16 and excludes one-off acquisition and restructuring costs of \$1.3m, and the impact of Share Based Payments.

³ Assumes completion of Acquisitions and consolidation of accounts from 30 April 2024.

⁴ Comprises actual AUCloud's cloud and cyber revenue.

⁵ AUCloud standalone actual ARR and ARPU. Annual Recurring Revenue (ARR) is calculated as the average monthly revenue of the preceding rolling 3 months, multiplied by 4. ARR excludes one-off professional services or project-based revenue. Average Revenue Per User (ARPU) per annum is calculated by dividing ARR by the number of customers.

- Total purchase price of \$15.0m comprising \$11.875m of cash consideration at completion, \$2.5m worth of fully paid ordinary shares (**Shares**) in the Company (**Consideration Shares**) and deferred cash consideration of \$0.625m (180 days deferral) to satisfy completion adjustments and claims under the share purchase deed. The Consideration Shares will be issued at the lower of the Offer Price (see below) and the 14 day VWAP of the Shares prior to completion of the acquisition and will be subject to voluntary escrow for six months from completion. The Company has also agreed to issue an aggregate of 750,000 options to employees of PCG Cyber in conjunction with the acquisition.

2. 100% interest in **Venn IT Solutions Pty Ltd (Venn IT)**

- A Queensland and South Australia based MSP and professional consulting business, data resilience & backup protection specialist servicing customers in the mining, financial services, education, and distribution sectors.
- Total purchase price of up to \$6.0m comprising \$3.075m of cash consideration at completion, \$2.85m worth of Consideration Shares, deferred cash consideration of \$0.075m (180 days deferral) to satisfy completion adjustments and claims under the SPD, and an earn out payment of up to \$2.0m, subject to net revenue targets being achieved for FY25 and FY26. The Consideration Shares will be issued at the lower of the Offer Price (see below) and the 14 day VWAP of the Shares prior to completion of the acquisition and will be subject to voluntary escrow for 24 months from completion.

3. Business and assets of 'Arado'⁶ pursuant to a business and asset sale deed (**Arado**)

- Arado is a suite of cloud and managed services, with a strong presence in Queensland. Arado has a customer base in State & Local Government and enterprise accounts across various sectors, including agriculture, industrial, health and resources.
- Total purchase price of \$7.0m comprising \$3.325m of cash consideration, \$3.5m worth of Consideration Shares and deferred cash consideration of \$0.175m (180 days deferral) to satisfy completion adjustments and claims under the business and asset sale deed. The Consideration Shares will be issued at the lower of the Offer Price (see below) and the 14 day VWAP of the Shares prior to completion of the acquisition and will be subject to voluntary escrow for 12 months from completion.

The Acquisitions are subject to customary conditions precedent including with respect to raising funds under the Offer and shareholder approval for the issue of the Consideration Shares. A summary of the key terms and conditions of the acquisition agreements is set out in the investor presentation released to ASX today. ASX has provided in-principle advice that the Acquisitions will not require shareholder approval under Listing Rule 11.1.2 or re-compliance under Listing Rule 11.1.3.

Completion of the Acquisitions is expected to take place on 30 April 2024 subject to the conditions precedent having been satisfied or waived, or such later time as agreed between the parties.

⁶ From Canopy Tools Group Pty Ltd, CT4 Pty Ltd, and NewBase Computer Services Pty Ltd.

Strategic Rationale

- The three acquisitions create a platform for a scaled enterprise in a fragmented cloud and cyber security sector. The Company is targeting strong business economics at customer and margin level and continued M&A to scale up quickly through further waves of accretive acquisitions to absorb high-quality cyber businesses.
- Each of the target companies and business is independently profitable in 1H FY24, and has a diversified customer base with predictable revenue and CAPEX light business model. Post-completion of the Acquisitions, MergeCo is expected to have ~84% ARR.
- The Acquisitions leverage capital deployed in sovereign cloud infrastructure increasing utilisation of the built capacity, along with revenue, product and geographic diversification spanning cyber security and secure cloud solutions to increase competitiveness.
- Corporate Australia and Government entities continue to focus on strengthening their cloud and cyber security posture, with >60% of Australian companies expected to increase cyber budgets in 2023⁷.

Combined MergeCo financial profile

- MergeCo forecast to deliver FY24F pro forma revenue of \$28.9m, FY25F revenue of \$36.6m, FY24F pro forma Underlying EBITDA loss of \$2.0m and FY25F Underlying EBITDA of \$4.7m⁸
- MergeCo operating cash flow profile forecast to turn positive within 1H FY25⁹
- MergeCo's financial profile is supported by clearly identified synergies, expected to be realised immediately after completion of the Acquisitions

Further details of the target companies and businesses and the expected impact on the financial position and capital structure of the Company are set out in the investor presentation released to ASX today.

Funding

The Company is undertaking an accelerated renounceable entitlement offer of up to \$30 million (underwritten to \$25 million) to fund the cash consideration under the Acquisitions and transaction costs. The balance of the net proceeds will be used toward funding MergeCo's working capital requirements.

Ord Minnett Limited is acting as Sole Lead Manager, Bookrunner and Underwriter to the Offer. Maddocks is acting as legal adviser to the Offer and the Acquisitions.

The Company will also issue to the vendors scrip consideration for the Acquisitions via the

⁷ Source: "Rising demand for cyber security creates investment opportunities".

⁸ FY24F pro forma represents aggregated MergeCo financials as if the Acquisitions and synergies occurred at the beginning of the period; FY25F is based on forecast on a MergeCo basis. Financial information presented on a post-AASB16 basis.

⁹ Assumes completion of Acquisitions and consolidation of accounts from 30 April 2024.

issue of Consideration Shares with an aggregate value of \$8.85 million (at a price equal to the lower of the 14-day VWAP prior to completion and the Offer Price). The issue of the Consideration Shares is subject to shareholder approval at an EGM to be held in April 2024 (see further detail below).

Overview of the Offer

The Company is conducting a pro-rata 2.95 for 1 accelerated renounceable entitlement offer, underwritten to \$25 million to fund the cash consideration for the Acquisitions, transaction costs and working capital for MergeCo.

Under the Offer, eligible shareholders are entitled to acquire 2.95 new SOV Share (**New Shares**) for every 1 existing SOV Shares (**Entitlement**) held as at 7.00pm (Melbourne time) on Thursday, 21 March 2024 (**Record Date**), at the Offer Price of \$0.03 per New Share.

The Offer Price represents:

- a 9.6% discount to the theoretical ex-rights price¹⁰ of \$0.033; and
- a 26.8% discount to SOV's closing share price of \$0.041 on 15 March 2024.

Approximately 833.3 million New Shares will be issued under the Offer, which represents around 245.5% of SOV's existing shares on issue, based on the Company raising \$25 million, or 1,000 million New Shares based on the Company raising the full \$30 million. The New Shares issued through the Offer will rank equally with existing SOV shares in all respects.

NEXTDC (which currently holds 33.6% of the Company's share capital) has committed to subscribe for up to \$12.6 million under the Offer, via taking up its full entitlement under the Institutional Entitlement Offer of \$10.1 million and sub-underwriting \$2.5 million of the Retail Offer).

In addition, the Company has received binding commitments from certain directors to take up their entitlements either in full or in part or to sub-underwrite the Offer.

Directors and their related entities have provided upfront binding commitments of \$15.7 million in the form of the take up of entitlements and sub-underwriting of the Offer.

The Offer is available to all shareholders who hold shares on the Record Date with a registered address in Australia and New Zealand (**Eligible Shareholders**). Shareholders who are not Eligible Shareholders are **Ineligible Shareholders**.

The Offer comprises:

1. the **Institutional Entitlement Offer** - Eligible institutional shareholders will be approached and required to decide whether or not they will take up their Entitlement in full or part. Entitlements under the Institutional Entitlement Offer are renounceable but not able to be traded on ASX. Entitlements not taken up by Eligible Institutional Shareholders and Entitlements of Ineligible Institutional Shareholders will be offered under a bookbuild to certain

¹⁰ The Theoretical Ex-Rights Price ("TERP") is the theoretical price at which SOV shares should trade immediately after the ex-date for the Entitlement Offer. The TERP is a theoretical calculation only and the actual price at which SOV shares trade immediately after the ex-date for the Entitlement Offer will depend on many factors and may not equal the TERP. TERP is calculated by reference to SOV's closing price of \$0.041 on 18 March 2024.

institutional investors (including those Eligible Institutional Shareholders who took up their full Entitlement);

2. the **Retail Entitlement Offer** - Eligible retail shareholders will be offered the opportunity to participate in the Offer on the same terms as institutional shareholders and may elect to take up their Entitlement in full or part. Entitlements under the Retail Entitlement Offer are renounceable but not able to be traded on ASX. Under the Retail Entitlement Offer, Eligible retail shareholders who take up their full Entitlement may also apply for additional New Shares in excess of their Entitlement at the Offer Price (subject to scale back at AuCloud's discretion). Entitlements not taken up by Eligible Retail Shareholders and Entitlements of Ineligible Retail Shareholders will be offered under a bookbuild to certain institutional investors, to be conducted after the close of the Retail Entitlement Offer.

If the price at which the entitlements of renouncing shareholders or Ineligible Shareholders are sold under the bookbuilds exceeds the Offer Price, that premium amount will be paid on a pro-rata basis to Ineligible Shareholders and renouncing shareholders.

Based on the number of Shares on issue as at the date of the Offer, a maximum of 1,001.2 million New Shares (subject to rounding) will be issued under the Offer and 833.3 million New Shares will be issued if only the underwritten amount of \$25 million is raised. Ineligible Shareholders or Eligible Shareholders who renounce their Entitlements will have their percentage shareholding in the Company diluted as a result of the Offer.

Eligible Retail Shareholders will be sent a copy of the Offer Booklet and personalised entitlement and acceptance form on Monday, 25 March 2024. The Retail Entitlement Offer opens on Monday, 25 March 2024 and will close at 5.00pm (Melbourne time) on Wednesday, 10 April 2024 (unless extended).

Extraordinary General Meeting

The Company will convene an extraordinary general meeting, anticipated to be held on 24 April 2024 (**EGM**), at which it will seek shareholder approval for certain matters including:

- the issue of the Consideration Shares under the Acquisitions;
- a 10 for 1 consolidation of the Company's share capital following completion of the Offer and Acquisitions with an effective date of 1 June 2024;
- the adoption of a new Long Term Incentive Plan;
- the grant of options and performance rights to the Managing Director and CEO; and
- amendment of the Company's constitution to permit virtual meetings.

The Notice of Meeting for the EGM, setting out further details of the above proposals is expected to be released to ASX and despatched to shareholders on 25 March 2024.

Key Dates¹¹

¹¹ All dates are indicative only and subject to change. SOV and the Sole Lead Manager reserve the right to withdraw or vary the timetable subject to the ASX Listing Rules.

Event	Date
Announcement of Acquisition and Offer and trading halt	Monday, 18 March 2024
Institutional Entitlement Offer bookbuild	Monday, 18 March 2024
Institutional Shortfall Bookbuild	Tuesday, 19 March 2024
Trading halt lifted and announcement of outcome of the Institutional Entitlement Offer	Wednesday, 20 March 2024
Record date under the Offer	Thursday, 21 March 2024
Retail Entitlement Offer Period Opens and Offer Booklet despatched	Monday, 25 March 2024
Settlement of Institutional Entitlement Offer	Wednesday, 27 March 2024
New Shares allotted under the Institutional Entitlement Offer	Thursday, 28 March 2024
Retail Entitlement Offer closes ¹²	Wednesday, 10 April 2024
Settlement of Retail Entitlement Offer, including the Retail Shortfall	Wednesday, 17 April 2024
Allotment of securities issued under the Retail Entitlement Offer	Thursday, 18 April 2024
Extraordinary General Meeting	Wednesday, 24 April 2024
Target date for completion of the Acquisitions	Tuesday, 30 April 2024

If you have any further questions, you should contact your stockbroker, solicitor, accountant, financial adviser or other professional adviser.

Important information

This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States, or in any other jurisdiction in which such an offer would be illegal. The securities referred to in this document have not been and will not be registered under the United States Securities Act of 1933 (the **US Securities Act**), or under the securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, within the United States, unless the securities have been registered under the US Securities Act or an exemption from the registration requirements of the US Securities Act is available.

This document may not be distributed or released in the United States.

This announcement contains certain 'forward-looking statements' within the meaning of the securities laws of applicable jurisdictions. Forward-looking statements can generally be identified by the use of forward-looking words such as 'may,' 'should,' 'expect,' 'anticipate,' 'estimate,' 'scheduled' or 'continue' or the negative version of them or comparable terminology.

¹² Eligible Shareholders who wish to take up all or a part of their Entitlement must complete and return their personalised Entitlement and Acceptance Form with the requisite Application Monies or pay their Application Monies via BPAY® by following the instructions set out on the personalised Entitlement and Acceptance Form so that they are received by the Company's Share Registry by no later than 5.00pm (Sydney time) on 10 April 2024.

ASX Announcement (SOV)



Any forecasts or other forward looking statements contained in this announcement are subject to known and unknown risks and uncertainties and may involve significant elements of subjective judgment and assumptions as to future events which may or may not be correct. There are usually differences between forecast and actual results because events and actual circumstances frequently do not occur as forecast and these differences may be material. AUCloud does not give any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur and you are cautioned not to place undue reliance on forward-looking statements.

This ASX announcement was authorised for release by AUCloud's Board of Directors.

Peter Maloney

Managing Director

18 March 2024

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About AUCloud

AUCloud is an Australian owned and operated Cyber Security Managed Security Service Provider (MSSP) and Sovereign Cloud Service (IaaS) specialist that supports Australian Governments, Critical National Industries (CNIs) with the latest sovereign cloud infrastructure, backup and cyber security threat defence and response services. AUCloud solutions enable customers to benefit from sovereign data protection with the scale, automation, elasticity and lower costs typically associated with global cloud offerings.

AUCloud's Sovereign Cloud Service (IaaS) and Cyber Security Solutions are underpinned by a range of security certifications, including "Certified Strategic" on Digital Transformation Agency's Hosting Certification Framework (HCF), assessed to the PROTECTED controls of the Australian Signals Directorate's (ASD) Information Security Manual (ISM) through to the Australian Cyber Security Centre's Cloud Assessment and Authorisation Framework (CAAF), inclusive of the Information Security Registered Assessors Program (IRAP) certification and ISO 27001. This provides AUCloud's customers with confidence that their data is secure and that services are delivered to the highest standards.

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