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SOCO.

ASX ANNOUNCEMENT
30 August 2024

SOCO Corporation Ltd (ASX:SOC)

FY24 Results Announcement

Business returns to profitability in Q4 ($0.8m Operating EBITDA in Q4)

SOCO Corporation Ltd ("Company" or "SOCO"), a leading Australian information technology services consultancy announces its financial results for FY24.

Summary

- Consolidated revenue of $20.6m, up 12% on FY23 (pcp) including an eight month contribution from AxSym
- Operating EBITDA[2] of $0.4m, down 88% on pcp
- Q4 contributed $0.8m Operating EBITDA on revenue of $6.2m
- Net loss after tax of ($0.5m) compared with $1.5m profit in pcp
- Positive cash conversion of $0.7m prior to acquisition costs
- $15.5m of revenue already contracted for FY25 with a strong sales pipeline and cross-sell collaboration between SOCO and AxSym generating excellent results in Q1 FY25
- Revenue growth of over 30% expected in FY25
- Sebastian Rizzo confirmed as permanent CEO
- Net cash on hand of $1.9m, in addition to available undrawn facility of $2.5m

Sebastian Rizzo confirmed as CEO

The Board is pleased to advise that Sebastian Rizzo will assume the role of CEO on a permanent basis, effective immediately. As one of SOCO's founders, Sebastian brings a wealth of experience and deep insights into SOCO's business operations. His leadership during the interim period has been invaluable, realigning key personnel, focusing on clients, sales, delivery, and critically, returning the company to profitability in Q4.

"Trading conditions were challenging for SOCO in FY24, but I am incredibly proud of how the team responded, delivering in Q4. With $15.5m of work already signed for FY25 we have laid strong foundations for profitable growth."

Sebastian Rizzo, Founder and CEO

Sebastian Rizzo, CEO

1. Operating EBIT is a non-IFRS metric and is calculated as net profit before interest, fair value of contingent consideration, acquisition costs, IPO expense, public company cost, share-based remuneration, and taxes. These measures, which are unaudited, are important to management as an additional way to evaluate the Group's performance.

2. Operating EBITDA is Operating EBIT before depreciation and amortisation.

Financial results - profitability restored in Q4

Consolidated revenue for FY24 was up 12% on pcp which included eight months trading from AxSym.

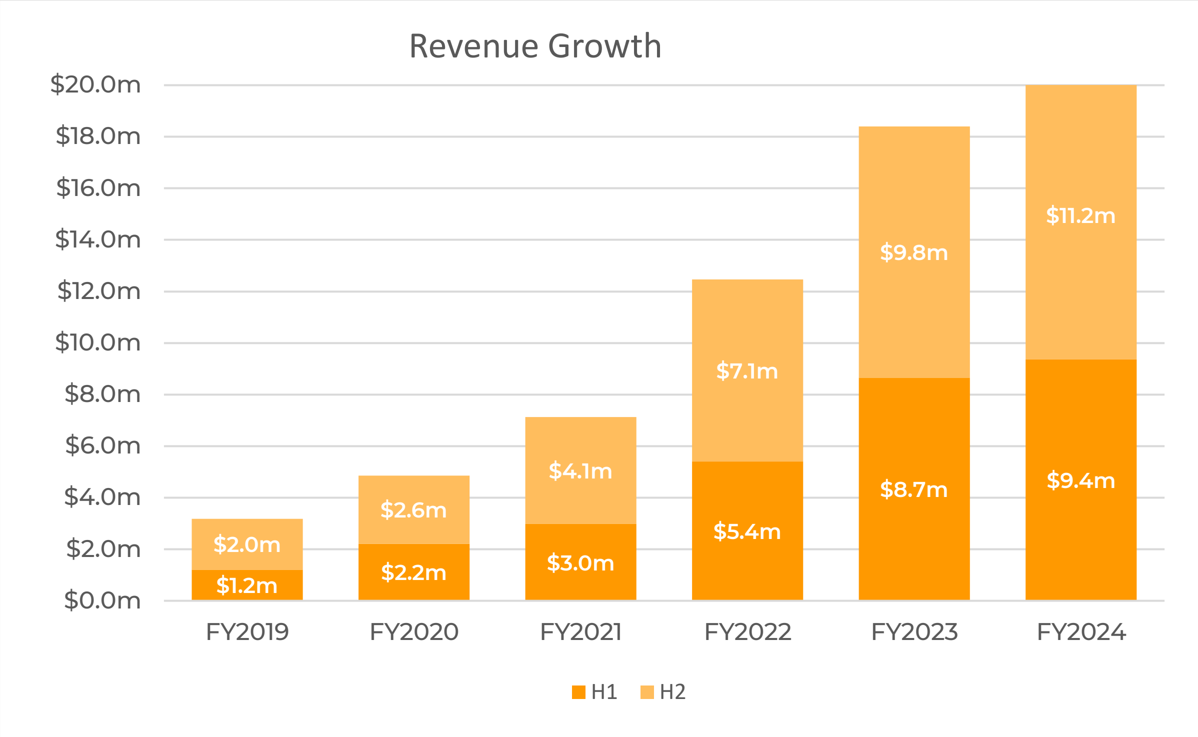

Figure 1: FY24 revenue of $20.6m represents growth of 11.7% over FY23

H1 was impacted by industry-wide delays and slowing demand from the Federal Government. Excess capacity was initially retained, and the business was right-sized in Q3 in response to delays.

SOCO experienced a more normal Q4 with higher utilisation and no restructuring costs. As a result, the Company delivered an Operating EBITDA profit of $0.8m and revenue of $6.2m for the quarter.

Summary Statement of Profit or Loss

	30 Jun 2024 $	30 Jun 2023 $
Revenue	20,559,571	18,405,227
Operating EBITDA[2]	424,143	3,675,930
Depreciation	(268,904)	(300,666)
Amortisation of acquired intangibles	(443,472)	-
Operating EBIT[1]	(288,233)	3,375,264
Net interest income/(expense)	39,237	32,665
Net profit before income tax and significant items	(248,996)	3,407,929
Significant items:		
Fair value of contingent consideration	716,662	-
Acquisition costs	(440,700)	-
IPO expense	-	(899,523)
Public company cost	(457,382)	(270,646)
Share-based remuneration	(281,784)	(162,858)
Net profit before income tax expense	(712,200)	2,074,902
Income tax expense	226,030	(592,679)
Net profit after income tax expense	(486,170)	1,482,223
NPATA[3]	(153,566)	1,482,223

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2. Operating EBITDA is Operating EBIT before depreciation and amortisation.

3. NPATA is net profit after tax and before the amortisation of acquired intangibles.

Following a detailed review of software licensing agreements, SOCO has revised its accounting policy for the recognition of sales of software licenses to account for this revenue as an agent. There was no effect on profit and the comparative consolidated statement of profit or loss for the change in accounting policy is shown below:

	Previously reported $	Adjustment $	Restated $
Year ended 30 June 2023			
Revenue from contracts with customers	19,693,164	-1,287,937	18,405,227
Cost of providing services	-12,309,016	1,287,937	-11,021,079
Gross margin	7,384,148	0	7,384,148

AxSym acquisition

The integration of AxSym is complete and the collaboration is delivering synergies. Several important contracts have been signed where AxSym relationships have leveraged SOCO capabilities and vice versa.

AxSym delivered revenue in line with expectations for FY24.

Like other consultancies operating in Canberra, AxSym was also impacted by delays in Federal Government projects. This reduced utilisation and the FY24 earnout was not met. Consequently, the provision made for earnout payments has been reassessed and a fair value adjustment to contingent consideration of $0.7m has been written back to profit in FY24.

To align interests, the board and AxSym vendors have agreed to extend the earnout period. Profit targets will now align with FY25 and FY26 instead of FY24 and FY25. The total purchase consideration will not change. Interests will be further aligned through the LTI plan.

New Executive Long-Term Incentive (LTI) plan

The Board has introduced a new LTI plan, under the organisation's existing Omnibus Incentive Plan, based on performance over three years. This aims to better align executive incentives with shareholder returns and to focus executive attention on sustainable performance over more than one year via the issue of performance rights. It is proposed that the CEO and key executives be subject to the same performance hurdle, including key executives from AxSym.

This will be based on an EPS target which, if achieved, would result in the performance rights vesting after 30 June 2027. The LTI plan and allocation to the CEO, who is a director, will be subject to shareholder approval at the AGM expected to be held in October 2024.

Trading update and outlook

Whilst market demand from Canberra remains inconsistent, the Company has already signed contracts worth $15.5m for delivery in FY25. Contracts totalling a further $3.5m are late stage in the pipeline.

Pipeline highlights include:

- A joint project with SOCO and AxSym to run a technology transformation for a new client with an initial $1.8m work order and part of a three-year scope of work.
- The appointment to multiple preferred / pre-qualified supplier panels, including Federal, State, and Local Government organisations
- Expanded client base including 6 new clients across Federal, State and Local Government organisations in the past six months
- Diversifying outside the government sector with clients in the Aerospace, Transport, Health, and Aged care sectors

Despite variable market conditions, the Company expects total revenue growth of over 30% in FY25, including a 12 month contribution from AxSym, and with the second half being traditionally stronger than the first.

The business is investing in additional sales and marketing capability to drive further client diversification. While this investment comes at an initial cost in FY25, it is expected to deliver returns in subsequent periods and underpin resilient revenue growth.

Whilst no dividend has been declared in respect of FY24, the Company's stated policy to pay out approximately 40%-60% of SOCO's statutory profit after tax as a dividend, subject Board approval, remains.

Given the focus on operational performance and restoration of stronger profitability, the Board has determined to pause acquisition activity until FY26.

SOCO is well placed to build on the momentum in Q4 FY24 and Q1 FY25. Our competitive advantages and strengths include:

- Alignment to the Microsoft ecosystem, one of the strongest platforms in the world
- Enduring client relationships providing significant follow-on; 85% of revenue in FY24 came from previously existing clients
- The capability of AxSym to sponsor employees in attaining security clearances via membership of the Defence Industry Security Program (DISP)
- Specialisation at the higher value application layers which are less commoditised than the technology and network layers. This includes applications such as:
  - Microsoft 365
  - Dynamics 365
  - Power Platform
  - Azure
- The addition of new growth service offerings to expand contract opportunities for the business. This includes:
  - Microsoft Co-Pilot,
  - AI
  - Security
  - Service Now
- Geographic diversification with new clients outside Queensland and Canberra including in WA, VIC, and NSW
- A value proposition that aligns closely with clients from 500 to 2,000 seats

This announcement has been authorised for release by the Board of SOCO Corporation Ltd.

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ABOUT SOCO

SOCO (ASX:SOC) is one of the few sovereign Australian IT consultancies. SOCO's consulting teams solve business problems by applying and modernising IT systems to improve business processes - digitally transformational outcomes. Key to SOCO's success is the 4D methodology (Discover, Design, Deliver, Drive®), designed to place clients at the heart of the business, creating a genuine partnership every step of the way. SOCO's target markets include federal government, local and state government, along with large corporates. As a people business, SOCO seeks to maintain competitive advantage by creating exceptional employment experiences for our team.