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Netlinkz

QUARTERLY ACTIVITIES REPORT & APPENDIX 4C

SEP QTR 2021

Commentary and Operational Update

Netlinkz Ltd (ASX:NET) (Netlinkz or Company) is pleased to provide an update on its activities for the quarter ended 30 September 2021 ("September Quarter"), together with its Appendix 4C.

The board and Management look forward to providing greater detail regarding operational and business developments in an investor presentation in conjunction with the coming AGM.

Highlights

- Despite the imposition of a 13% VAT in China on hardware sales and the negative effects of COVID on business development including severe imposed limitations on direct client interface, the company earned **cash receipts of \$4.8M and an increase in receivables to \$2.0 million as of 30th September 2021.**
- The proven benefit of the VSN 2.0 and Network-as-a-Service (NaaS) product offered to Enterprise clients has led to an accelerating shift of product/service mix from lower margin hardware sales and engineering integration services to repeat revenue based on migrating existing and new clients to the VSN NaaS. **Recurring revenue for the quarter was over 80% of sales to Enterprise clients vs. 34% in Q1 FY2021.**
- The greater effort in shifting to the NaaS business model for existing and new customers saw a continuing and accelerating increase in operating margin. **Increased operating margins have led to a marked improvement in (unaudited) EBITDA.**
- Enterprise clients have been positive in their reaction to the VSN NaaS business model and technology offer from Netlinkz. **Enterprise clients have increased from 26 to 80 between Q1 FY2021 and Q1 FY2022, with client number growth accelerating globally.**
- R&D expenditure increased to \$0.7 million (\$0.5 million in previous quarter) as a result of additional features, to accelerate the integration process with customers, to be **released in December 2021 in Version 2.2 of the VSN NaaS.**
- **Version 2.2 of the VSN will also combine with an established and operational much-expanded access to Cloud providers.** Client user driven requests have seen Netlinkz establish 'cloud native' presence and use in most of the large Cloud services including Microsoft Azure, AWS, Google Cloud, Alibaba Cloud, JD Cloud and others. The release of VSN 2.2 will enable easy global connectivity to Cloud providers and will facilitate **accelerating growth in Enterprise client numbers.**

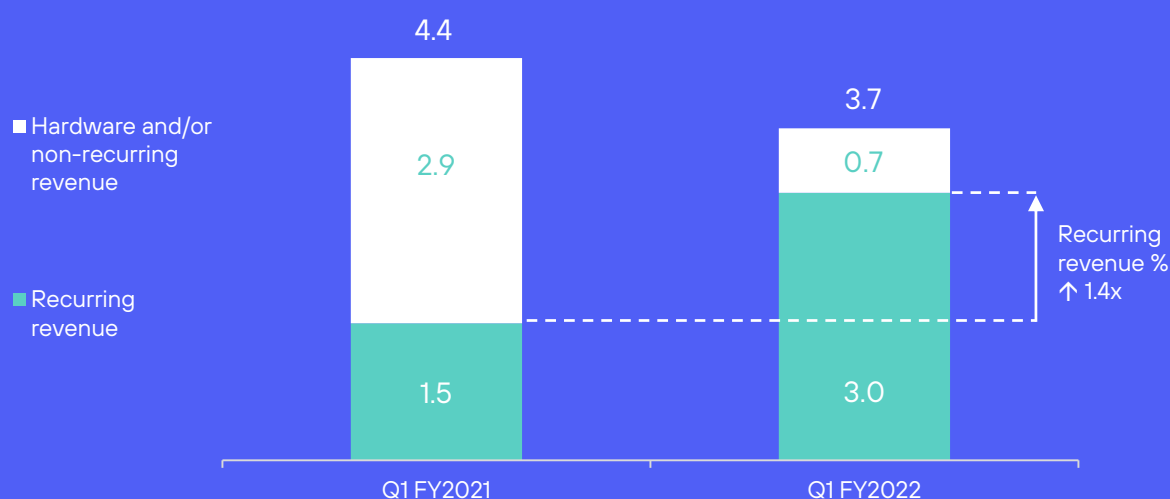
Operational and Corporate overview

Results for the quarter (unaudited)

Revenue of \$3.7 million for the quarter was up by \$0.9 million, or 34%, on the previous quarter and compared to \$4.4 million in Q1 FY2021 of which \$1.6 million was hardware sales. The hardware sales combined with network engineering consulting in previous periods assisted with establishing the Netlinkz brand and VSN 1.0 in the market and building a commercial footprint – at lower operating margins.

The VSN 2.0 NaaS business model is fast gaining acceptance from existing and new clients, lower margin hardware sales have fallen significantly and are being replaced by higher margin recurring revenue.

Revenue composition (A\$m)
Q1 FY2021 vs. Q1 FY2022



Total cash receipts from customers for Q1 FY2022 was \$4.8 million, **an increase of \$3.1 million compared to the previous quarter** and compared to \$5.8 million in Q1 FY2021 (of which \$1.6m was low margin hardware sales).

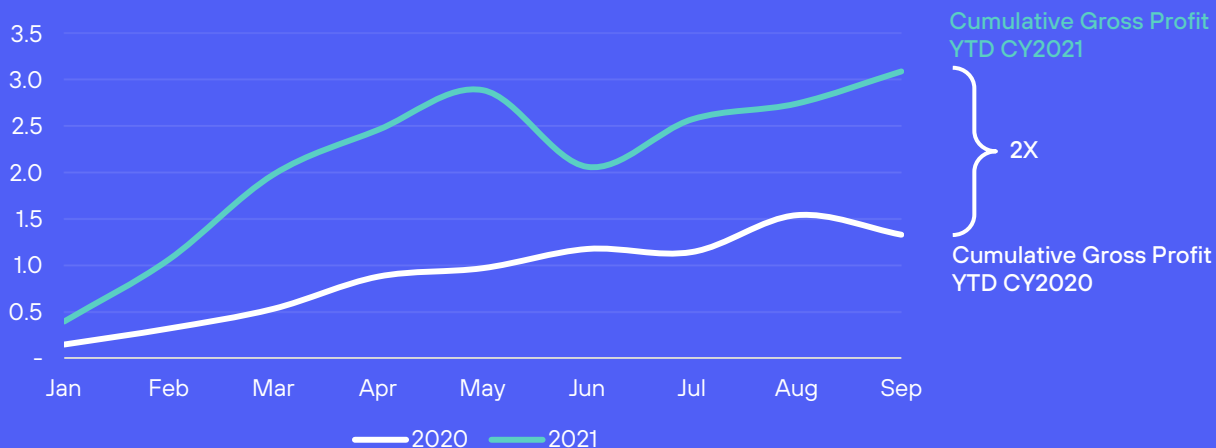
Trade receivables increased \$0.5 million over the quarter to \$2.0 million due to receipts slipping into October.

Reduced operating expenses of ~\$2.5m achieved in Q1 FY2022 (vs. ~\$4.0m being the FY2021 quarterly average). Further initiatives to reduce costs by \$150k to \$250k per quarter are being implemented.

The positive effect on EBITDA that has come with the shift to higher margin recurring revenue and the growth in customer numbers is illustrated in the chart below -

Cumulative gross profit (A\$m)

YTD CY2020 vs. YTD CY2021



Unaudited revenues for the quarter were \$3.6 million with **over 80% being recurring revenue** (Q1 FY2021: \$4.4 million of which ~34% was recurring revenue).

Cash receipts from customers were \$4.8 million, up by \$3.1 million compared to the previous quarter and compared to \$5.8 million in Q1 FY2021. \$0.5 million of receipts due in September 2021 slipped into October, leaving closing trade receivables at ~\$2.0 million.

Product manufacturing and operating costs of \$2.5 million increased as a result of higher sales during the quarter but fell as a % of customer receipts when compared to Q4 FY2021 and the FY2021 quarterly average due to margin improvement from the higher proportion of recurring revenue.

Staff costs remained consistent with the prior quarter reflecting the stabilisation of engineering capability in AoFa and iLinkAll.

Administration and corporate costs increased as a result of one-off costs relating to the May/June 2021 ANREO and a **significant reduction of trade and other payables balance**.

\$0.2 million of debt was extinguished in shares during the period, leaving the Company with total debt of \$1.15 million. Additionally, a supplier invoice totalling \$0.25 million was settled in shares as announced to the ASX on 3 August 2021.

\$0.5 million of cash was generated via the exercise of options during the period.

Cash at the end of the quarter was \$9.1 million.

Other

The Company paid directors \$0.3 million during the quarter comprised of salaries and superannuation.

This report has been approved by the Board of Netlinkz Limited for release to the ASX.

Appendix 4C



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

Name of Entity: **Netlinkz Limited**

ABN: **55 141 509 426**

Quarter ended ("current quarter"): **30 September 2021**

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	4,782	4,782
1.2 Payments for		
(a) research and development	(719)	(719)
(b) product manufacturing and operating costs	(2,477)	(2,477)
(c) advertising and marketing	(37)	(37)
(d) leased assets	(14)	(14)
(e) staff costs	(1,665)	(1,665)
(f) administration and corporate costs	(1,938)	(1,938)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	6	6
1.5 Interest and other costs of finance paid	(94)	(94)
1.6 Income taxes paid	(67)	(67)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	(20)	(20)
1.9 Net cash from / (used in) operating activities	(2,243)	(2,243)

CONSOLIDATED STATEMENT OF CASH FLOWS



2 Cash flows from investing activities	Current quarter \$A'000	Year to date (3 months) \$A'000
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
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)	(30)	(30)
2.6 Net cash from / (used in) investing activities	(30)	(30)

3 Cash flows from financing activities	Current quarter \$A'000	Year to date (3 months) \$A'000
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	520	520
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	-
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)	(46)	(46)
3.10 Net cash from / (used in) financing activities	474	474

CONSOLIDATED STATEMENT OF CASH FLOWS

4 Net increase / (decrease) in cash and cash equivalents for the period	Current quarter \$A'000	Year to date (3 months) \$A'000
4.1 Cash and cash equivalents at beginning of period	10,836	10,836
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,243)	(2,243)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(30)	(30)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	474	474
4.5 Effect of movement in exchange rates on cash held	111	111
4.6 Cash and cash equivalents at end of period	9,148	9,148

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	9,148	10,836
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter	9,148	10,836

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	326
6.2 Aggregate amount of payments to related parties and their associates included in item 2	-

Note: Amount includes salaries, superannuation and directors' fees.

CONSOLIDATED STATEMENT OF CASH FLOWS

7 Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other	1,150	1,150
7.4 Total financing facilities	1,150	1,150

7.5 Unused financing facilities available at quarter end -

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.

In respect of 7.3 above, the facilities are comprised of:

(a) \$1,150,000 in unsecured short term loans with an interest rate of 20% per annum, where the lenders are as follows:

- i. Anathema Pty Ltd <The Anathema Trust> in respect of \$200,000, with a maturity date of 14 December 2021;
- ii. Mrs Joy Elaine Hordern in respect of \$400,000 with a maturity date of 14 December 2021;
- iii. Mr Anthony Phillip Hordern in respect of \$500,000 with a maturity date of 15 December 2021;
- iv. Mrs Rong Xie in respect of \$50,000 with a maturity date of 15 December 2021; and

as announced by the Company on 17 December 2020.

8 Estimated cash available for future operating activities

	\$A'000
8.1 Net cash from/(used in) operating activities (Item 1.9)	(2,243)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	9,148
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	9,148
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	4.1

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

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: N/A

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: N/A

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: N/A

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: 28.10.2021

Authorised by: The Board

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.

See chapter 19 of the ASX Listing Rules for defined terms

Netlinkz Limited (Netlinkz or the Company) (ASX:NET) is a networking vendor with a vision to create secure personalised connections for every user. The Netlinkz VSN solution is a NaaS (Network-as-a-Service) proposition that is user-centric, creating a per-user private network that is available, secure and performance optimised, for authorised users regardless of their location.

The Netlinkz VSN allows enterprises to embrace their new-normal by allowing IT departments to consistently enforce employee connectivity policies (compliance), simplifying operations (cost), improving security (business continuity), while directly correlating technology investment to user-productivity (value).

Netlinkz has received numerous industry awards for its technology, including being a worldwide winner of the Global Security Challenge.

To learn more about Netlinkz technology and the Company please visit www.netlinkz.com

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