

Sovereign Cloud Holdings

As a service in the cloud

Sovereign Cloud Holdings (ASX:SOV), trading as AUCloud, is an Infrastructure as a Service (IaaS) provider focused on the Australian government, Australian Defence Force and critical national industry communities such as financial services, telecommunications and utilities. AUCloud was modelled on the success of UKCloud, a sovereign IaaS provider to the UK Government. UKCloud was co-founded by AUCloud's CEO Phil Dawson, who left UKCloud in 2016 to explore whether a similar operation could be created in Australia. The company completed the build of its first cloud platform within Canberra Data Centre's facilities, gaining IRAP accreditation and commencing beta testing with customers via direct and channel partnerships. The company's IaaS service provides its customers with a highly secure, scalable, automated cloud solution, providing an effective hosting environment for critical and sensitive applications and solutions. SOV is able to do this because it has created two autonomous inter-connected Sovereignty zones in Sydney and Canberra. SOV is seeking to tap into the \$13b a year that the Australian Government spends on ICT. The company listed on the ASX in December 2020 after raising \$20m at \$0.75/share to give a market capitalisation at listing of \$74.7m. Proceeds from the issue were allocated to working capital, growth in employee head count, and growth capex.

Business model

The company generates its income in X-aaS style model, signing multi-year contracts with government and corporates for access to its cloud infrastructure services. One of SOV's competitive strengths is its IRAP-accredited cloud platform (certified with cyber security practices engineered to PROTECTED). It is a proprietary built platform (based on the industry leading VMware virtualisation technology) offering a very high degree of security and connectivity. The company offers two security levels – official or protected. Its service offering includes Compute as a Service (Virtual Machines that provide scalable and highly secure computational cycles for workloads), Storage as a Service (a storage platform that supports active and archive storage), Backup as a Service (backup virtually and at AUCloud), Disaster Recovery as a Service (replication and recovery of entire environments), Virtual Desktop as a Service (remote desktop solution) and Cyber Threat Monitoring (SOCaaS), cyber threat monitoring using e2e-assure's CUMULO technology.

Interim result delivered a 3-fold increase in revenue

SOV reported H1 FY21 sales revenue of \$1.09m, up from \$0.34m in H1 FY20. On an annualised basis, the company is tracking well ahead of the \$1.31m in sales revenue reported in FY20. Total revenue for the period, including R&D grants and government stimulus was \$1.45m. The net loss for the half, adjusted for IPO costs was \$4.87m. The reported loss was \$5.36m. SOV ended the period with \$20.5m cash in hand.

Look to cyber security companies as peers

Australia has several listed cyber security and secure cloud technology companies including Cirralto, Firstwave Cloud Technology, IXUP and Tesseract. All of these companies are early stage and loss making. SOV is trading in line with the median EV/Revenue of this group.

Pro Forma Historical earnings and ratios

| Year end | Sales Revenue (A\$m) | EBITDA (A\$m) | NPAT (A\$m) | EPS (c) | EV/Sales (x) |
|----------|----------------------|---------------|-------------|---------|--------------|
| 06/19a | 0.066 | (6.97) | (8.09) | na | na |
| 06/20a | 1.311 | (6.89) | (8.88) | na | 46.2 |

Source: Company prospectus

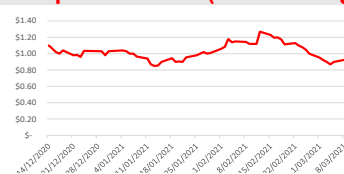
Software & Services

12th March 2021

Share details

| | |
|------------------------|---------|
| ASX Code | SOV |
| Share price | \$0.85 |
| Market Capitalisation | \$84.6M |
| Shares on issue | 99.6M |
| Net cash at 31/12/2020 | \$20.5M |
| Free float | 55.46% |

Share performance (since listing)



Upside Case

- Tapping into growing demand for homegrown Sovereign security
- Modelled on the highly successful UKCloud, co-founded by SOV's CEO
- COVID has hastened the need for remote working solutions

Downside Case

- Early-stage company with likely need for additional capital
- Enterprise and government clients have long lead times
- Competing against global companies like IBM, Microsoft, AWS, Google to secure business

Catalysts/upcoming events

AGM (include Date)

Comparable companies (Aust/NZ)

Cirralto (ASX:CRO), Firstwave Cloud Technology (ASX:FCT), IXUP (ASX:IXU), Tesseract (ASX:TNT)

Top 5 shareholders

| | |
|-------------------------|--------|
| Cathie Reid (Chair) | 14.33% |
| Phil Dawson | 6.96% |
| Edward Bay Capital | 6.90% |
| Petromac Holdings | 6.90% |
| Wilson Asset Management | 5.29% |

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FINANCIAL SERVICES GUIDE

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AFSL 456663

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