Citadel House
11-13 Faulding Street
Symonston ACT 2609
ABN: 79 127 151 026
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27 August 2020

SUCCESSFUL INTEGRATION OF WELLBEING AND NOVENTUS UNDERPINS SOLID GROWTH

Underlying Software segment revenue up 35.7% to $47.5 million

Underlying Services segment revenue up 26.7% to $80.1 million

77.2% of pro-forma Software segment revenue is now recurring in nature

Cash balance increased to $32.5 million

Canberra, Australia – The Citadel Group Limited (ASX: CGL) is pleased to announce its results for the 12 months ended 30 June 2020 (**FY20**), a period that saw it deliver a solid performance through the COVID-19 environment of H2FY20, reflecting the benefit of its recurring revenue business model and multiple growth paths.

Commenting on the FY20 results, Citadel's CEO and Managing Director Mark McConnell said: "FY20 was a transformational year for Citadel. In April 2020 we acquired and have successfully integrated Wellbeing Software, accelerating our shift in earnings mix towards long term global enterprise software contracts with high quality recurring revenue streams. An oversubscribed equity raising supported the acquisition, and we have successfully navigated through the global COVID-19 pandemic without accessing the Federal JobKeeper program. Throughout this period of global instability, we have delivered a strong financial result for our shareholders."

FY20 delivered a return to strong Underlying Revenue and EBITDA growth

Underlying results ($ million)	FY20	FY19	% Change
Total Software Revenue	**47.5**	**35.0**	**35.7%**
Total Services Revenue	**80.1**	**63.2**	**26.7%**
Total Revenue* **	**128.4**	**99.2**	**29.4%**
Gross Profit	55.8	45.0	24.0%
Gross Profit margin	*43.5%*	*45.4%*	
Gross Profit margin excluding Noventus	***48.8%***	***45.4%***	
EBITDA	**29.2**	**23.3**	**25.3%**
EBITDA margin	***22.7%***	***23.5%***	
Final dividend (cps)	6.0	6.0	-
Total Dividend (cps)	10.8	10.8	-

* Includes $7.6 million of revenue from Wellbeing acquisition (FY19: nil)
** Includes $21.5 million of revenue from Noventus acquisition (FY19: $0.9m)
*** Includes $0.8 million of revenue not directly related to a segment (FY19: $1.0m)

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Statutory Revenue and EBITDA

Statutory revenue and EBITDA was impacted by a number of significant items:

- $7.5 million expenses in respect of transaction costs and integration costs for the Wellbeing acquisition, and restructure costs across Citadel and Wellbeing. The restructures are expected to deliver circa $3.6 million in annualised savings, although some of this will be reinvested back into the business;
- A $5.7 million reversal of a contract asset (income accrual) under AASB 15 that was originally recognised in FY17 and FY18 (of which up to $5 million is expected to be recovered in FY21), and a $1.4 million reversal of an over accrual in respect of a sub-contract for the same project. The change in accounting treatment arises as a result of the contract no longer being expected to be fully completed and the final payment yet to be agreed; and
- Deferred revenue fair value adjustment on the acquisition of Wellbeing, which has reduced the actual earned revenue over the 3 months by $0.6m.

Statutory results ($ million)	**FY20**	**FY19**	**% Change**
Total Revenue	**122.1**	**99.2**	**23.1%**
Gross Profit	50.9	45.0	13.1%
Gross Profit margin	*41.7%*	*45.4%*	
EBITDA	**16.8**	**23.3**	**(27.5%)**

Citadel proactively managed its response to COVID-19

Since February 2020, the Group has been proactively managing its response in relation to COVID-19. The Group has a pandemic plan in place to reduce exposure to employees, to manage potential cases of COVID-19 within the company, and to address operational changes required to maintain business continuity. All parts of the Group have been effectively working from home since March 2020, with no impact to client service level agreements. The Group did not access any JobKeeper payments.

There have been no cancellations of material contracts due to COVID-19, although there have been some reductions in spend in the Technology area, delays in project implementations (particularly in the UK), and a lengthening of procurement cycles. Despite this, the pipeline of software opportunities in Australia and the UK continues to build strongly.

Wellbeing underpinned strong growth in Health Software

The acquisition of Wellbeing underpinned a 36.0% increase in revenue to $26.8 million, while gross profit was up 33.3% to $21.2 million. A material lift in Health Software results is expected in FY21 as a full 12 months of ownership of Wellbeing will be included (only 3 months was included in the FY20 result), and at least $1.5 million in annualised cost savings from the synergies program will be realised during FY21.

There were some project delays experienced due to COVID-19, which impacted revenue. However, activity remains robust, and the teams in Australia and the UK are now responding to a large number of public tenders that draw on their strong respective market shares. There are also a range of cross sell opportunities, most notably in the UK, for both pathology and cancer care tenders that are live or coming to market in the next 6-12 months. The majority of Health Software revenue is recurring in nature (circa 77%) and provides high margins (circa 79%).

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The Queensland Health contract was extended for a further 10 years until 2029, and Wellbeing was awarded the National Integrated Medical Imaging System (NIMIS) contract in Ireland, its first international client and the largest contract for its radiology software.

Citadel-IX™ underpinned strong growth in Enterprise Software

Revenue was up 35.3% to $20.7 million, underpinned by Citadel-IX™ revenue, which increased by 65.5%. Recurring revenue reached 61% of revenue, and Gross profit was up 68% to $8.4 million.

A channel partnership is being negotiated with a global software company to further accelerate growth of Citadel-IX™, and Kapish 365 was launched and integrates seamlessly with Microsoft 365.

Strong recovery in Professional Services

Revenue was up 74.1% to $49.1 million and Gross Profit up 31.7% to $16.6 million. The $21.5 million achieved from Noventus was ahead of expectations, with no material impact from COVID-19.

Citadel anticipates revenue and gross profit to grow, as contracting services are expanded into Defence and the Financial Services sector. In addition, the partnership with Lean-IX for enterprise architecture services has commenced strongly and now sees Citadel working in a number of APAC environments including Japan, in support of new large scale enterprise clients.

Large Building sector contract to underpin Technology Services growth

Revenue was down 11.4% to $31.0 million and the Gross Profit Margin fell to 28.4% (FY19: 29.7%) due to the impact of COVID-19, notably in the higher education industry.

Despite COVID-19, a 3-year managed services contract for AV/VC support with the University of Melbourne was won, which sees Citadel now engaged by three of the Group of Eight (G8) universities. A $9.7 million building works contract was won in May 2020, with $2.5 million revenue recognised in FY20 and the remainder to be delivered in FY21. While increased activity in the higher education sector is expected as it recovers from the impact of COVID-19, we anticipate a cautious spending approach.

Increased focus on scalable software solutions and professional services

Total underlying revenue was up 29.4% to $128.4 million, including a revenue contribution from Wellbeing of $7.6 million (for 3 months) and a full year contribution from Noventus of $21.5 million. Citadel's Gross Margin of 43.5% (48.8% excluding Noventus) (FY19: 45.4%) reflects the shift towards recurring Software revenues that have higher margins than managed services contracts and longer durations.

Strong balance sheet and dividend maintained

Citadel ended FY20 with $32.5 million cash (30 June 2019: $14.0 million) and with gross bank debt of $86.5 million (30 June 2019: $11.5 million). The increase in debt was due to funding requirements for the acquisition of Wellbeing. Strong cash collections from a predominantly government client base underpinned cash from operations.

Reflecting the Group's earnings profile, cash position and ongoing investment in scalable growth initiatives, the Directors declared a fully franked final dividend of 6.0 cents per share. The final dividend has an ex-dividend date of 2 September 2020, record date of 3 September 2020 and payment date of 1 October 2020.

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Clear strategic focus for FY21

Citadel's strategic priorities for FY21 include:

- Progressing Health Software cross sell opportunities
- Enhancing and expanding channel partnerships
- Retention of core contracts
- Leveraging managed services credentials
- Leveraging our national security pedigree into broader government services
- Maintaining a strong cash position and cash conversion to enable further investment in R&D and M&A
- Diversification of Technology Services into new verticals, including building/construction, local government and health facilities contracts.

Commenting on Citadel's outlook, Mr McConnell said: "We are targeting top line organic growth from our Software division of 15% plus over the long term, and 5-10% organic growth from our Services division. Our large and qualified pipeline of opportunities now exceeds $800 million, 90% of which is software in nature. We also have a strong M&A pipeline focused on scalable software opportunities that build on our current capabilities.

I am very pleased with the way our team has responded to the significant challenges that FY20 has presented. Our ongoing transformational program is resulting in a clear shift in the earnings mix to high quality recurring software revenue. Our dedicated executive team are driving this change strategy to deliver a business with a high percentage of recurring software-based revenues across a diverse and global client base that over the medium term will lead to improved margins."

Authorised for publication by the Board of Directors.

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About The Citadel Group

Citadel is a software and services company. We specialise in managing information in complex environments through integrating know-how, systems and people to provide information on an anywhere-anytime basis. We are a leader in the development and delivery of managed technology solutions. The majority of our revenues are derived from software solutions and long term managed services contracts.