

## JUNE QTR 2020 - APPENDIX 4C QUARTERLY ACTIVITIES REPORT AND OPERATIONAL UPDATE

Tesseract Limited (ASX:TNT, Tesseract or the Company) is pleased to provide its quarterly cash report and a general business update of its activities and achievements for the quarter ended 30 June 2020.

### HIGHLIGHTS

<b>\$43.8M Revenue</b> per annum run rate achieved as at 30 June	<b>Q4 Revenue</b> <b>\$10.96M</b> up 32% from Q3	<b>EBITDA Positive</b> for the Quarter	<b>Cash Flow from</b> <b>Operations</b> <b>Positive for June</b>
<b>\$12.3M</b> <b>Customer</b> <b>Receipts in Q4</b> Up 73% from Q3	<b>\$4.34M</b> <b>Available Cash</b> as at 30 June	<b>Phase 1</b> <b>Acquisitions</b> <b>Nearing</b> <b>Completion</b>	<b>First Acquisition</b> <b>Integration</b> <b>Milestones</b> <b>Achieved</b>

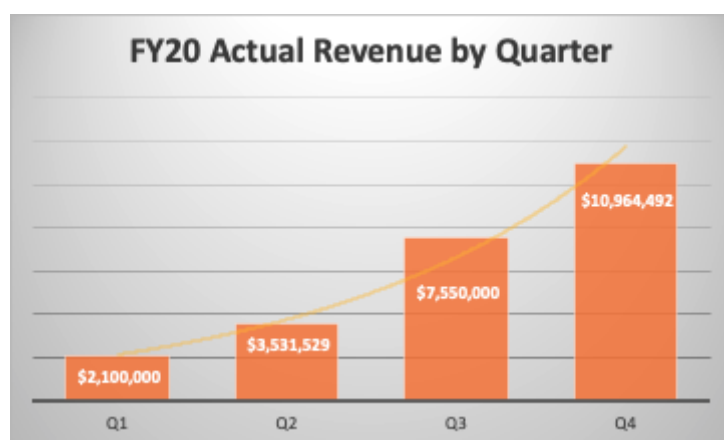
### FINANCIAL UPDATE

#### *FY20 FINANCIAL OBJECTIVES ACHIEVED*

The Company is pleased to announce that all financial objectives, subject to audit, for FY20, have been met or exceeded, including:

- \$40M run rate target based on the June Quarter exceeded by \$3.8M, with \$43.8M achieved (10% above target)
- EBITDA profitable for the June Quarter
- Cash Flow from Operations was positive for June

With the addition of our most recent acquisition and continued organic growth, the Group's current revenue run-rate is now in excess of \$50M and is expected to increase significantly with the completion of the Company's planned future acquisitions.



Despite some softening of forecast sales resulting from the COVID-19 pandemic, the Company was pleased to achieve Group revenues of almost \$11M for the quarter, exceeding the \$40M annual revenue run-rate target.

TNT continues to build its high-value recurring annuity revenues with multi-year, locked-in Managed Security Services (MSS) and Security Operations Centre (SOC) contracts, now exceeding \$11M.

### *INCREASED CUSTOMER RECEIPTS*

The Company collected customer receipts of in excess of \$12.3M in Q4, up 73% on the previous quarter.

### *STRONG BASE TO START THE NEW FINANCIAL YEAR*

The Company is pleased to announce that Q4 saw TNT achieve quarterly EBITDA, and operational cash flow positivity for the first time in its history.

The Q4 EBITDA milestone of \$17.7K, whilst modest, is a significant first step on an expected, continuing trend of growing profitability during FY21.

In addition, after adjusting for non-operational, acquisition-related cash payments to north Security|Digital<sup>1</sup> and interest payments<sup>2</sup>, the Company achieved operational cash flow positivity in June. The Company expects to continue the trend of being operationally cash flow positive during FY21.

With \$4.34M in available cash at the end of June, and an additional \$10M Acquisition Debt Facility secured from PURE Asset Management in July, the Company remains in a strong cash position.

The Company heads into FY21 with a solid financial foundation, including a strong cash balance, growing revenue and earnings, and expected, continued cash flow positivity.

### *NEW \$15M DEBT FACILITY SECURED*

The Company announced (July 2020) that it had signed an agreement with its existing debt provider, PURE Asset Management, for a \$15M facility. The new facility replaces the Company's existing \$5M loan and has been struck on improved terms of 8.9% per annum, well below the current interest rate of up to 11.5%. The funds will be drawn down as required to support the Company's First Phase acquisitions.

### **ACQUISITIONS UPDATE**

Strategic acquisitions remain a cornerstone of Tesserent's growth strategy. The underlying core philosophy is to acquire quality cybersecurity assets that are incrementally Earnings Per Share (EPS) accretive. TNT sees this as an important element in continuing to deliver future value to our shareholders.

As previously notified as a part of its Cyber 360 strategy, the Company has a multi-phase Acquisition Strategy aimed at maintaining and building its position as the #1 pure cybersecurity firm on the ASX.

The first phase is nearing completion following the initial acquisitions of Rivium, Pure Security and north Security|Digital, and the more recent addition of Canberra-based firm Seer Security. The latter acquisition strengthens the Company's offering to the Canberra market, which is expected to be an area of continued strong growth.

With Phase 1 nearing completion (the final acquisitions in this phase are at an advanced stage), the Company will have cemented its place as the #1 end-to-end, pure cybersecurity firm of scale on the ASX.

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<sup>1</sup> Second Acquisition Payment to North Security|Digital

<sup>2</sup> Interest Payments on Loans to PURE Asset Management

TNT looks forward to updating the market on the completion of the first phase of acquisitions, as well as an update on our second round of strategic acquisitions, which are well advanced.

## **BUSINESS INTEGRATION UPDATE**

### *INTEGRATED FINANCE SYSTEMS AND PROCESSES ACROSS THE BUSINESS*

On July 1 2020, the Company completed the financial integration of all Group Companies on to one system, Oracle NetSuite. This means:

- A single integrated financial management system across the business
- Ability to rapidly integrate new acquisitions into a common core financial platform
- Ability to optimise and lower transaction processing costs across the expanding group

### *TESSERENT'S SECURITY OPERATIONS CENTRE (SOC) ABSORBED BY PURE SECURITY*

July 1 2020 also saw Tesserent's original Managed Security Services Provider (MSSP) business including its ISO-certified SOC successfully rebranded and integrated into the Pure Security business. The MSSP business, together with Assurance and GRC practices now operate under a single Pure Security brand. This change has opened the way for synergy benefits, as well as increased cross-selling and upselling opportunities via a single sales and delivery team.

## **FUTURE FOCUS**

The Board and Management Team is focused on creating shareholder value by continuing to build on Tesserent's position as Australia's #1 ASX-listed cybersecurity provider. Important goals over this financial year include:

- Deliver our Cyber 360 capabilities to an increasing number of Australian organisations
- Complete Phase One acquisitions
- Integrate acquisitions to maximise synergy efficiencies and drive organic revenue through cross-sales
- Focus on capturing market share in three key markets; Government (including Defence), Critical Infrastructure and Banking & Finance
- Continuing to drive the Company's acquisition strategy, by executing strategic Phase Two acquisitions
- Building out high-value recurring annuity revenue streams
- Expand proprietary intellectual property to drive high-margin product and service offerings

The Company looks forward to providing a further market update on its future financial and commercial objectives following the completion of Phase 1 acquisitions.

## **ABOUT TESSERENT**

Tesserent provides full service, enterprise-grade Cybersecurity and networking solutions targeted at the Upper Mid-Market, Banking & Finance, Government and Critical Infrastructure markets in Australia. The company's Cyber 360 strategy delivers integrated solutions covering identification, protection and 24/7 monitoring against Cyber Security threats.

Tesserent has been transformed via the acquisition of several high-quality Cyber Security businesses including Pure Security, Rivium and North, making it Australia's largest listed dedicated Cyber Security firm.

Learn more at [www.tesseract.com](http://www.tesseract.com).

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Authorised by the Disclosure Team under Tesseract's Continuous Disclosure policy.

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## Appendix 4C

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

**Name of entity**

Tesseract Limited

**ABN**

13 605 672 928

**Quarter ended ("current quarter")**

30 June 2020

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (12months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	12,317	25,051
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs		
(c) advertising and marketing	(73)	(223)
(d) leased assets		
(e) staff costs	(3,640)	(8,714)
(f) administration and corporate costs	(8,835)	(18,924)
1.3 Dividends received (see note 3)		
1.4 Interest received	1	16
1.5 Interest and other costs of finance paid	(80)	(251)
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(310)</b>	<b>(3,045)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities	(536)	(11,564)
(b) businesses		
(c) property, plant and equipment		
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12months) \$A'000
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)		
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(536)</b>	<b>(11,564)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		1,872
3.2	Proceeds from issue of convertible debt securities		8,495
3.3	Proceeds from exercise of options		2,887
3.4	Transaction costs related to issues of equity securities or convertible debt securities		(165)
3.5	Proceeds from borrowings		5,000
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings		(118)
3.8	Dividends paid		
3.9	Other (provide details if material)		
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>		<b>17,971</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	5,188	980
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(310)	(3,045)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(536)	(11,564)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)		17,971
4.5	Effect of movement in exchange rates on cash held		
4.6	<b>Cash and cash equivalents at end of period</b>	<b>4,342</b>	<b>4,342</b>

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	4,342	5,188
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>4,342</b>	<b>5,188</b>

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	12
6.2	Aggregate amount of payments to related parties and their associates included in item 2	
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

<b>7. Financing facilities</b> <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1 Loan facilities	5,000	5,000
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 <b>Total financing facilities</b>	5,000	5,000
7.5 <b>Unused financing facilities available at quarter end</b>		0
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.		

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (item 1.9)	(310)
8.2 Cash and cash equivalents at quarter end (item 4.6)	4,342
8.3 Unused finance facilities available at quarter end (item 7.5)	0
8.4 Total available funding (item 8.2 + item 8.3)	4,032
8.5 <b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	13
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 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	
8.6.2 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	
8.6.3 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	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	



## 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 July 2020 .....

Authorised by: The Disclosure Committee  
(Name of body or officer authorising release – see note 4)

## 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.