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Netlinkz

APPENDIX 4C

DEC QTR 2020

Commentary and Operational Update

"Netlinkz is incredibly proud of the CY2020 result. We have a great product, for which there are significant and growing market opportunities, and a focused go-to-market strategy. The next 12 months are about scaling sales in the highest-leverage markets in a capital-light manner."

James Tsiolis | Executive Chairman and CEO

Key Metrics

Receipts From
Customers

A\$5.3M

DEC QTR 2020

CY2020 Receipts
From Customers

A\$16.6M

* including \$0.3m late SSI payment

Total Group
Cash on Hand

A\$5.0M

As at 31 DEC 2020

Netlinkz Ltd (ASX:NET) is pleased to provide an update on its activities and achievements for the quarter ended 31 December 2020 ("December Quarter"), together with its Appendix 4C.

Highlights

- A\$5.3m receipts from customers generated at a Group level.
 - China operations generated \$4.2m.
 - Australian operations generated \$1.0m.
- Cash receipts from customers for CY2020 was \$16.6m (a 25x increase on the CY2019 result of \$0.6m), coinciding with the release of the VSN, representing a pleasing outperformance of the \$15.3 million guidance advised in the last Appendix 4C. \$16.3m was received during CY2020, with a further \$0.3m late payment received by SSI Pacific in the first week of January.
- Successful share placement in December 2020 with excellent support from institutions and existing shareholders. The result is a significant reduction in the Convertible Note overhang on the stock and a material improvement in the net assets of the business.
- Consolidated cash balance of \$5.0m (including AOFA Technology (Shanghai) Co. Ltd. (AOFA) and Beijing iLinkAll Software Engineering Co. Ltd. (iLinkAll)).
- Convertible note redemptions totalled \$12.7m at 31 December 2020 with a further \$0.3m redeemed in January 2021. As at the date of this report, the value of convertible notes outstanding is \$0.9m.

Operational Overview



BUSINESS FOCUS AND STRATEGY

The Company has continued to focus its capital towards its highest leverage growth opportunities and core strengths, in its pursuit of achieving cash flow break-even whilst maintaining growth in 2021. In addition, the Australian operational cash burn has been reduced to approximately \$0.5m per month (excluding gross profit from sales, non-recurring items, interest and other costs of finance) from January 2021, with further cost savings under review.

The investment in the China business is paying off, evidenced by the impressive growth in its first year of operation, making it the 'engine room' of the Netlinkz business. The Chengdu water project initiative is generating recurring sales in the form of engineering services, hardware sales and licensing. The business is focused on growing its licensing fee base, improving margin and strengthening the AOFA balance sheet in order to win other large initiatives to generate long term recurring revenue.

The joint strategic partnership with LNS International (LNS) has proven to be an outstanding high-leverage opportunity to quickly and efficiently expand globally, given their extensive sales force, established customer network, system integration skills and local industry knowledge in the fast-growing APAC region.

The Company is rolling out partner technologies underpinned by the VSN, including customer-funded proof of concept deployments in Japan, Hong Kong, India and Australia. Further, our partners have begun including the VSN in their products, sales strategies and value proposition.

CHINA

Management's core focus in CY2020 has been on establishing the company, its engineering, consulting, systems design, integration capabilities and the VSN product. The China business is a success, evidenced by it delivering \$12m of cash receipts in its first 12 months of operation. The Chinese operations and interactions with its client base has provided valuable insights and helped Netlinkz better optimise and shape the VSN into a globally competitive product. The core benefits and functionality of the VSN has enabled the Group to partner with LNS and attract interest from multi-nationals and Government organisations in numerous countries.

Cash receipts in China were \$4.2m for the quarter (\$4.4m Sept Qtr), slightly less than the prior quarter which is attributable to the holiday period. Sales and engineering have been strengthened with the addition of a further 20 people during the quarter with their focus being client origination, product sales, implementation and enhancing quality of service. All China VSN research and development is now carried out by AOFA and iLinkAll employees which now number more than 80.

The significant opportunities being presented by large state-run infrastructure projects require a strong balance sheet. The Group continues to work on strategies to meet this challenge, and in addition is continuing engagement with large corporates.

The VSN has been acknowledged by iLinkAll's peers that it is one of the pre-eminent SD-WAN products in China. Customer feedback remains positive, with most praising the high throughput of data and secured data package transfer as a result of leveraging DPDK and VPP technologies.

ASEAN

The partnership with LNS International is a key strategic initiative aimed at diversifying sources of larger scale clients whilst requiring no capital outlay. The first phase of the partnership is to focus on ASEAN countries.

LNS is a sales organisation with offices throughout the APAC region, including China and Japan. LNS has committed to providing a dedicated sales force focused on selling total solutions to customers underpinned by Netlinkz's products and services. Netlinkz is committing IP and contributing design, implementation, and delivery expertise, in addition to product support.

LNS and the Company are participating in tenders exceeding \$600m, which is the basis for the aspirational revenue target for this partnership of \$15m in the first 12 months. (ASX Announcement 11 December 2020).

REST OF WORLD

The Australian operations generated A\$1.0m of cash receipts from customers during the quarter, primarily from sales of the Netlinkz secure international connectivity solution.

Our first initiative in India, via Natsoft and the IoT Lab in India, is exploring client opportunities leveraging the Australian team's expertise. Australian overhead is resourcing and supporting market testing and demonstrations, including proof-of-concepts. The same approach is being adopted for Japan, reflecting management's focus on the go-to-market strategy being cost effective.

Natsoft continues to develop opportunities and strengthen our pipeline using the IoT lab in India and the Australian team's expertise. We are continuing to keep our overheads low by leveraging our Australian team for demos and POCs in India and across the ASEAN region.

The deployment of customer-funded VSN-secured ImageDeep thermal COVID-19 tracking proof-of-concepts, in Japan, is generating interest from retailers and local Government. Preliminary discussions are underway regarding deploying the solution in two Japanese cities. Recurring revenue is growing in Japan.

VSN PRODUCT UPDATE

The Company is now seeing increasing interest in the VSN across ASEAN and other geographical markets, with the recent challenges faced by numerous governments highlighted in the recent SolarWinds attack (reported across most news feeds in December 2020 and January 2021).

The VSN product provides the enhanced security to help prevent many of these attacks and also to remediate areas which have already been compromised. Netlinkz is actively involved in design and discussions with a number of government clients looking to enhance security especially on their current IPVPN platforms.

Whilst one of the core advantages of the VSN is the ability for it to be deployed virtually, meaning no hardware is required and deployment is significantly quicker and simpler, there remains demand for our "VSN-in-a-box" VSR hardware solution. As such, product development in the December 2020 quarter included sourcing a new hardware platform for global markets and associated certifications for 5G, as well as specific industry certifications. This process was executed by our Australian lab engineers.

The product team also further enhanced the capability to deploy localised features to specific markets, with India and Japan being the first to receive features which extend the value proposition in those markets. These features were developed by our in-house engineering team.

OTHER INFORMATION

The December 2020 share placement was a success and the Company was pleased with the high level of interest and support it received. The end result was a significant reduction in the convertible note overhang on the stock and a material improvement in the net assets of the business.

Convertible note redemptions totalled 12,693,822 with a face value of \$12,693,822 as at 31 December 2020, leaving 1,266,822 convertible notes outstanding with a face value of \$1,266,822. In the month of January 2021, a further 340,277 of the convertible notes, with a face value of \$340,277, were redeemed for cash, bringing the outstanding number to 926,545 with a face value of \$926,545.

The composition of the Board has stabilised and represents a breadth of skillset which will be invaluable in delivering this focused strategy.

During the quarter \$260,860 was paid to related parties and their associates as part of the operating activities of the Company being salary, superannuation and directors' fees.

Corporate

OPERATING ACTIVITIES

Product manufacturing and operating costs declined during the quarter (\$3.4m vs. \$4.2m in Q1 FY21) predominantly reflecting reduced outsourced engineering spend, which is declining as a result of iLinkAll now employing its own engineering staff to deliver the services. Staff costs increased (\$1.6m vs. \$0.9m in Q1 FY21) for that reason.

Administration and corporate costs were higher than the prior quarter (\$3.2m vs. \$1.5m in Q1 FY21) as a result of consulting fees, corporate advisory and legal fees relating to the recent corporate actions undertaken by the Company, including payments to catch up on deferred fees incurred in prior periods, costs associated with the increase in headcount iLinkAll headcount and a general reduction in the trade creditors balance at 31 December 2020.

The quarter-on-quarter increase in interest and other costs of finance paid of \$0.3m (\$0.7m vs. \$0.4m in Q1 FY21) primarily reflects GST on September and December 2020 lead manager fees and interest payments.

INVESTING ACTIVITIES

Proceeds from the disposal of investments of \$1.7m reflects the net cash inflow from low-risk at-call financial products which do not meet the technical definition of cash and cash equivalents under AASB107 Statement of Cash Flows.

FINANCING ACTIVITIES

The \$7.9m of proceeds from the issues of equity securities reflects cash raised via the placement conducted in December 2020.

The \$8.4m of proceeds from borrowings reflects unsecured short-term loans taken on to facilitate the redemption of September 2020 convertible notes (\$4.8m was subsequently converted to equity in the December Placement and a further \$0.2m was repaid in cash).

As presented at item 3.9 Other in the Appendix 4C report, 11,193,822 convertible notes with a face value of \$11,193,822 were redeemed for cash during the quarter (a further \$1,500,000 were converted to equity in the December Placement).

DIRECTOR UPDATES

Mr Hualin Zhang

Mr Zhang's position has changed from Executive Director to Non-Executive Director. The Company wishes to thank Mr Zhang for his continued commitment to the business and his hands-on assistance in China since joining Netlinkz. Mr Zhang will continue to provide valuable advice and insight to the Company in the capacity of Non-Executive Director.

Mr Bruce Rathie

Mr Rathie elected to withdraw his nomination for election as a director at the Annual General Meeting due to competing business interests and other professional commitments. The Board wishes to take this opportunity to thank Mr Rathie for his valuable contributions and wishes him all the best in his future endeavours.

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"): **31 December 2020**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Current quarter \$A'000	Year to date (6 months) \$A'000
1 Cash flows from operating activities		
1.1 Receipts from customers	5,270	11,077
1.2 Payments for		
(a) research and development	(231)	(767)
(b) product manufacturing and operating costs	(3,412)	(7,651)
(c) advertising and marketing	(107)	(141)
(d) leased assets	(13)	(27)
(e) staff costs	(1,580)	(2,435)
(f) administration and corporate costs	(3,247)	(4,723)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	31	40
1.5 Interest and other costs of finance paid	(735)	(1,124)
1.6 Income taxes paid	(47)	(95)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	(9)	(17)
1.9 Net cash from / (used in) operating activities	(4,080)	(5,863)

With respect to item 1.5, financing costs during the quarter are predominantly non-recurring.

CONSOLIDATED STATEMENT OF CASH FLOWS

2 Cash flows from investing activities

	Current quarter \$A'000	Year to date (6 months)
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	(7)
(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	1,689	2,683
(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)	34	22
2.6 Net cash from / (used in) investing activities	1,723	2,698

Note: The amount at item 2.2 (d) reflects the net cash inflow from low-risk at-call financial products which do not meet the technical definition of cash and cash equivalents under AASB107 Statement of Cash Flows.

3 Cash flows from financing activities

	Current quarter \$A'000	Year to date (6 months) \$A'000
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	7,914	8,668
3.2 Proceeds from issue of convertible debt securities	-	4,995
3.3 Proceeds from exercise of options	733	733
3.4 Transaction costs related to issues of equity securities or convertible debt securities	(177)	(333)
3.5 Proceeds from borrowings	8,400	11,250
3.6 Repayment of borrowings	(200)	(6,640)
3.7 Transaction costs related to loans and borrowings	(196)	(196)
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	(11,520)	(11,722)
3.10 Net cash from / (used in) financing activities	4,954	6,755

In respect of 3.9 above, the current quarter amount includes the cash redemption of 11,193,822 convertible notes with a face value of \$11,193,822.

CONSOLIDATED STATEMENT OF CASH FLOWS

4 Net increase / (decrease) in cash and cash equivalents for the period	Current quarter \$A'000	Year to date (6 months) \$A'000
4.1 Cash and cash equivalents at beginning of period	2,458	1,440
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(4,080)	(5,863)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	1,723	2,698
4.4 Net cash from / (used in) financing activities (item 3.10 above)	4,954	6,755
4.5 Effect of movement in exchange rates on cash held	(75)	(50)
4.6 Cash and cash equivalents at end of period	4,980	4,980

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	4,980	2,458
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter	4,980	2,458

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	261
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	5,180	180
7.2 Credit standby arrangements	-	-
7.3 Other	4,667	4,667
7.4 Total financing facilities	9,846	4,846

7.5 Unused financing facilities available at quarter end **5,000**

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 7.1 above, the Company currently has available unsecured, revolving loans, with interest rates up to 15%, made available from private lenders, of which the Company has currently drawn down A\$0.18m.

In respect of 7.3 above, the amount includes a \$1,000,000 unsecured short term loan with an interest rate of 15% and \$2,400,000 of unsecured short term loans with an interest rate of 20%. Refer to section 5.3 of the Disclosure Document released by the Company on 22 December 2020 for further details.

The amount also includes 1,266,822 unsecured convertible notes with a face value of \$1,266,822. Refer to the Disclosure Document released by the Company on 17 September 2020 for further details.

8 Estimated cash available for future operating activities

	\$A'000
8.1 Net cash from/(used in) operating activities (Item 1.9)	(4,080)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	4,980
8.3 Unused finance facilities available at quarter end (Item 7.5)	5,000
8.4 Total available funding (Item 8.2 + Item 8.3)	9,980
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	2.4

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: 29.1.2021

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

The Netlinkz VSN provides a physical and virtual secure 'Network as a Service' for enterprises of all sizes. Focused on cloud-first, security, scalability and simplicity, allowing our customers to concentrate on business growth, team collaboration, and global sharing of critical data.

The VSN technology makes Fortune-500 security commercially available for organizations of all sizes. Numerous industry awards received 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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