

28 July 2017

Lodged by ASX Online

The Manager
Company Announcement Office
ASX Limited
Level 4, 20 Bridge Street
Sydney, NSW 2000

Dear Sir/Madam

TZL - SHAREHOLDER UPDATE & APPENDIX 4C – JUNE QUARTER 2017

Please find attached the shareholder update and ASX Appendix 4C (unaudited) – Quarterly Report for entities admitted on the basis of commitments for TZ Limited for the quarter ended 30 June 2017.

Yours faithfully

TZ LIMITED



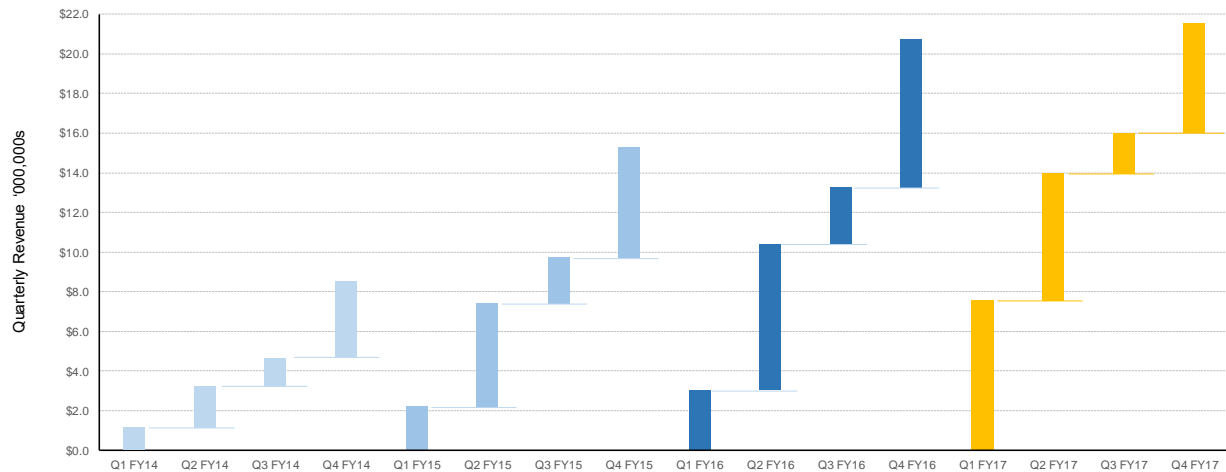
Kenneth Ting
Executive Director

TZ LIMITED – SHAREHOLDER UPDATE

June Quarter 2017

NOTE: Fiscal Year 2017 (FY2017) financial and business performance results outlined in this Commentary are preliminary and unaudited.

Coming off a slow third quarter, the June quarter delivered A\$5.5M in revenue bringing the full year unaudited revenue to A\$21.6M, about a 4% increase over FY2016. This is in line with the revenue guidance that was communicated to the market in May 2017.



- While the fiscal year end revenue did not achieve the high growth experienced in previous years, FY2017 revenue expectations for the June quarter were impacted by a number of postal locker expansion programs being delayed or put on hold. Installation delays, outside the control of TZ, have been experienced particularly in the US and Australia, and the continued uncertainty of the Singapore Government Federated Locker initiative which would see a large number of postal lockers deployed across Singapore has pushed out the decision making on new locker purchases for that initiative, most likely to the latter half of FY2018.
- Despite an overall drop of around 16% in the annual Postal Locker revenue, Smart Locker sales to the Corporate, Residential and Educational sectors have grown strongly with an overall 46% increase over FY2016 PAD sales. This change in product mix towards the higher value PAD sales has had a marked effect on the Company's gross margins with a healthy 45% average gross margin recorded for the year compared to the 30% gross margin recorded for FY2016.
- It is important to note that the Company's gross margins in Q3 and Q4 of FY2017 were very strong due to technology and software oriented Corporate Package and Day Locker sales with as high as 60% gross margins achieved. With the continued strong growth anticipated in our PAD market segments and increasing focus on licensing our intellectual property, the Company expects to maintain ongoing improvement of its operating gross margin.

- At 30 June 2017, the Company had open customer orders of around A\$2.5M in hand that were not able to be delivered by year end. The bulk of the backlog are PAD Smart Locker sales pending Locker fabrication. The FY2016 large backlog of A\$10M was largely composed of the substantial but lower margin Postal orders with Couriers Please, Pos Malaysia and the large transport and logistics company in the US. Of these Postal purchase orders, only the Pos Malaysia deployment has been fully completed.
- Staff salaries and business operating costs increased moderately during FY2017 by about 8% as the Company continued to reinforce its organizational structure with the recruitment of senior functional leaders across the key functional disciplines, Sales, Finance, Development and Supply Chain. Appointment of experienced General Managers in each region, Americas, Europe, Asia and ANZ will support more efficient operation of the existing P&L subsidiaries and underpin the push for sales growth.
- Net cash outflow from operating activities was A\$2.0M for the June quarter as a result of the limited cash inflows due to the low level of sales experienced in Q3 2017. Approximately A\$0.2M was invested during the quarter in ongoing product development. For the year ended 30 June 2017 approximately A\$1.6M was invested by the Company into Research and Development.
- To support the on-going operating needs of the business, the Company drew down A\$2.0M from its available A\$3.0M debt facility. The net result was an overall decrease of A\$0.2M in the quarter end cash balance from A\$0.9M to A\$0.7M.

Postal Business:

The large contract with the US Transport and Logistic company accounted for 40% of the US business revenue and continues to draw on technical resources to support the on-going deployment effort. Around 220 of the 300 Locker Banks have been installed and commissioned. Deployment of the remaining 80 Locker Banks is progressing albeit well behind schedule but at a slow and steady rate.

Couriers Please POPStation deployments in Australia are still progressing, with around 40 Locker Banks now installed to date. The balance of the first purchase order, a further 5 Locker Banks, is scheduled but taking some time to finalise as the securement of locker sites remains an on-going challenge.

In Singapore, the last of the Sing Post POPStations number 153 has been deployed completing the original Sing Post tender award. On-going expansion of the network is pending the outcome of the Singapore Government's Federated Locker initiative which is likely to be announced towards the end of the calendar year. The tender extension providing for the purchase of up to an additional 200 Locker Banks is still current and will run to end of calendar year 2018. Focus for Sing Post has moved towards extension of POPStation service offerings which is driving new fee-for-service software development and system enhancement.

In Malaysia, Phase 1 deployment has been completed with the total number of Locker Banks in Malaysia now totaling 60.

The purchase order for Phase 1 Poste Italiane deployment is still pending resolution of contract terms between Ricoh Italy and Poste Italiane. It has taken longer than expected to bring Ricoh Italy and Poste Italiane together, but the deployment of 17 Locker Banks is expected to commence in August 2017 with the next phase of the project, an expanded roll-out, to follow once Phase 1 is completed.

Smart Locker Business (PAD):

US PAD sales grew strongly in the last 12 months, almost doubling that of FY 2016. Traditional corporate accountable mail sales underpin the bulk of the orders with a consistent base line of repeat purchases from the established customer base, as they continue to expand deployments across their corporate campuses. The A\$3M supply order received from a major technology brand leader in May 2017 for secure employee storage and inventory lockers has also been a key contributor towards the growth. About 65% of the order has already been dispatched and booked as revenue for FY2017 and the balance of the order will ship by early August.

Looking forward, the US business is encouraged by an increasing number of new and very large corporate Smart Locker customers that are either running with trial deployments in anticipation of a broader campus wide roll-out or prospects that are waiting on IT security and integration approval to enable deployment to proceed. The majority of these new business opportunities and the current corporate sales pipeline have been introduced by Ricoh, which is showing positive signs of the potential of the relationship.

Also in the US, the higher education sector has been very active this last quarter as Universities seek to finalise purchases and deployments prior to the new school term starting in late August. TZ has participated on a number of RFPs and Tenders, and have been successful so far in securing purchase orders for Columbia University, University of Hawaii and St Edwards University.

Another exciting development in this sector is the recently deployed New Generation Mailbox Solution for field trial with East Tennessee State University to replace traditional key operated mail and PO boxes. Successful deployment of the new mailboxes, which feature a new form, low cost, low power SMARt Locking Device and next generation electronics and firmware, should open the door to what could be a substantial new application opportunity for the Company. Today many people and organizations still maintain dedicated post boxes for their mail even though mail volume has rapidly decreased due to email. This is a big problem for Universities and Postal organizations globally as these post boxes usually occupy expensive real estate that can be better utilized. With TZ's Next Generation Mailbox Solution, significantly less real estate is needed as individuals and organizations no longer need a dedicated post box that may not be utilized on a daily basis. Like our Parcel Locker solution, our New Generation Mailbox Solution automatically allocates empty mailboxes to individuals and organizations as needed saving on the total number of mail boxes that need to be deployed.

In the residential sector, the US business continues to maintain its niche position against lower cost commoditized offerings as Smart Parcel Lockers are fast becoming a standard utility for apartment living. TZ's market is with the high-end property owner developers with multiple sites, who value aesthetics, functionality and user experience over simple Locker utility. The new cloud based Residential Software Suite has been released and will underpin this residential offering. Work is also progressing on a next generation Locker design using the new TZ SmartBus infrastructure which will allow the Company to offer a lower cost alternative with a goal of expanding the addressable market potential for TZ.

In Australia, Q4 2017 saw a number of PAD projects completed including Day Lockers for Suncorp's new office in Sydney, on-going Day Locker expansion at Westpac's Kent Street offices and new sales to the University Student Housing sector. Overall for the year, sales remained constant with the bulk of the revenue supported by on-going sales to the retained customer base. In a similar way, FY2018 is looking very positive with continued roll out of Day Lockers at Westpac in Sydney and Perth, at new Suncorp offices across the country, as well as a number of new corporate opportunities and prospects which are substantial.

Our European market remains a relatively untapped market but one with huge potential. With a market shifting to agile workplaces and a focus on office productivity, there is a clear opportunity for TZ to establish itself in this market and leverage our successes with Corporate Mail and Day Lockers in the US and Australia respectively.

The Ricoh Europe relationship is gaining momentum with Ricoh committed to establishing dedicated sales capabilities in strategic European markets. With the UK, Italy and Spain already on-boarded and Germany expected to follow in the next quarter, the focus is now on building a robust pipeline of opportunities leveraging off Ricoh's existing and strong corporate customer relationships. Initial indications are that there is positive interest and demand for TZ's Accountable Mail, Day Locker and Inventory Management Systems.

In Asia, interest in the Company's Corporate Day Lockers and Inventory Management Systems is gaining momentum with a number of sales opportunities emerging. While Government related programs will require us to go through RFP and public tender processes, the majority of pipeline opportunities are looking for strong technology based offerings with customized workflow and security requirements. Overall a good sign for the TZ solution suite given the large number of commoditised Asian based locker offerings in the region.

Data Centre Cabinet Security (IXP):

IXP sales in FY2017 have been disappointing with an overall net drop in revenue of around 30% from last year, well down on projections. While there is increasing competition in the market, the anticipated business has not been lost to other suppliers but instead several projects, where IXP products are specified, are still pending completion. The Company remains well positioned to take advantage of these as these infrastructure projects progress to the purchase stage.

The US IXP business continues to deliver steady run rate sales but lacked the larger infrastructure projects to provide significant uplift as in previous years. A good example of this has been several large South American data centre infrastructure projects which have been put on hold due to the economic downturn in the region. With signs that conditions are improving, we are starting to see several of these opportunities come back on the radar with indications that they will close in FY2018.

In Australia, the IXP business was fueled by large purchase orders from existing customers such as Macquarie Telecom and Next DC in the last quarter. With NextDC building new DC's in Melbourne and Sydney, FY2018 looks like a solid year for the business.

Other:

The Company has been actively pursuing a number of licensing opportunities and now has three potential deals on the table. Although not yet finalized, two have progressed to the agreement negotiation stage while the other, a more strategic partnership is still in the early stages of engagement.

These opportunities will take the TZ business into new and potentially large market applications and have developed as a result of the interest the Company is receiving from participation at the various IoT and networking events. The new lower cost, low power SMARt Locking Devices, together with the next generation electronics and firmware and SMARTBus infrastructure is ready to move into pre-production and is expected to be commercially available by the end of the calendar year.

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

TZ Limited

ABN

26 073 979 272

Quarter ended ("current quarter")

30 June 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	3,416	19,767
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(1,831)	(14,080)
(c) advertising and marketing	(102)	(372)
(d) leased assets	(127)	(599)
(e) staff costs	(2,484)	(9,290)
(f) administration and corporate costs	(791)	(3,225)
1.3 Dividends received (see note 3)		
1.4 Interest received		10
1.5 Interest and other costs of finance paid	(84)	(86)
1.6 Income taxes refunded	(5)	(7)
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(2,008)	(7,882)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(8)	(83)
(b) businesses (see item 10)		
(c) investments		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
	(d) intellectual property	(220)	(1,650)
	(e) other non-current assets		
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment		
	(b) businesses (see item 10)		
	(c) investments		
	(d) intellectual property		
	(e) 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)		
2.6	Net cash from / (used in) investing activities	(228)	(1,733)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares		220
3.2	Proceeds from issue of convertible notes		
3.3	Proceeds from exercise of share options		
3.4	Transaction costs related to issues of shares, convertible notes or options		
3.5	Proceeds from borrowings	2,000	4,000
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)		
3.10	Net cash from / (used in) financing activities	2,000	4,220

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	902	6,102
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,008)	(7,882)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(228)	(1,733)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,000	4,220

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	2	(39)
4.6	Cash and cash equivalents at end of quarter	668	668

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	668	902
5.2 Call deposits		
5.3 Bank overdrafts		
5.4 Other (provide details)		
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	668	902

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A'000**

-
-

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$A'000**

434
-

Being directors' fees and allowances, office rent, accounting fees, administration and marketing costs paid during the period to entities related to the directors of the entity.

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	5,000	4,000
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

The entity has a secured loan facility of \$5 million with First Samuel in two tranches with terms of 24 and 36 months. The interest rate of the facility is 90 day BBSW plus 4% p.a. on the \$3m tranche and 90 day BBSW plus 9% p.a. on the \$2m tranche.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	
9.2 Product manufacturing and operating costs	(2,500)
9.3 Advertising and marketing	(100)
9.4 Leased assets	(150)
9.5 Staff costs	(2,300)
9.6 Administration and corporate costs	(900)
9.7 Other (provide details if material)	(100)
9.8 Total estimated cash outflows	(6,050)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	N/A	N/A
10.2 Place of incorporation or registration	N/A	N/A
10.3 Consideration for acquisition or disposal	N/A	N/A
10.4 Total net assets	N/A	N/A
10.5 Nature of business	N/A	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.



Sign here:
(Director)

Date: 28 July 2017

Print name: KENNETH TING

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.