

25th October 2018

ASX Announcement

APPENDIX 4C FOR QUARTER ENDED 30 September 2018

TZ Limited (ASX: TZL) ("TZ" or "the Company") today released its Appendix 4C - Quarterly Cash Flow Report for the period ended 30 September 2018.

September 2018 (Q1) Quarterly Performance and Business Update

Key highlights for the September quarter include:

- As expected, with the exceptionally strong finish to the last fiscal year, the first quarter saw sales slow to A\$2.8M (unaudited). Although 21% lower in comparison to Q1 of the previous year, the revenue result was largely in line with the Company's business planning for FY2019.
- Gross margin was slightly below target at 47% for the quarter due to a carry over of deployment costs for contracts that were largely supplied but not completed in Q4 of FY2018. Margins are expected to return to the FY2018 average of >50% during the second half of this financial year.
- Total net cash flows from operating activities was -A\$0.6M for the quarter, compared to +\$0.5M for the comparative period last year. Timing of cash receipts contributed to this result, with a number of large deployments taking longer than planned for practical completion. This delay impacted payments from customers as system acceptance is the trigger for final payment which typically represents up to 70% of the sale including payment of software licenses. Accordingly, cash payments that were scheduled to be received in Q1 will now be received in early Q2.
- The Company invested \$0.3M in the quarter in product development to support development of the Company's next generation SMARt Devices and for on-going enhancements to the TZ Firmware and Software platform.
- During the September quarter, the Company increased its debt facility with First Samuel by \$2M to a total facility of \$7M. \$1M of the facility was drawn down during Q1, resulting in a total of \$5M of the loan facility being utilized.

BUSINESS UPDATE

- With the US business representing 60% of the Company's revenue, success in the US is critical to the Company meeting its business objectives. Accordingly, a significant focus for the quarter has been the restructure of the US management team to establish the leadership needed to drive the desired business performance.
- We are pleased to confirm the appointment of Brian Leary as President of our Americas Division as of 1 October. Brian has an extensive operational and business development background in the logistics and office equipment industry. With a 25-year career spanning senior executive positions in NeoPost and Pitney Bowes, Brian comes with significant relevant industry experience, an exceptionally strong network of contacts and a background in building relationships and leading teams.

- US sales were slow in Q1 as expected due to the summer vacation period. With a number of large sales in June 2018 primarily representing Locker System orders for the University sector, focus for the US business this quarter has been on deployment of these systems in time for the start of the new school year in September. We can now leverage Princeton and Rutgers as solid references, expanding TZ's list of credible University customers.
- Sales to the US corporate sector continue to develop with a number of new Supply Agreements currently being finalized with some major US corporations including a global social media and social networking company, two large telecommunications companies, a global e-commerce and cloud computing company and a global internet related services and products corporation. These initial orders represent new pilot implementations but offer the potential for broader roll-out given the size of the customers engaged.
- European sales continue to track to budget due to the ongoing large deployment in South Africa with Ricoh South Africa and their customer, a large logistics operator. The Locker network comprising 100 TZ upgraded ByBox Locker Banks and 100 TZ Smart Locker Banks, that are currently being deployed, is being expanded. TZ has now received an order for supply of a further 100 TZ Smart Locker Banks.
- The first UK Day Locker and Package Locker deployments have been completed with Ricoh UK. Deployments at DLA Piper and JLL corporate offices, represent benchmark installations and should provide a local reference for new UK corporate customers.
- Australian sales are underpinned by a number of retained customers across both our data centre cabinet locking and smart locker businesses. Although sales fell behind budget in the quarter due to project timeline slippages, the business is expected to meet its budgeted forecast results over the fiscal year.
- Asian sales are also underpinned by a strong annuity service business with Singapore Post and Malaysia Post. New data centre cabinet locking and smart locker sales are actively being pursued. We are pleased to advise we've received two small orders for Pilot Day Locker deployments which should help to establish project references in the Singapore market.

OUTLOOK

The Company is continuing to build its management capability and competencies to support achievement of its business priorities and objectives.

Pipeline demand continues to develop with new opportunities emerging in existing growth target sectors such as Corporate and Higher Education and in new areas such as Retail Click and Collect. The quality of TZ's customers reinforces TZ's leadership position in the market as the technology leader.

Work is continuing on new websites to support repositioning of the Company and while deployment of these sites is behind schedule, indications from beta testing with customers have been positive.

Some headway is also being made in the pursuit of new Smart Locking device technology applications. This is a major imperative for this year and hopefully will deliver some results in the second half of this fiscal 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 September 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	5,187	5187
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(2,825)	(2,825)
(c) advertising and marketing	(64)	(64)
(d) leased assets	(111)	(111)
(e) staff costs	(1,950)	(1,950)
(f) administration and corporate costs	(857)	(857)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid		
1.6 Income taxes refunded	(4)	(4)
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(626)	(626)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(1)	(1)
(b) businesses (see item 10)		
(c) investments		
(d) intellectual property	(297)	(297)
(e) other non-current assets		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
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	(298)	(298)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares		
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	1,000	1,000
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	1,000	1,000
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	1,003	1,003
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(626)	(626)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(298)	(298)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,000	1,000
4.5	Effect of movement in exchange rates on cash held	11	11
4.6	Cash and cash equivalents at end of quarter	1,090	1,090

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	1,090	1,003
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)	1,090	1,003

6.	Payments to directors of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	235
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	

Payments include directors' fees for non-executive directors, salary for the executive director and office rent paid to an entity related to a director.

7.	Payments to related entities of the entity and their associates	Current quarter \$A'000
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	

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	7,000	5,000
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 \$7 million with First Samuel in two tranches with terms of 36 months. The interest rate of the facility is 90-day BBSW plus 4% p.a. on the \$3 million tranche and 90-day BBSW plus 9% p.a. on the \$4 million tranche.

9.	Estimated cash outflows for next quarter	\$A'000
9.1	Research and development	0
9.2	Product manufacturing and operating costs	2,000
9.3	Advertising and marketing	120
9.4	Leased assets	130
9.5	Staff costs	2,000
9.6	Administration and corporate costs	650
9.7	Other (provide details if material)	200
9.8	Total estimated cash outflows	5,100

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: 
(Company Secretary)

Date: 25 Oct 2018

Print name: CRAIG SOWDEN

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.