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TZ Limited

ABN 26 073 979 272

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31 January 2021

ASX Announcement

Business Review for the Quarter ended 31 December 2020

TZ Limited (ASX: TZL) ("TZ" or "the Company") today released its Appendix 4C - Quarterly Cash Flow Report for the quarter ended 31 December 2020.

The key points of the Company's Q2 and year-to-date performance are:

- The net cash from operating activities for this quarter was an inflow of \$0.1M, which is a significant improvement compared to the outflow of \$1.0M for the corresponding period last year. The half year result is a net outflow of \$0.3M, which again compared to the first half of the last financial year represents a significant drop in net outflows from last year's \$2.5M.
- The significant cash flows for operating activities during the quarter were:
 - Receipts of \$4.2 million.
 - Payments of product manufacturing and operating costs of \$2.4 million.
 - Payments for staff costs of \$1.5 million.
 - Payments for administration and corporate costs of \$0.7 million.
 - Receipt of a government grant of \$0.6M relating to the R&D tax incentive.
- Revenue in the half year to 31 December 2020 was \$8.6M (unaudited), which is 8% higher than the prior corresponding period in FY20.
- In this quarter the Company reduced its debt by \$0.25 million by way of conversion into ordinary shares of a tranche of debt with First Samuel Limited, as approved by shareholders at the Company's Annual General Meeting on 4 November 2020.

During the reporting period, TZ Limited's business activities continued to be the sale of smart locking solutions and supporting software. Per item 6.1 of the Appendix 4C, \$101,000 was paid to directors for non-executive directors' fees and salary for the executive director.

BUSINESS UPDATE

The Company is pleased that our unaudited revenue result for the first half of this year was an 8% improvement on the previous corresponding period, particularly if consideration is given to the effects of COVID-19 on businesses this year. In the United States, COVID-19 has significantly impacted our deployment programs and will continue to affect the timing of deliveries to our customers. Some deliveries that would normally have been completed in the first half of our year will now fall in future reporting periods.

The board and executive team of TZ have focused for a number of years on building a sustainable business model for TZ as a premium technology leader in the electronic smart lock market. This investment has supported the building of best-in-class hardware and software solutions and has cemented an impressive global client base. The appointment of Peter Graham as Chairman to the board, initiated by TZ's major shareholders, has enabled further changes to the business with the immediate objective of stopping on-going losses and becoming cash flow positive.

Think SMART. Think TZ.

Following Peter's appointment, Scott Beeton joined the business in March 2020 as Group Chief Executive Officer and Simon Van Es joined in May 2020 as Group Chief Operating Officer. Rounding out the changes, the board was reorganised with Scott Beeton and John D'Angelo joining the board in the first half of the year.

Under this new leadership, the business has been restructured with the goal of reducing fixed costs by a further \$2 million whilst ensuring that new capital is spent to further enhance the company's technology, streamline the business and ensure its future viability.

The restructure included:

- Closing the Brisbane office & centralising head office functions out of Sydney CBD.
- Reducing senior executive & management salaries.
- Reducing headcount across the business.
- Investing in new global systems to remove duplication across the business.
- Prioritising capital expenditure towards important product updates such as the upgrade of TZ's Data Centre Security Software Platform, Centurion Enterprise, and the release of TZ's new SMart Work locker system to enable expansion of our customer base to small to medium enterprise customers.
- Prioritising capital expenditure on various global management systems such as for sales and CRM, inventory and resource planning, and a new global accounting system. This solid platform has not only improved efficiencies in our operations but will provide a foundation for new growth and importantly, transparency and accountability over the key functional areas of the business. This will allow TZ to continue to improve the effectiveness of its centralised operations, product development and head office functions out of Sydney, Australia.
- Focusing on new business opportunities in Europe with Chief Technology Officer Adam Forsyth relocating to the UK to pursue identified growth opportunities with Ricoh Europe and new distribution partners.
- Changing reporting lines of the marketing, finance and operations teams based on functional rather than regional management to reduce role duplication and complexity across the regions.

As a result of these changes TZ continues to build a strong platform for international business growth with tangible results. We are pleased to report that we are very close to our immediate goal of being operating cash flow positive. The first quarter 2021 saw a \$350,000 net operating outflow, largely due to the capital investments made to upgrade the business systems, complete the restructuring and fund redundancy costs and other "one-offs". This second quarter has seen positive operating cash flows of circa \$60,000.

OUTLOOK

Positive momentum continues within the business. New business opportunities continue to expand even though we face ongoing COVID-19 related challenges in relation to the timing and deployment of projects. In the third quarter, the business has a significant opportunity to work with one of the world's largest retailers to roll out click and collect lockers as a proof of concept. We will also finalise delivery and deployment of 130 click and collect lockers for a major South African bank who is pioneering contactless delivery of its debit and credit cards.

We remain confident that the changes that have been made will enable the business to achieve its stated goal of trading cash flow positive in the near term. Attention is now being given to exploring various strategic opportunities with the focus of shifting the business in new areas of participation which will support rapid expansion and growth.

This announcement is authorised for release by TZ Limited's board of directors.

For further information, please contact:

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Appendix 4C

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

Name of entity

TZ LIMITED

ABN

26 073 979 272

Quarter ended ("current quarter")

31 December 2020

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	4,228	8,146
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(2,380)	(4,524)
(c) advertising and marketing	(80)	(154)
(d) leased assets	(51)	(74)
(e) staff costs	(1,494)	(3,409)
(f) administration and corporate costs	(721)	(1,058)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4	5
1.5 Interest and other costs of finance paid	(73)	(76)
1.6 Income taxes paid	8	8
1.7 Government grants and tax incentives	617	809
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	58	(327)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(5)	(5)
(d) investments	-	-
(e) intellectual property	(212)	(309)
(f) 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) 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)	-	-
2.6	Net cash from / (used in) investing activities	(217)	(314)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(3)	(3)
3.5	Proceeds from borrowings	-	250
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (AASB16 leases)	(10)	(29)
3.10	Net cash from / (used in) financing activities	(13)	218

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	780	1,043
4.2	Net cash from / (used in) operating activities (item 1.9 above)	58	(327)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(217)	(314)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(13)	218
4.5	Effect of movement in exchange rates on cash held	(11)	(23)
4.6	Cash and cash equivalents at end of period	597	597

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	597	780
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)	597	780

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
101
-

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	11,853	11,603
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	11,853	11,603

7.5 **Unused financing facilities available at quarter end** 250

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.

At 31 December 2020, TZ had a loan facility of \$11.25 million with First Samuel Limited (\$11.5 million as at 30 September 2020). During the current quarter, \$250,000 of the drawn facility plus interest was converted into ordinary shares. The interest rate of the facility is 90-day BBSW plus 6% p.a. on \$6 million of the facility and 90-day BBSW plus 9% p.a. on the balance of the facility.

TZ's USA subsidiary, Telezygology Inc, has a PPP loan under the CARES Act for US\$465,000.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	58
8.2 Cash and cash equivalents at quarter end (Item 4.6)	597
8.3 Unused finance facilities available at quarter end (Item 7.5)	250
8.4 Total available funding (Item 8.2 + Item 8.3)	847
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	14.6

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: 31 January 2021

Authorised by: The Board of Directors

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.