

30 January 2017

Lodged by ASX Online

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

Dear Sir / Madam

SHAREHOLDER UPDATE & APPENDIX 4C – DECEMBER QUARTER 2016

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 31 December 2016.

Yours faithfully

TZ LIMITED

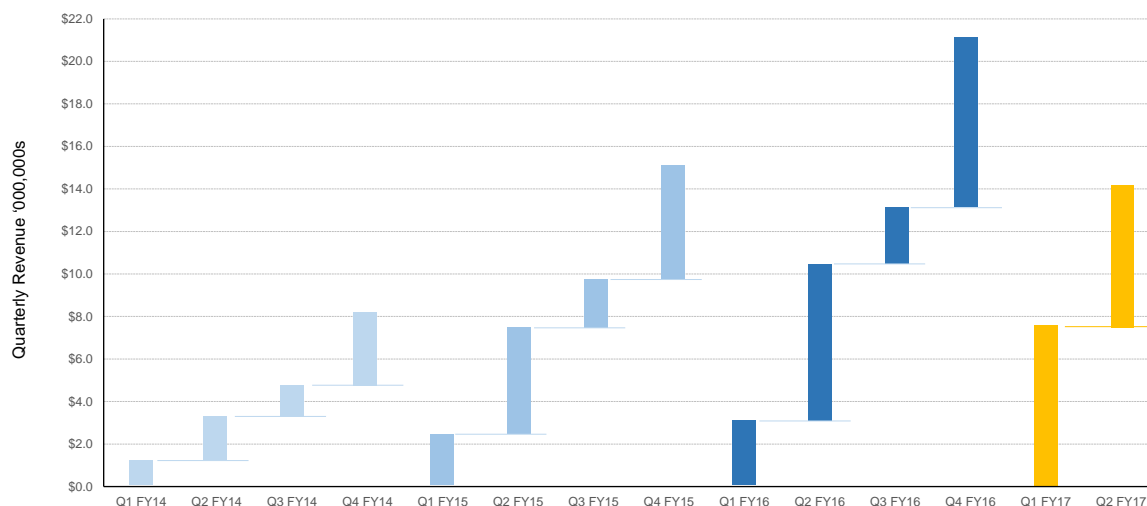
A handwritten signature in black ink, appearing to read 'Ken Ting', written over a vertical line.

Kenneth Ting
Director

TZ LIMITED – SHAREHOLDER UPDATE

December Quarter 2016

TZ continued its strong FY2017 performance with a good finish to the December quarter bringing the half year revenue to A\$14.0M (unaudited). This represents a 32% increase against the half year result last year.



- The positive revenue result was underpinned by strong growth in the US which saw sales to the corporate, residential and educational sectors almost double that of the same period in last year. In addition, the Postal and Logistics business realised much of the anticipated contract revenues as the Company moved well into the locker deployment and handover phase in the US, Malaysia and Australia.
- Gross margins finished the half year at an average of 38% largely due to the lower margin Postal and Logistics business continuing to influence the result at 50% of the Company's revenue mix. Margins are expected to improve as the product mix returns to longer term averages with the anticipation of an increased share of revenue from corporate and higher margin business sales.
- Net operating cash outflows were A\$1.7M in the December quarter, significantly improved from the September quarter. Receipts from customers of A\$5.4M in Q2 were lower than Q1's receipts of A\$6.4M in line with revenue. Payments for manufacturing and operating costs of A\$3.8M in Q2 were significantly lower than the A\$6.3M of payments in Q1, which included a large reduction in creditors of A\$2.4M. Revenue for the half year of A\$14.0M (unaudited) includes an increase in accrued work-in-progress of A\$2.1M due to the roll-out of some large projects. The cash inflow for this work will be received in the following quarters.
- The Company also continued to invest strongly in its intellectual capital with over A\$0.4M directed towards technology enhancements and development of its platform software applications.

- A new loan facility of A\$3.0M was put in place during December. As part of the terms of the facility, \$2.0M was drawn down on signing of the loan agreement which has been used to fund operating activities.
- Cash on hand at the end of the Quarter was A\$2.1M.

Packaged Asset Delivery (PAD):

- While location availability has slowed the program for locker deployment for the large US transport and logistics company, 140 Locker Banks have so far been deployed in various cities across the US, with the balance expected to be rolled-out progressively in the first half of this calendar year.
- In addition to this large contracted deployment, the US business also saw strong growth in the corporate, higher education and residential sectors to bring a very positive half year result that more than tripled the sales for the same period last year.
- As indicated in the last quarterly report, the targeting of the higher education sector in the US is starting to see results with growing demand for Smart Locker Systems across the College and University community. The Company has been successful in securing product specification on some large projects due for implementation in 2018, as well as successfully winning the RFP for the University of Massachusetts Lowell, which was deployed in early January. The sector is seeing increasing competition from the established Locker suppliers, with TZ winning about a third of its proposals and submissions. The increased activity however, is a strong indicator of the potential sales opportunities that are likely to come to fruition in the June horizon in time for the traditional school break implementation.
- In Australia, the first half of FY2017 saw a solid performance with Day Locker sales to new customers, on-going Day Locker sales to existing customers such as Westpac and Suncorp, and the continued roll-out of the CouriersPlease network. A later than expected start of two of the major Day Locker projects did impact the half year revenue expectation, although these sales will be recognised in the second half of the year.
- The Australian business is also pending the outcome of a number of major tender submissions which are likely to be awarded in Q3. TZ is short-listed on these tenders although there are strong submissions from the competition. We are hoping that the quality of our technology solutions and our highly credentialed customer base puts us in a good position to potentially win these.
- In Asia, on-going roll-out of the Singapore Post POPStation Network continues albeit at a slower pace as location availability is becoming more difficult with the increasing density of deployments. TZ continues to actively assist Singapore Post with the development of new services and capabilities for the POPStation system. Focus is on the pending direction of the Singapore Government on their federated locker program.

- Outside of the Postal business, the Singapore based business team has been successful in securing Day Locker and Corporate Locker projects in Singapore leveraging opportunities generated through the awareness of TZ as the Locker provider to Singapore Post. This is encouraging and an area for further business growth particularly as Singapore embraces new agile work practices and large regional corporates consider their workplace policies.
- In Malaysia, Pos Malaysia are continuing to accelerate the roll-out of TZ Postal Lockers to establish their EziBox Network as the primary last mile fulfilment network in Malaysia. Completion of the 50 Locker Bank Phase 2 of the program is expected to be completed by the end of March 2017 with Phase 3 likely to follow immediately afterwards.
- Work with Ricoh Europe is progressing and the opportunity pool is developing with some key customer engagements. An agreement is being finalised with Ricoh Europe to facilitate working with a number of Ricoh businesses including subsidiaries in the UK, Germany, Italy and Spain. This relationship will help us launch our PAD corporate solutions into the European market and offers a new line of business which we have not previously pursued.

Infrastructure Protection (IXP):

- The US IXP business continues to perform to plan in line with year-on-year growth expectations. Large infrastructure projects are anticipated for the South American market however there is a real chance that sales may not fall into this fiscal year as the downturn in key South American economies is likely to impact project schedules.
- In Australia, sales continue to be driven through the established customer base including NextDC and Macquarie Telecom, although some smaller projects for new customers have emerged within a number of co-located Data Centres.
- With NextDC announcing their second generation of Data Centres in Brisbane, Melbourne and Sydney starting in early 2017, TZ is currently in discussions with NextDC to consolidate and strengthen the supply partnership for these facilities. The release of the electronic SwingHandle™, and the next generation Centurion Server 4.0, currently in development, should help to keep TZ's IXP solution at the leading edge of cabinet access and security for Data Centres.
- In Asia, the Company saw its first significant IXP deployment at OCBC Bank's new data centre in Singapore. With increasing regulatory scrutiny on access and control for financial institutions and their infrastructure, this successful deployment together with the track record of smaller deployments should provide TZ with a positive reference to take advantage of an emerging opportunity.
- In Europe, the business remains steady with major Data Centre opportunities starting to emerge in the UK, Ireland and continental Europe. With some large projects due for implementation in May or June of this year, the European business is forecasting a strong finish to the 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")

31 December 2016

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	5,418	11,900
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(3,815)	(10,136)
(c) advertising and marketing	(37)	(234)
(d) leased assets	(159)	(323)
(e) staff costs	(2,589)	(5,212)
(f) administration and corporate costs	(560)	(1,262)
1.3 Dividends received (see note 3)		
1.4 Interest received		10
1.5 Interest and other costs of finance paid	(5)	(5)
1.6 Income taxes paid		(2)
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(1,747)	(5,264)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(11)	(48)
(b) businesses (see item 10)		
(c) investments		

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(d) intellectual property	(407)	(886)
(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	(418)	(934)

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	2,000
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	2,220

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	2,252	6,102
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,747)	(5,264)

4.3	Net cash from / (used in) investing activities (item 2.6 above)	(418)	(934)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,000	2,220
4.5	Effect of movement in exchange rates on cash held	26	(11)
4.6	Cash and cash equivalents at end of quarter	2,113	2,113

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	2,113	2,252
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)	2,113	2,252

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
-
-

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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
412
-

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	3,000	2,000
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 with First Samuel for \$3 million with a term of 24 months. The interest rate of the facility is 90 day BBSW plus 4% p.a.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	
9.2 Product manufacturing and operating costs	(4,200)
9.3 Advertising and marketing	(150)
9.4 Leased assets	(160)
9.5 Staff costs	(2,600)
9.6 Administration and corporate costs	(550)
9.7 Other (provide details if material)	
9.8 Total estimated cash outflows	(7,660)

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/Company Secretary)

Date: 30 January 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.