



Senetas Corporation Limited

2018 Interim Results – 26 February 2018

HY18 Highlights

- Sales growth of 10.3% as key customers recommenced normal ordering patterns
- Gross profit margin increased to 80%
- Profit before tax up 89% to \$2.39m
- Net Profit up 90% to \$1.64m
- First sales of the 100Gbps encryptor to a European customer via Gemalto
- Successful ongoing development of Virtualised Encryption product
 - Technical requirements for large scale Ethernet network deployments now met
- Custom Algorithm Solution progressing through certification in Eastern Europe
- Strong balance sheet with \$20.6m cash provides flexibility for strategic investments and new product initiatives

Priorities for 2H18

Further validation and development of software encryption products, and a focus on additional security certification to increase European market penetration – providing growth opportunities in FY19 and beyond.

- Finalise development of transport Layer (Layers 2, 3 & 4) interdependence capabilities for virtualised encryption solution whilst maintaining existing features
- Continue to explore strategic opportunities with Gemalto and other partners to expand market opportunities
- Continue marketing and business development collaboration with Gemalto to maximize engagement with target service provider partners and customers
- Progress additional European certifications
- Progress East European certification of the custom algorithm encryptor in order to allow Gemalto to commence marketing and sales of the product

Revenue drivers

In the medium-term, Senetas' transition to a multi-product business is expected to drive significantly increased revenues. These will come from:

- Greater market adoption of 100Gbps networks
- Market adoption of virtualised encryption solutions
- The adaption of Senetas' encryption products for Layer 2, 3 and 4 interoperability
- The commencement of custom algorithm sales
- A tightening global regulatory landscape around data protection and data breach notification
- Increased market penetration with traditional Senetas high speed encryptors
- New technology partnerships that incorporate Senetas' technology in existing networking infrastructure
- SureDrop roll out

Outlook



- Further earnings growth expected in 2H18
- Strong sales pipeline for core product range
- Additional sales of the new 100Gbps encryptor
 - 100Gbps sales to date have been slower than anticipated, but further sales are expected in 2H18
 - Larger orders continue to be dependent on key customer network upgrade completion and competitive evaluations
- Sales of CV1000 virtualised encryptor expected late in 2H18
- Custom algorithm sales cannot commence until certification milestones are met – now expected in early FY19
- From FY19 virtual encryption, the 100Gbps encryptor and custom algorithm products will commence to make a more significant contribution to revenue as sales momentum builds

Key Financials



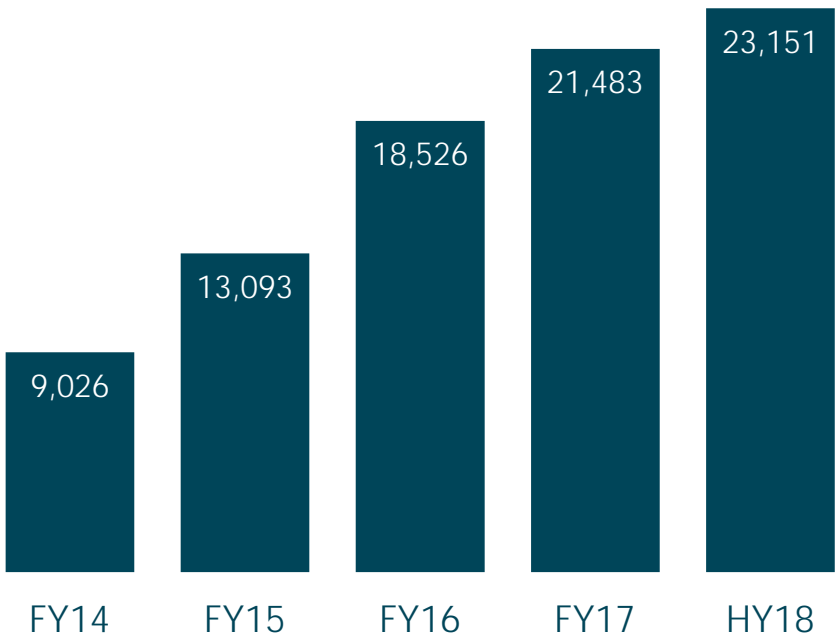
HY18 Key Financials

Half year ended 31 December 2017	HY18 \$000's	HY17 \$000's	Change
Revenue from ordinary activities	10,301	9,340	10%
Gross profit	8,190	6,823	20%
Other income	215	243	(11%)
Profit before tax	2,394	1,266	89%
Tax expense	(754)	(401)	(88%)
Net profit after tax	1,640	865	90%

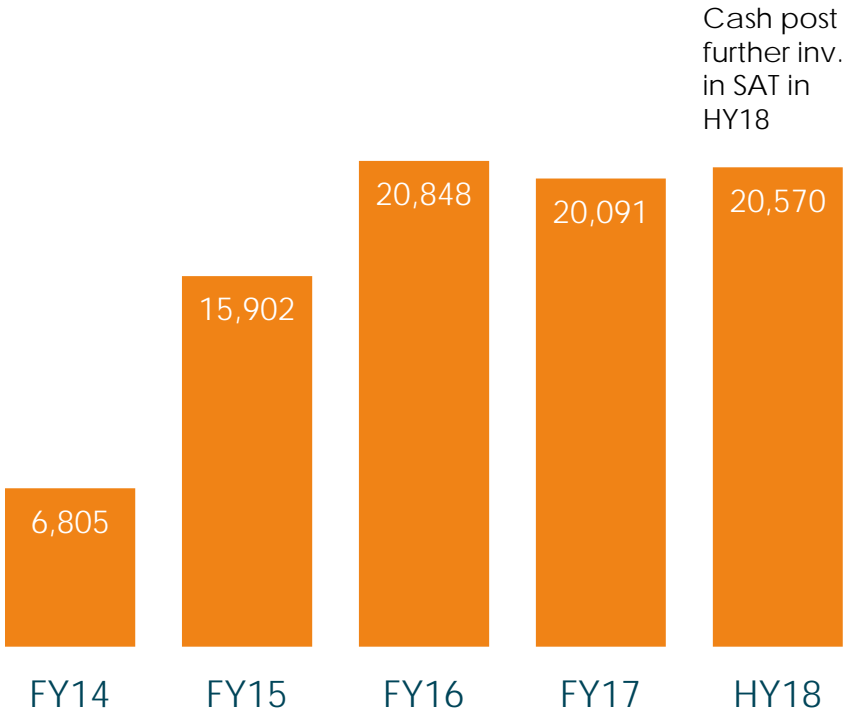
- Revenue increased by 10.3% - comprising a 29% increase in product revenue partially offset by lower maintenance revenue
- Sales revenue recovery following a disruption to ordering patterns that occurred in the prior corresponding period as key customers investigated networking infrastructure upgrades
- Gross profit margins returned to circa 80%

Strong Balance Sheet & Positive Cash Flow

NET ASSETS \$'000



CASH AND CASH EQUIVALENTS \$'000



Operational Update



Partner Relationships

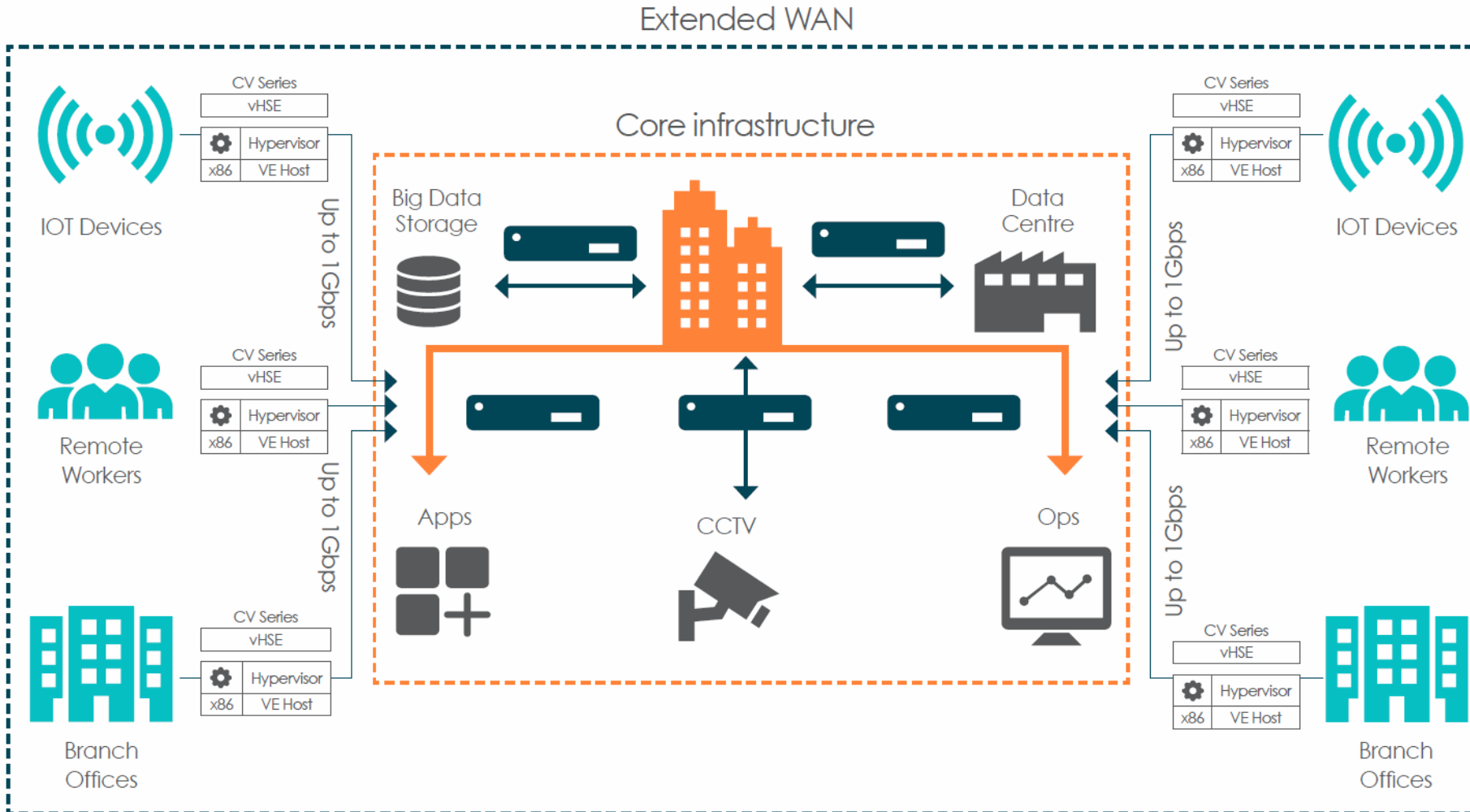
- Gemalto
 - In December 2017 Gemalto received a takeover offer from Thales. Subject to regulatory approvals, the transaction is expected to be completed late in CY18. Combined Gemalto and Thales will be a global leader in digital security and cyber security with more than 28,000 engineers, 3,000 researchers and a formidable sales team
 - Senetas has an strong relationship with Gemalto and the combined strength of Thales and Gemalto presents new and exciting opportunities for the Company
- Technology partners
 - Senetas continues to explore opportunities to work with technology partners to identify new products and markets that can expand the addressable market for Senetas
 - Senetas' virtualised encryption capability has been developed in this environment and provides the potential for technical collaboration and an accelerated route to market for the product
- Senetas invests in and supports mutually beneficial partner organisation relationships to grow sales opportunities and to expand upon Senetas product capabilities

Senetas SDN-Compatible virtualised encryption

- The major development focus for Senetas in HY18 was virtualised encryption technologies
- Senetas is working to further develop its technologies and expand use cases. Development has progressed to allow larger scale opportunities (+10,000 users) with 'zero-touch' deployment
- Development to allow virtual encryptor end-to-end network compatibility across multiple transport Layers (Layers 2, 3 and 4) is in progress
- Revenue will be subscription per instance with low upfront and higher recurring revenues compared to traditional encryption products and not expected to be material for smaller scale opportunities
- Senetas expects "version 2" to be completed before the end of FY18 and for it to potentially open up a significant revenue opportunity for Senetas in FY19 and beyond

SDN – Large Scale WAN Deployment

Example of increasing Senetas's addressable market segments
From core infrastructure to extended WAN



State-Of-The-Art Solutions



Senetas Competitive Advantages

- ✓ 20 years of crypto expertise
- ✓ 20 years of hardware innovation
- ✓ Tested and certified by all major government approved testing authorities
- ✓ Zero latency and data overheads whilst transmitting at speeds up to 100Gbps
- ✓ All Senetas encryption products leverage Senetas core security, performance and crypto-agile IP
- ✓ Established partnerships with some of the world's leading technology companies
- ✓ Strong global distribution partner

Senetas Differentiators

Hardware Encryption

- High-assurance security technical credentials and independent certifications in key markets
- Only multi-certified 100Gbps Ethernet encryptor that supports all topologies
- Proven expertise in delivering services to large corporates, government, defence and service providers

Virtualised Encryption

- Creating unique virtualised encryption solutions - transport Layer independence (Layers 2, 3 & 4)
- Up to 30% performance improvement over existing virtual solutions

Crypto-Agility

- Designed-in crypto-agile features to maximise addressable market
- Well positioned for global Quantum computing concerns
- Proven bespoke development - only Layer 2 encryptor for use in some Eastern European markets

SureDrop – File Sharing

- Unrivalled security for document sharing, synchronisation and collaboration
- Enables customers with 100% control over data location and sovereignty

Tightening Regulatory Landscape Supports Growth



Awareness & Accountability

Australia

- Notifiable Data Breaches scheme comes into effect on 22 February 2018
- Organisations will be required to notify the Australian Information Commissioner and individuals affected by data breaches which are likely to result in serious harm

US

- All but two states—Alabama and South Dakota—have laws requiring consumer notification of security breaches involving personal information
- Class action based civil litigation is considered a major security motivator

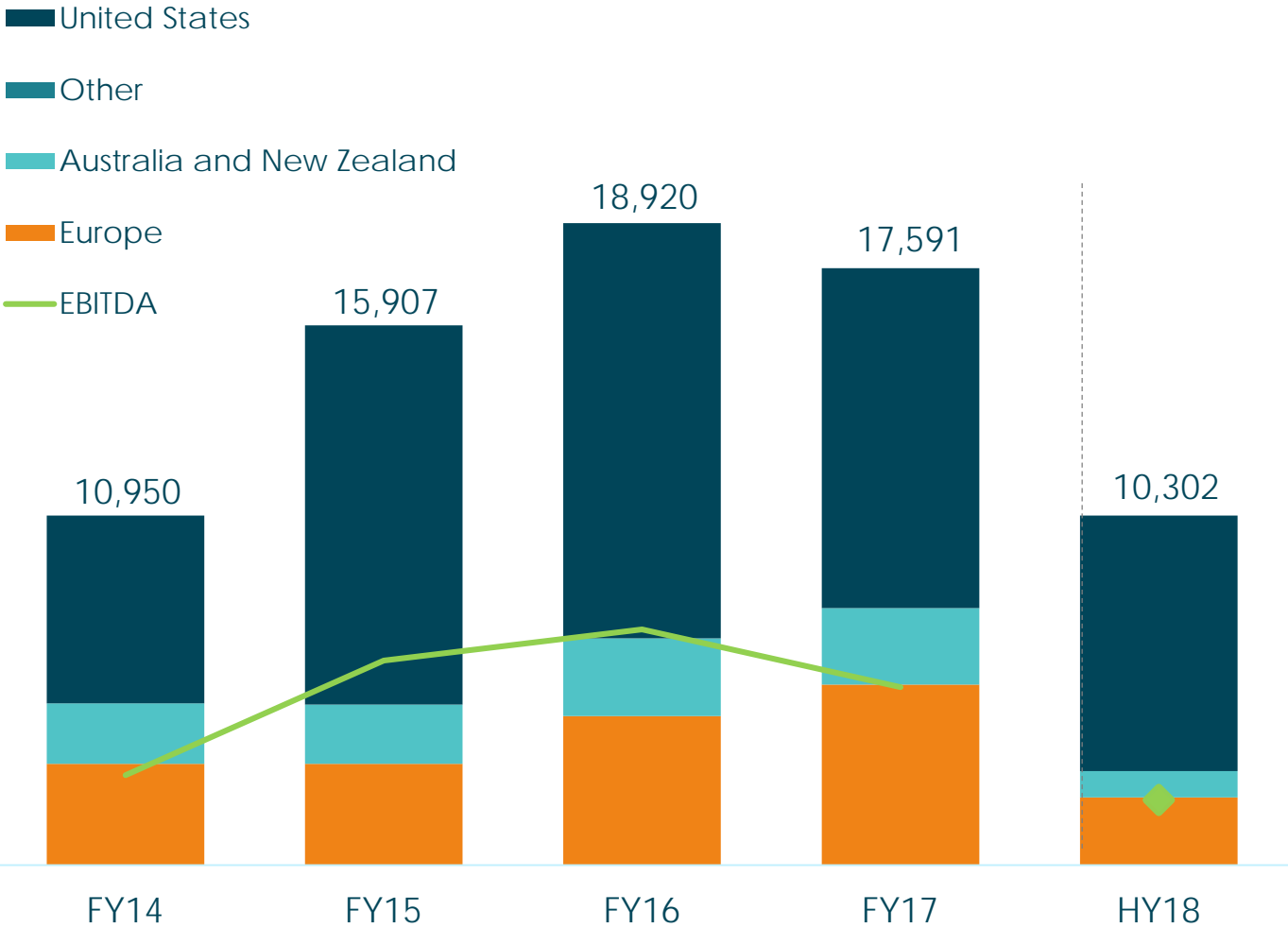
Europe

- General Data Protection Regulation (GDPR) 25 May 2018
- All companies—including international firms—doing business with individuals located in EU member nation territory must comply with the GDPR
- EU citizens have enforceable rights in relation to their personal data processing and there exists explicit obligations on the data controller – not limited to data security and confidentiality

Detailed Financials



Trading Revenues (\$'000)



65%
Product sales revenue
(maintenance revenue 35%)

Operating Cash Flows

Half year ended 31 December 2017	1H18 \$000's	1H17 \$000's	Change
Receipts from customers	9,107	8,566	6%
R&D tax concession net of tax paid	-	210	
Payments to suppliers & employees	(7,777)	(9,148)	(15%)
Operating cash flows	1,536	(141)	
Investing cash flows	(1,066)	(989)	8%

- Receipts from customers increased similarly to operating revenue
- Lower payments to suppliers & employees in HY18 reflects a reduction in inventory levels
- Higher investing cash flows due to further investment into Smart Antenna Technologies and the purchase of testing equipment

Balance Sheet Remains Strong

Half year ended 31 December 2017	1H18 \$000's	1H17 \$000's	Change
Cash and cash equivalents	20,570	20,091	2%
Trade and other receivables	4,256	5,401	(21%)
Unlisted equity investments	2,850	2,227	28%
Total assets	32,022	31,704	1%
Trade and other payables	(1,578)	(1,393)	13%
Unearned income	(5,033)	(5,416)	(7%)
Total liabilities	(8,871)	(10,221)	(13%)
NET ASSETS	23,151	21,483	8%

- Strong balance sheet with net assets up 8% in HY18
- Cash on hand of \$20.6m and no debt – 2% growth over HY17 post additional investment in SAT in HY18
- Solid financial footing supports strategic flexibility and leading edge product development to meet the current and future needs of its customers

Thank You

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