



TESSERENT

ASX ANNOUNCEMENT

Melbourne — 15 October 2018

QUARTERLY ACTIVITIES UPDATE AND APPENDIX 4C COMMENTARY

Tesseract Limited (ASX:TNT, Tesseract) is pleased to report on-going business growth and significantly improved performance against the same quarter last year, highlighted by the following key indicators.

KEY QUARTERLY METRIC	VALUE	SAME QUARTER LAST YEAR COMPARISON
Total contracts signed	\$644 K	↑ 239% increase
Security contracts signed	\$343 K	↑ 1270% increase
CyberBiz contracts signed	\$54 K	↑ 117% increase
Connectivity contracts signed	\$302 K	↑ 88% increase
Contracted future income	\$5.090 M	↑ 4% increase
Revenue	\$1.428 M	↑ 13% increase
Invoiced to customers	\$1.441 M	↑ 23% increase
Cash balance	\$1.080 M	↓ 45% decrease

Under newly-appointed CEO Julian Challingsworth, Tesseract has seen significant growth in all areas of business performance. Q1 sales increased 239% from the same period last year. With a solid Q2 sales pipeline and the acquisition of Asta Solutions Pty Ltd (Asta) targeted to complete in December, FY19 is on track to deliver aggressive sales growth for the business and outstanding value to shareholders.



STRATEGIC & BUSINESS COMMENTARY

STRATEGIC BACKGROUND

Tesseract's accelerated growth strategy, as set out in the Financial Report dated 30 September 2018, is to gain further leverage from its capabilities in the growing cybersecurity and IT services markets, and to pursue new opportunities in the high-growth areas of blockchain and software defined networking.

The outlined strategy is already achieving its goals and making a positive impact on contracted revenue. As a result of the enhanced focus of the revamped sales team and the successful integration of the Asta sales team, the company enters Q2 with an extremely strong pipeline of qualified opportunities to close before Christmas 2018. Whilst the cash balance position has reduced, a significant part of that is due to costs associated with the acquisition of Asta which are not expected to be ongoing.

SECURITY SERVICES UPDATE

Tesseract's core offering of security-as-a-service sees continued strong growth. Tesseract's investment in building scalable capability and capacity to become a leader in the managed security service market continues to pay-off. Security contracts for our core offering of security-as-a-service increased 1270%, compared to the same quarter last year.

Tesseract has built powerful partnerships with Gartner Magic Quadrant cybersecurity vendors including Palo Alto Networks¹, Cisco², Sophos³, and AlienVault⁴. As Tesseract's end-to-end secure IT services offering expands, the company expects to announce exciting new partnerships in the AI and security consulting segments in the near future.

In September 2018, Tesseract's start-of-the-art Security Operations Centre was officially awarded ISO27001 accreditation. A significant undertaking in itself, the compliance project is part of Tesseract's constant attention to continual improvement in security policy, process, and management. ISO27001 Certification not only ensures a rigorous set of security practices to adhere to, it opens up considerable commercial opportunities with enterprise and government clients.

Secure networking continues to generate strong new revenue from both new and existing customers. Software defined wide area networking (SD-WAN) is the next generation of networking and Tesseract's newly developed SD-WAN technology enables every Tesseract appliance to also act as a secure SD-WAN intelligent device. This presents significant opportunity to cross-sell and upgrade existing customers to the latest in networking technology.

¹ Gartner Magic Quadrant for Enterprise Network Firewalls, 2018

² Gartner Magic Quadrant for Intrusion Detection and Prevention Systems, 2018

³ Gartner Magic Quadrant for Endpoint Protection Platforms, 2018

⁴ Gartner Magic Quadrant for Security Information and Event Management, 2017



Gartner forecasts the SD-WAN market to grow at 59% compound annual growth rate (CAGR) through 2020 to become a US\$1.3 billion market. It also reports that while only 5% of the WAN is managed using SD-WAN, by 2019 that market share will increase to 25%⁵.

STRATEGIC PARTNERSHIPS UPDATE

Creating leverage through partnerships with leading industry players continues to enhance and expand Tesseract's presence in new and existing markets. In September 2018, Tesseract announced a new partnership with SXiQ, a leading Australian IT service provider at the forefront of cloud, collaboration, and digital services. The successful partnership has already delivered results with new business won with a tier-one Australian customer.

Earlier in October 2018, Tesseract and Asta announced a signed a Memorandum of Understanding (MoU) with Blockchain Global Limited (Blockchain Global) to build a cybersecurity platform for crypto exchanges. The partnership with Blockchain Global is an important step in Tesseract's growth strategy into blockchain security solutions in Australia and South East Asia. Tesseract and Asta are exploring further exciting opportunities in the blockchain security space that will further enhance Tesseract's reputation as a premier trusted security partner.

Tesseract is pursuing additional capability in cybersecurity consulting. There are considerable revenue opportunities that may warrant an in-house based capability and potential acquisition. The board will continue to consider opportunities in this extremely complementary market segment.

ASTA ACQUISITION UPDATE

The completion of Tesseract's exciting acquisition of innovative IT services company Asta, is targeted to occur in December, 2018. Shared growth and sales opportunities are already underway as the Tesseract and Asta sales teams collaborate on joint go-to-market strategies and account planning. There has been considerable success to date cross-selling IT services and managed security between the organisations. The opportunity to drive a deep, trusted advisor relationship with a strong client base, will continue to underpin Tesseract's consistent reoccurring customer revenue. Tesseract expects to seek shareholder approval for elements of the acquisition at the 2018 AGM in November 2018.

Julian Challingsworth, Chief Executive Officer of Tesseract said:

"The momentum of activity across Tesseract in FY19 has truly delivered a result everyone in the organisation can be proud of. Multiple initiatives including new strategic partnerships with SXiQ and Blockchain Global, innovative product development in SD-WAN, and the exciting acquisition of Asta, are translating into accelerated sales growth across the board. We have a proven track-record of success and the team is capable of delivering on Tesseract's vision to become Australia's leading end-to-end, secure IT service provider."

⁵ Gartner Forecast: SD-WAN and Its Impact on Traditional Router and MPLS Services Revenue, Worldwide, 2016-2020



Remko Jacobs, Chief Customer Officer of Tesseract commented: “The Tesseract team delivered an exceptional first quarter for FY19, with sales increasing 239% compared to Q1 last year. Our new partnership with leading Australian cloud services provider SXiQ closed its first joint sale to a tier-one Australian customer. Collaboration between the Tesseract and Asta's sales teams has delivered a powerful joint go-to-market strategy. As a result, a strong pipeline is evolving rapidly, providing Tesseract access to significant opportunities, resulting in improvement in average deal size and overall revenue. FY19 is shaping up to be a significant year of growth for new business.”

ABOUT TESSERENT

Tesseract is a specialist in managed cybersecurity and networking. Tesseract provides enterprise-grade managed cyber security and networking services to corporate customers in Australia and internationally in the UK and Korea. Tesseract provides a 24/7 Security-as-a-Service offer to small and large organisations', giving customers peace of mind that their networks and critical data are protected. Tesseract also provides innovative cybersecurity solutions to small-medium businesses via the CyberBiz suite of services. In July 2018 Tesseract announced the intention to acquire Asta. Together, the companies will offer a powerful suite of end-to-end managed IT security solutions.

CONTACT

Please forward all investor related enquiries to Company Secretary.

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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

TESSERENT LIMITED

ABN

13 605 672 928

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	910	910
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(12)	(12)
(d) leased assets	-	-
(e) staff costs	(602)	(602)
(f) administration and corporate costs	(1,207)	(1,207)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	8	8
1.5 Interest and other costs of finance paid	(2)	(2)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(905)	(905)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(13)	(13)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
(d) intellectual property	(134)	(134)
(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	-	-
2.6 Net cash from / (used in) investing activities	147	147

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	411	411
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	-	-
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	411	411

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	1,718	1,718
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(905)	(905)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(147)	(147)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	411	411

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	1,077	1,077

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	577	868
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Term Deposit)	500	850
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,077	1,718

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

96

-

- Executive Director salaries
- Director fees

Includes amounts paid to entities associated with the Directors

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

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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	-	-
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.		

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	-
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	20
9.4 Leased assets	63
9.5 Staff costs	620
9.6 Administration and corporate costs	1,150
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	1,853

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

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.



15 October 2018

Sign here:
(Director/Company secretary)

Date:

Print name: Oliver Carton

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.