



Senetas Corporation Limited

2019 Interim Results – 26 February 2019

HY19 HIGHLIGHTS

- Revenue of \$9.86m – in line with guidance
 - Slight decline in ANZ revenue, with Gemalto revenues consistent with the prior period
 - Maintenance revenue at 36% of total, reflecting lower price of ethernet products
 - First time impact of new AASB15 (revenue recognition) has reduced reported revenue by \$0.26m, but no impact on sales or cashflow
- Net profit before tax of \$1.42m (excluding the impact of investment in Smart Antenna Technologies & share of Votiro loss)
 - Pre AASB15 NPBT of \$1.68 million – down 29.9% (prior to the SAT impairment and share of Votiro loss) is at the high end of the guidance range
- Strong balance sheet with no debt
- Votiro transaction completed with strong collaboration between Senetas and Votiro teams

SALES OUTLOOK IMPROVING



100Gbps
Encryptors

Ongoing sales
momentum with
growing sales
pipeline



Votiro pipeline
growing



Gemalto signed
agreement to
adopt SureDrop

Initial pilots underway

R&D AT THE CORE OF VALUE CREATION



Hardware Encryption Solutions

New hardware encryptors with transport layer independence across Layers 2, 3 & 4

Virtual (Software) Encryption Solutions

Additional capabilities to conform with public cloud environments

European certification

Progress European certification for core hardware products to broaden the addressable market

FY2019 expectation is for R&D spend to be \$0.5m-1.0m higher than that in FY2018

KEY FINANCIALS



HY19 KEY FINANCIALS

Half year ended 31 December 2018 (\$000's)	HY19 Post AASB15	HY19 Pre AASB15	HY18 Pre AASB15
Revenue from ordinary activities	9,862	10,123	10,301
Gross profit	7,494	7,756	8,190
Gross Margin %	76%	77%	79%
Other income	303	303	215
Profit before tax from ordinary activities	1,417	1,679	2,394
Writedown of SAT & share of Votiro loss	(2,216)	(2,216)	-
Statutory profit before tax	(799)	(537)	2,394
Tax expense	(385)	(257)	(754)
Net profit after tax	(1,184)	(794)	1,640

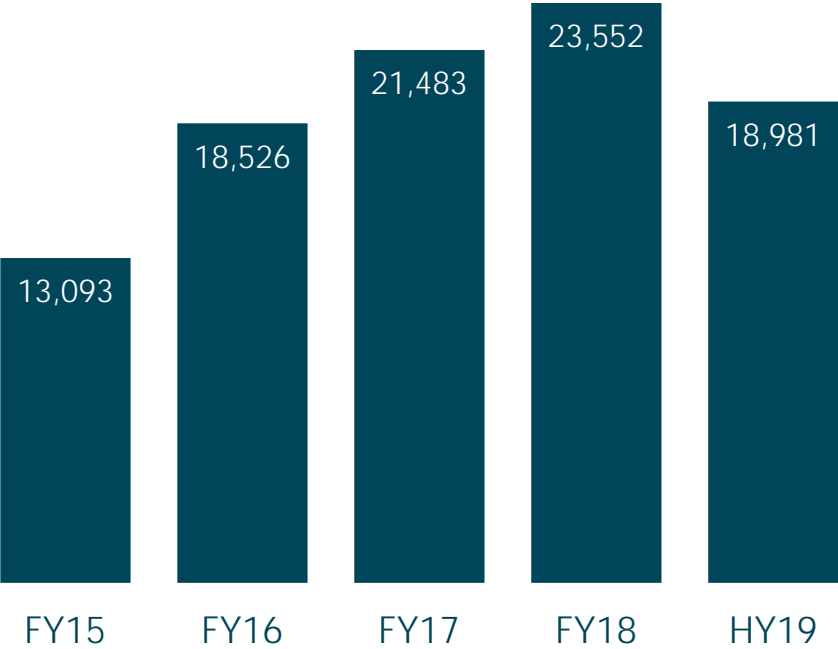
- Revenue from Gemalto NV in line with the prior period, with slight decline in ANZ region revenue
 - Maintenance revenue - **36%** of total revenue – reflecting the ongoing transition of one of Senetas's key customers from Senetas SONET products to lower cost Senetas Ethernet products
- Gross margins at **76%** – reflects increased sales of higher cost 100Gbps products
- Underlying effective **tax rate 27%** prior to HY19 write down of unlisted investments
- Share of Votiro loss of \$0.32m was in line with expectations of the performance of the business at time of investment

EFFECT OF AASB15

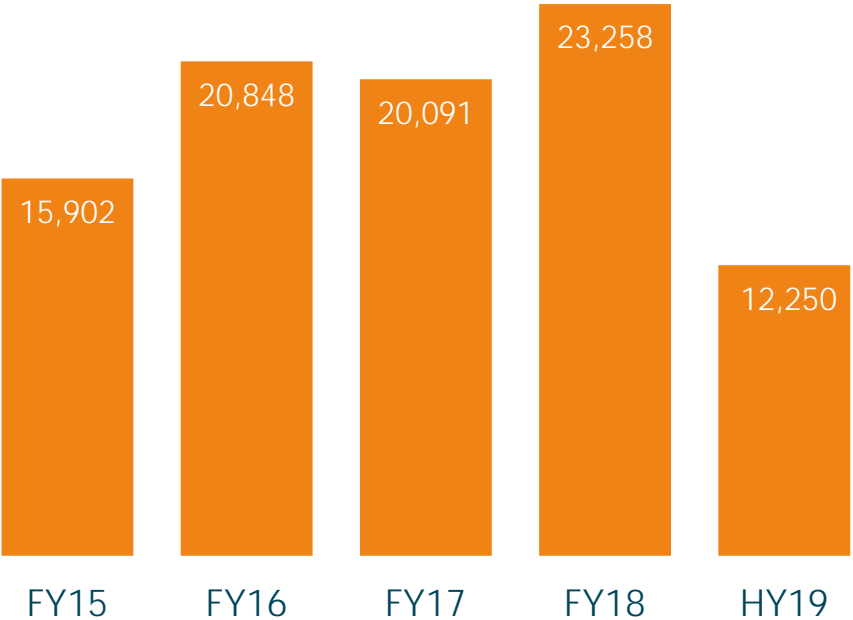
- AASB15 applied to Senetas's results for the first time in the period beginning HY19
- This requires the company to estimate and recognise the revenue expected to be earned from customer contracts, rather than waiting for the actual end sale before recognising the revenue
- The practical effect of this for Senetas is that it must recognise in a reporting period the revenue expected to be generated from the inventory held by its global distribution partner (Gemalto) in the period in which the inventory is originally purchased by Gemalto, before it is on-sold to customer
- The reduction in HY19 revenue of \$0.26m after the application of AASB15 is a result of lower inventory held by Gemalto held at 31 December 2018 compared to that at 30 June 2018.

STRONG BALANCE SHEET WITH NO DEBT

NET ASSETS \$'000



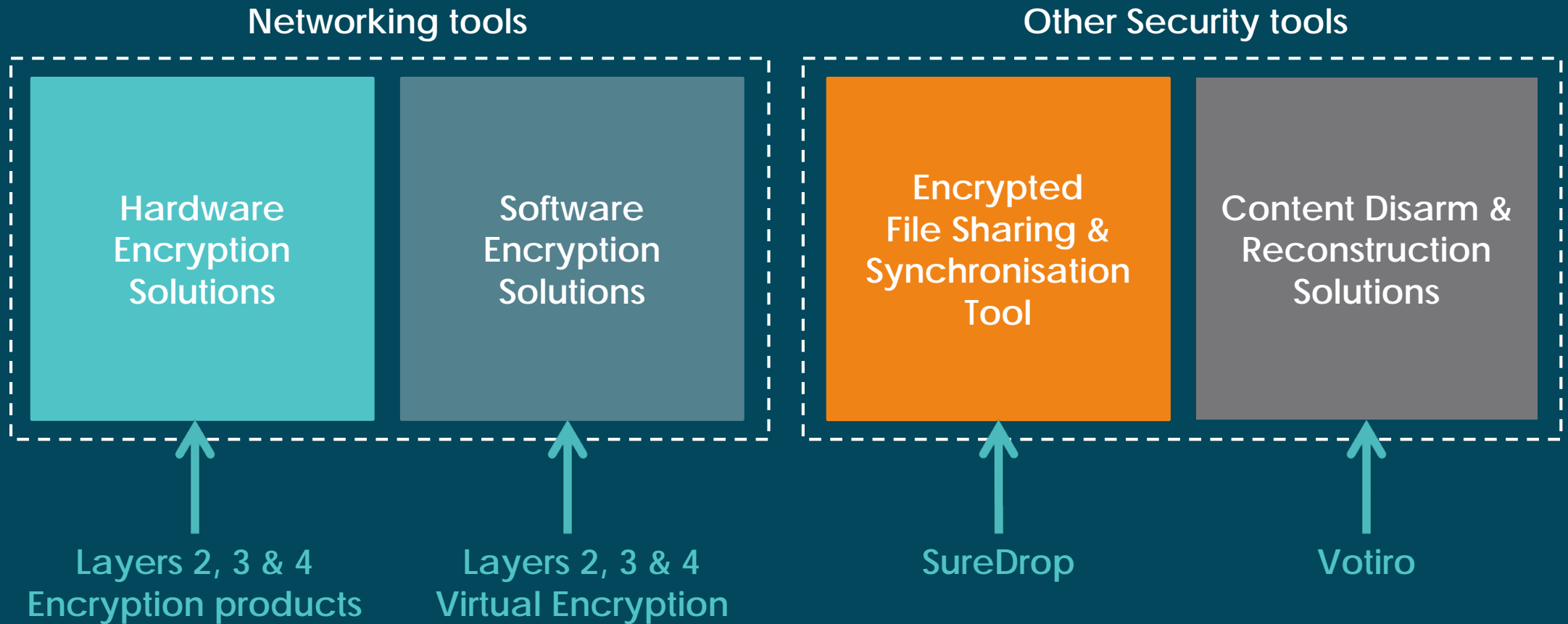
CASH AND CASH EQUIVALENTS \$'000



OPERATIONAL UPDATE



LEVERAGE EXPERIENCE TO BRING BEST OF BREED SECURITY



BUILDING A LEADER IN SECURITY PRODUCTS

Our goal - diversify product revenues, increase growth, expand addressable market

Focus on security while retaining user experience and network performance

1

Defend hardware encryption opportunity

- 100Gbps Encryptor providing access to new customers
- Focus on upgrades of legacy Sonet networks
- Extend capability of hardware encryptors (rather than just layer 2)

2

Expand market via new products

- Virtualised encryption – layer 2
- Layer 3 & 4 – hardware and virtual
- File sharing - SureDrop
- ADVA as a new channel

3

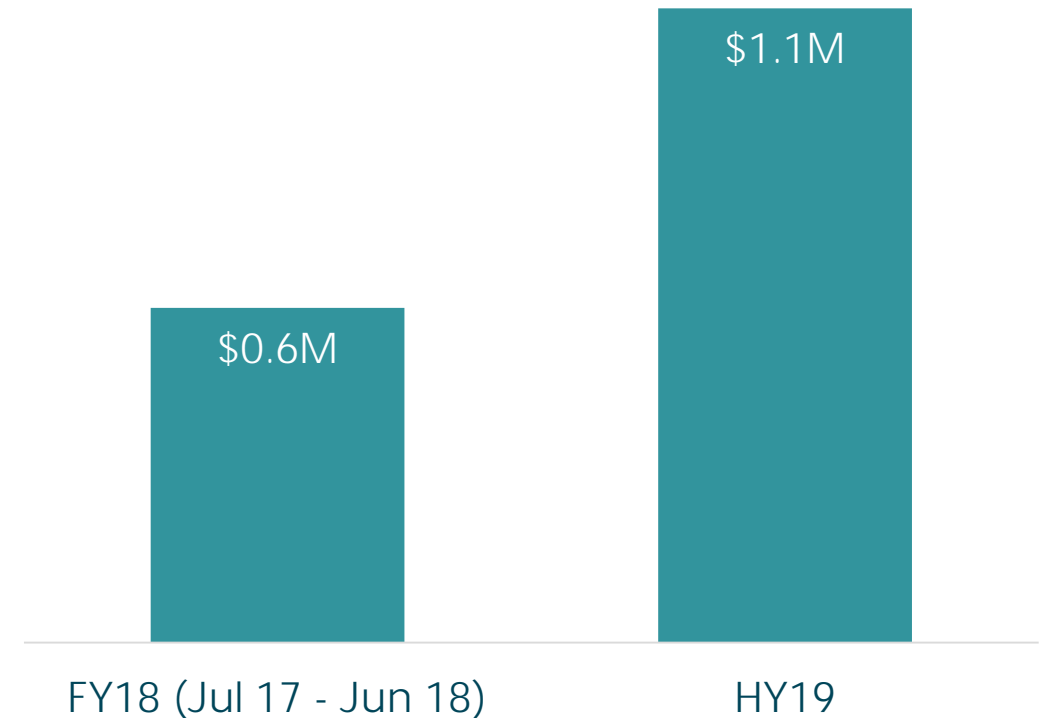
Growth through investments and acquisition

- Focus on revenue growth – leverage distribution and technical capabilities
- Votiro - first opportunity

100GBPS ENCRYPTORS GAINING TRACTION

- Higher sales of 100Gbps encryptors (Series CN9000) in HY2019
- Reflects customer transition to higher speed networks
- Sales driven by customers who have not previously purchased Senetas encryptors
- Current sales margins reflect higher component costs. Margins are expected to increase over time as the cost of 100Gbps components reduces

SENETAS'S 100GBPS REVENUE



VOTIRO UPDATE



- Expands Senetas's product portfolio into Content Disarm and Reconstruction (CDR) technology – a significant opportunity across multiple end user markets
- Senetas has committed to invest up to US\$8m in Votiro resulting in a majority shareholding with pre-emptive right on further funding
- Senetas's initial US\$4m investment in Votiro is carried on the balance sheet as Investment in an Associate at A\$6.05 million at 31 December 2018

VOTIRO UPDATE



- Primary focus is to accelerate Votiro's growth via expanded distribution outside its core market of Japan
 - Senetas investment has provided the resources to make the required investments in additional business capability
 - Gemalto distribution opportunities currently being pursued
 - Advanced discussions underway with a number of other strategic partners
- Senetas's share of Votiro loss of \$0.32m was in line with expectations of the performance of the business at the time of the investment and has no impact on our confidence in the growth outlook of the business
- Strong revenue growth expected in CY2019

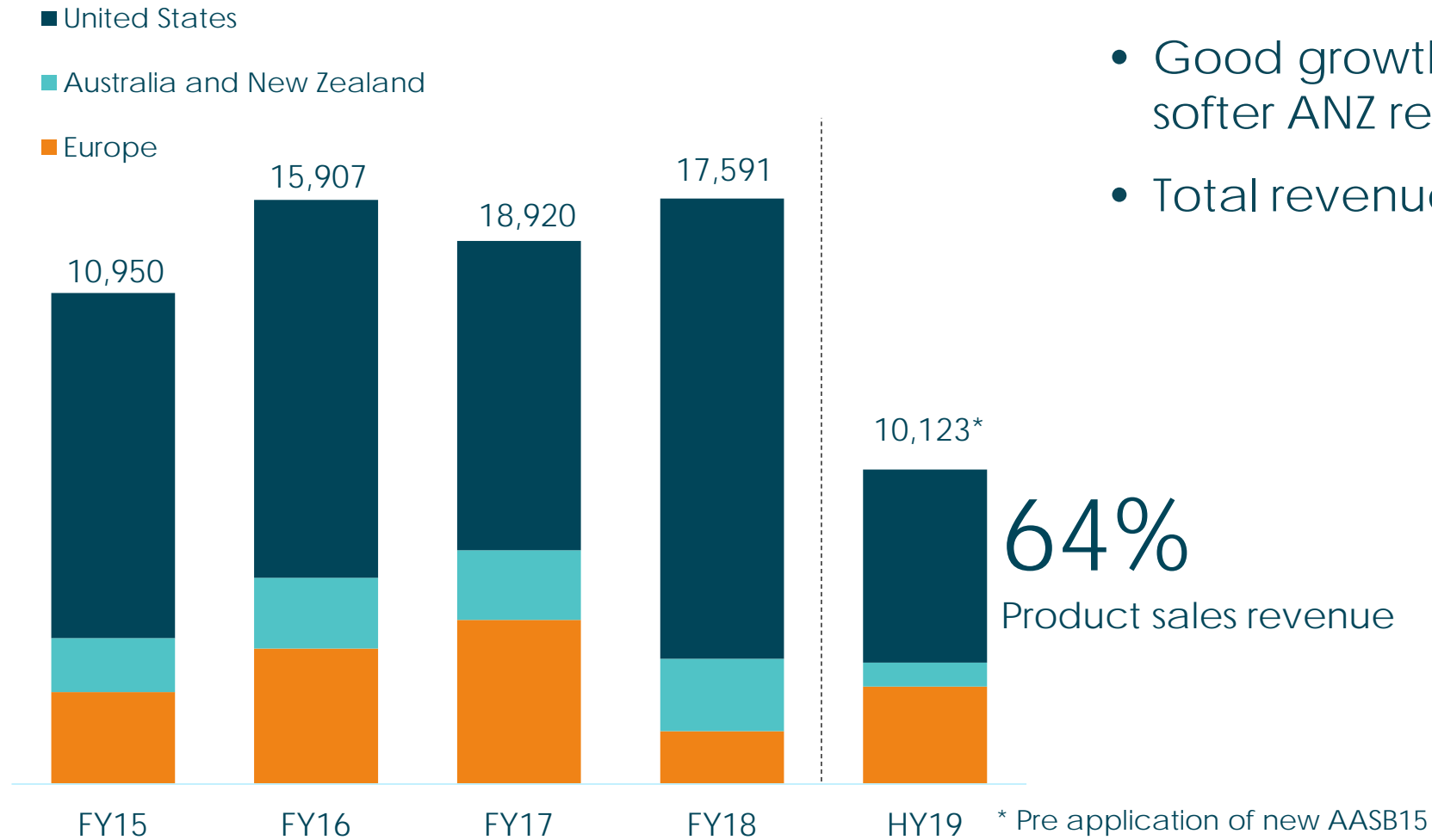
SUREDROP UPDATE

- SureDrop has undergone successful customer testing during HY19 with positive customer feedback
- Signed an agreement with Gemalto in relation to the distribution of SureDrop and sales leads off the back of that agreement have already been encouraging.
- The SureDrop technology was acquired by Senetas in the second half of FY2017 on an earn out basis with no upfront consideration. With development of the SureDrop product complete, and sales now expected in the near term, Senetas has for the first time recognised a contingent charge in its P&L related to the SureDrop earn out provisions.

DETAILED FINANCIALS



TRADING REVENUES (\$'000)



- Good growth in European market, softer ANZ revenue
- Total revenue in line with prior period

OPERATING CASH FLOWS

Half year ended 31 December 2018	HY19 \$000's	HY18 \$000's	Change
Receipts from customers	8,550	9,107	(6%)
Tax paid	(487)	-	-
Payments to suppliers & employees	(8,519)	(7,777)	10%
Operating cash flows	(206)	1,536	-
Investing cash flows	(6,804)	(1,066)	638%
Advance payment to dividend trust account	(4,000)	-	-

- Receipts from customers down by 6% reflecting lower sales
- Higher payments to suppliers & employees in HY2019 reflects higher R&D costs and higher inventory held by Senetas at 31 December 2018
- Income tax paid in HY19 reflects changes to the timing of tax instalment payments
- Investing cash flows reflect the first tranche of the investment into Votiro and associated costs

BALANCE SHEET REMAINS STRONG

Half year ended 31 December 2018	HY19 \$000's	FY18 \$000's*	Change
Cash and cash equivalents	12,250	23,258	(47%)
Trade and other receivables	5,678	6,529	(13%)
Unlisted equity investments	-	1,893	-
Investment in Votiro	6,045	-	-
Total assets	33,144	35,968	(8%)
Trade and other payables	(2,211)	(1,932)	14%
Unearned income	(6,071)	(6,910)	(12%)
Total liabilities	(14,163)	(12,417)	(14%)
NET ASSETS	18,981	23,551	(19%)

* Restated for AASB15

- Strong balance sheet with net assets down 19% in HY19 reflecting the recent dividends declared of \$4.00m, the impairment to SAT investment and the share of loss for the period incurred by Votiro
- Cash on hand of \$12.25m and no debt – lower cash balance reflects initial A\$6.37m investment in Votiro and A\$4.00m advance payment to the dividend trust account
- Working capital in line with the prior period

IMPAIRMENT TO UNLISTED INVESTMENTS

- Senetas announced on 16 January 2019 that it expected to recognise an impairment to the carrying value of its investment in Smart Antenna Technologies Ltd (SAT)
- Senetas holds a 5.52% interest that was initially acquired in Dec 2016
- The major shareholder and primary financier of SAT advised its intention to not proceed with additional funding due to disagreements with SAT management over future strategy. As a result, the board of SAT has resolved to put the business into the hands of administrators
- Given the level of uncertainty surrounding the carrying value of the investment the board has resolved to write down the carrying value of the investment in SAT from \$1.89m to nil

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