

26 August 2019

ASX ANNOUNCEMENT

Senetas Corporation Limited Full-Year Results Announcement for the year to 30 June 2019

- 12.3% growth in operating revenue, significantly ahead of industry growth
- Thales confirmed as Senetas's global distribution partner after its acquisition of Gemalto
- R&D pipeline expanding addressable market and opportunities
- Expanding Votiro distribution network to drive sales growth
- Distribution for FY2019 of \$0.000462 per share subject to shareholder approval
- Strong balance sheet position and no debt

Senetas Corporation Ltd (ASX: SEN) (Senetas / the Company), today announced its results for the year ended 30 June 2019 (FY2019).

FY2019 financial highlights

Full year ended 30 June 2019 (\$000's)	FY2019	FY2018
Revenue from ordinary activities	21,313	18,971
Gross profit	16,694	15,414
Other income	708	2,949
PBT from ordinary activities	3,864	5,799
Loss on fair value through profit or loss investment	(1,893)	(1,362)
Share of loss of an associate	(1,651)	-
Profit before tax	320	4,438
Tax expense	(783)	(2,482)
Net profit after tax	(463)	1,955

FY2019 results reflect first time application of the new AASB15 (*Revenue from Contracts with Customers*). FY2018 results were not subject to the new AASB15 and have not been restated.

- Operating revenue of \$21.31 million was up 12.3% over the prior year (FY2018: \$18.97 million) with good growth in both product sales and maintenance revenue
- The strong revenue growth reflects increasing global awareness of cyber security concerns and is significantly ahead of the expected growth in industry spending on information security products and services of 8.7% in 2019 as forecast by Gartner, Inc.





- Gross margin of 78% was slightly below the prior year reflecting increased sales of 100Gbps encryptors
- Having exceeded \$20 million of operating revenue for FY2019 Senetas is no longer eligible for the refundable R&D rebate. Instead, a non-refundable tax offset equal to 38.5% of eligible expenditure applies. Other Income and NPBT are therefore lower in FY2019, but tax expense has been reduced by \$1.40 million. The R&D rebate included in Other Income in FY2018 was \$2.05 million
- The share of Votiro loss of \$1.65 million for the period since Senetas made its investment in November 2018 was in line with expectations
- Operating profit before tax was \$3.86 million prior to the \$1.89 million impairment to the carrying value of unlisted investments that was announced by the Company on 19 January 2019, and Senetas's share of the Votiro loss
- Net loss after tax was \$0.46 million
- FY2019 expenses include a number of non-recurring legal and other expenses totaling \$0.92 million related to the Australian Government's Assistance and Access legislation and a legal dispute related to the Company's investment in Deep Radiology
- The first US\$4 million (A\$5.65 million) tranche of Senetas's investment into Votiro was paid on completion in November 2018. The US\$2 million second tranche of the investment in Votiro is to be paid in 2 instalments – US\$1 million (A\$1.48 million) was paid in August 2019 with the remainder to be paid prior to the end of CY2019. The final US\$2 million tranche of the investment is expected to be paid in the first half of CY2020
- Given the net loss after tax, Senetas will pay a distribution to shareholders (in the form of a return of capital) for FY2019 of \$0.000462 per share (a cash distribution of approximately \$0.5 million). The distribution is subject to shareholder approval which will be voted on at the 22 November 2019 AGM and if approved will be paid on 13 December 2019 to shareholders registered at 29 November 2019
- Strong balance sheet with no debt and \$17.86 million of cash at 30 June 2019 following the \$6.62 million of payments related to the first tranche of the investment in Votiro and \$4.00 million distributed to shareholders in relation to the FY2018 period.

In order to provide a like-for-like comparison of the underlying operating results without the impact of changes to Senetas's R&D offset and non-recurring expenses, the Company has provided below a reconciliation of the relevant adjustments between underlying operating profit before tax and the statutory NPBT for FY2019 and FY2018.

Reconciliation to underlying operating profit (\$000's)	FY2019	FY2018
Profit before tax	320	4,438
- Loss on fair value through profit or loss investment	1,893	1,362
- Share of loss of associate (Votiro)	1,651	-
- Non-recurring legal & other expenses	919	-
- R&D refund included in Other Income (FY2018)	-	(2,053)
Underlying operating profit before tax and R&D offset	4,783	3,747



Commenting on the year to 30 June 2019, Senetas CEO, Andrew Wilson, said: "Senetas's vision is to be recognised globally as a trusted provider of high-assurance cyber-security solutions, providing protection without compromising systems' performance or user experience.

"The past few years has seen Senetas evolve considerably through substantial investments that build upon specialist engineering and our high-assurance security capabilities to expand our customer solutions. These investments allow us to better protect our customers' most valuable asset – their data.

"The strong growth in revenue in FY2019 has been very pleasing and, in part, reflects investments made some years ago into the ultra-fast 100Gbps encryptors. The 100Gbps encryptor is now a core product line and a key driver of revenue growth.

"Whilst our Net Profit for FY2019 has been impacted by the first time recognition of Senetas's share of the Votiro loss, changes to the nature of our R&D rebate and some other non-recurring items, our underlying operating profit excluding these items has seen strong growth over the prior year.

"That growth reflects increases in both hardware sales revenue and maintenance revenue, with 16% growth in revenue from our global distribution partner, Thales. Sales of the new 100Gbps encryptor are progressing well and we continue to be encouraged by the number of new customers purchasing Senetas encryptors.

"Thales recently completed its acquisition of Gemalto and we are pleased that Thales has agreed to continue as Senetas's exclusive global distributor. Thales employs over 80,000 people in 68 countries and is now the global leader in digital security, including data encryption.

"Senetas's opportunity is to leverage our growing product portfolio through Thales's huge customer base, channel partners and sales force to significantly expand the market coverage for our products.

"The first US\$4 million tranche of our \$US8 million investment in Votiro Cybersec, was completed in the first half of the year and presents a significant opportunity for Senetas to expand its portfolio into a fast growing segment of the security market and to use its distribution relationships to accelerate Votiro's growth. Votiro has made good recent progress with new distribution relationships and sales into new markets and its financial performance to date is in line with our expectations at the time of acquisition.

"The US\$2 million second tranche of our investment in Votiro will now take place in two instalments, the first US\$1 million (A\$1.48 million) of which was paid earlier in August 2019. The next instalment is expected prior to the end of the calendar year.

"Senetas's balance sheet remains strong with no debt and \$17.86 million of cash on hand at 30 June 2019. Cash on hand at 1 August 2019 was \$19.9 million. Operating cash flow during the year was up in line with the strong growth in operating revenue.

Operational review

Operating revenue was up 12.3% in FY2019 with revenue received from Senetas's global distribution partner Thales up 15.8%. Higher sales in Europe during the year were the key driver of revenue growth. Revenue from the ANZ region was slightly lower.

FY2019 maintenance revenue was just over 40% of total revenue, slightly higher than FY2018.

Gross margins were 78%, slightly lower than the prior period largely due to an increased proportion of sales from the higher cost 100Gbps encryptor. Margins on the 100Gbps encryptors are expected to increase over time as the cost of 100Gbps components reduce.



A number of non-recurring legal and other expenses totalling \$0.92 million were incurred during the period arising from the Australian Government's Assistance and Access legislation and a legal dispute related to the Company's investment in Deep Radiology Inc. At this stage, costs in relation to these matters are not expected to have a material impact on Senetas's financial results in FY2020.

Earlier in the year Senetas signed an agreement with Thales in relation to the distribution of SureDrop and the product was this month officially launched by Thales to its customers. Additionally, Thales has also taken on distribution of Senetas's new virtualised encryption technology.

The strong growth in sales by Thales is an indicator of both the strength of the relationship and the growing market awareness of the need for data security and encryption. The recent confirmation that Thales will continue as Senetas's exclusive global distribution partner following its completed acquisition of Gemalto provides Senetas with a significant opportunity to take advantage of Thales's pre-eminent position as the world's largest digital security company with over 30,000 organisations globally that currently use data encryption and access management solutions.

Together with the ongoing development of new technologies, such as the virtualised encryption products and transport layer independence for hardware encryptors, which continue to expand customer use cases and the addressable market for Senetas's products, the relationship with Thales provides continuing revenue growth opportunities.

Votiro

The investment in Votiro is a further expansion of Senetas's security product suite and a significant opportunity for growth. Votiro's content disarm and reconstruction (CDR) technology protects against content based threats from all communication channels and represents a significant global market opportunity. It is a patented solution that automatically scans and sanitises each and every file sent or shared with the organisation, and reconstructs a fully functional, threat free file in less than a second.

The recent focus for Votiro has been to build distribution relationships and sales capability with the primary target markets in the near term being Japan, APAC and the US. New distribution relationships have been established in Japan, APAC and the US with a number of important new customers already won.

Votiro is also in the process of developing in-house sales capability in the US market with the recent appointment of a Sales VP and new sales and marketing campaigns underway. Successful product evaluation/proof of concept trials have been completed with potential customers in the US market.

A key priority is to build large scale strategic partnerships across international markets. Discussions are underway with potential global cybersecurity partners that have the potential to substantially increase Votiro's market penetration.

Votiro's financial performance to date is in line with expectations.

R&D and new product development

With Senetas's operating revenue having exceeded \$20 million for FY2019 the Company is no longer eligible for the refundable Australian Government R&D rebate. Instead, Senetas is eligible for a non-refundable tax offset equal to 38.5% of eligible expenditure. Senetas's Other Income and NPBT are therefore lower in FY2019, however, Senetas's tax expense in FY2019 has been



reduced by \$1.40 million reflecting the new tax offset available. The R&D rebate included in Senetas's Other Income in FY2018 was \$2.05 million.

R&D and new product development will continue to be significant drivers of future revenue growth for Senetas. The major areas of R&D focus in FY2019 were:

- Development of multi-layer capability for Senetas hardware encryptors;
- Further development of the virtualised encryption solutions to provide enhanced capabilities in public cloud environments; and
- New European certification for Senetas's hardware encryptors

Significant progress has been made in the development of transport layer independence capabilities for Senetas's hardware products and enhancing the capabilities of the virtualised encryption solutions during the year. A number of successful trials have been undertaken with these products and the products will be formally launched in FY2020.

The new European certification that will broaden the addressable market for Senetas products in that region is proceeding with completion expected before the end of calendar 2019.

R&D spend in FY2019 was similar to the spend in FY2018. Slower than expected progress on the new European certification led to FY2019 R&D spend being slightly lower than anticipated.

Balance sheet and cash flow

Senetas's balance sheet remains strong with no debt and substantial cash reserves. Net assets reduced 16% to \$19.73 million and the cash balance at 30 June 2019 was \$17.86 million. The cash balance at 1 August 2019 was \$19.9 million.

Net operating cash flow was \$5.87 million in FY2019 up 13% on the prior period reflecting the strong growth in operating revenue during the year.

Significant cash outflows during the year included the \$6.62 million first tranche of the investment in Votiro and associated costs in November 2018, and the payment of \$4.00 million for the FY2018 distributions to shareholders.

Outlook

Commenting on the Company's outlook, Mr Wilson said: "The events of FY2019 have provided a strong platform for future growth.

"The continuing evolution of our product suite with transport layer independence and virtual technologies provides an expanded range of use cases and revenue opportunities for the Company.

"Most importantly the confirmation that Thales will continue to be Senetas's exclusive global distributor following its acquisition of Gemalto provides certainty and a significantly expanded sales and distribution platform for our products.

"The investment in Votiro provides an exposure to the fast growing area of CDR technology which has application for all security conscious enterprises. Votiro has made some important progress in further developing its sales and distribution network since Senetas's investment.

"In the near term revenue will continue to be driven substantially by Senetas's traditional hardware encryption products until the new software products such as virtualised encryption, SureDrop and also our transport layer independent hardware products begin to develop sales momentum in FY2020 and beyond. Senetas's share of Votiro's financial results will continue to have an impact



on our net profit in FY2020, however, we expect revenue growth will continue and profitability will improve with the absence of the non-recurring expenses that impacted FY2019 results.”

Impact of AASB15

In accordance with the new standard, the Company is required 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 is required to estimate in a reporting period the revenue expected to be generated from the inventory held by its global distribution partner (formerly Gemalto, now Thales) in the period in which the inventory is originally purchased by Thales, before it is on-sold to customers.

Similarly, Senetas cannot recognise in the current reporting period revenue generated from the inventory held by Gemalto at the beginning of that period as, under the new standard, revenue expected to be generated from that inventory would have been recognised in the prior reporting period.

The net accounting impact of the new AASB15 on Senetas's results in FY2019 has been to increase revenue and net profit before tax by \$0.20m compared to what would have been recognised under the previous accounting standard.

Unlisted investments

Smart Antenna Technologies Ltd. (SAT)

Senetas announced on 16 January 2019 that it expected to recognise an impairment to the carrying value of its investment in SAT. The impairment was recognised in Senetas's HY2019 financial results.

SAT remains in the hands of administrators and given the continuing uncertainty surrounding the carrying value of the investment the board resolved to write down the carrying value of the investment in SAT from \$1.89 million to nil.

Investor and analyst conference call

The Company will be holding an investor and analyst conference call in relation to the FY2019 results at 11.30AM AEST on Monday, 26 August 2019.

Dial in details: Participants can dial +61 2 9007 3187 or 1800 870 643 (toll free) to join the call. When prompted, please enter Conference ID: 10001794

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ABOUT SENETAS CORPORATION LIMITED

Senetas, an Australian public listed company (ASX:SEN), is a leading developer of network data encryption solutions for enterprise, government, defence and technology service providers. From certified high-assurance encryption hardware and virtualised encryption, to the most secure file sharing application providing data sovereignty control, all Senetas solutions are based on the same leading security, high performance and crypto-agile platform.

Senetas encryption solutions leverage state-of-the-art encryption key management and crypto-agility by design, providing long-term data protection in a post-Quantum computing world. They share the same designed-in data protection without compromising network and application performance or user experience.

- **CN Series** – certified high-assurance hardware encryptors for core IT and network infrastructure.
The CN Series features crypto-agility, uncompromising performance and certifications by multiple independent authorities (C.C., FIPS and NATO), providing Senetas customers with the added confidence that CN Series solutions are state-of-the-art and provide maximum security essential for today's infrastructure.
- **CV Series** – strong virtualised encryption for large-scale extended and virtualised WANs.
The CV Series virtual encryptor provides >1Gbps performance and is transport Layer agnostic. The CV Series enables rapid scalability, flexibility and cost-effective data protection, all the way to the virtual edge. The CV Series encryptor uses the same high-assurance Senetas CN Series hardware encryption platform.
- **SureDrop** – the most secure, “box”-type file sharing application with 100% data location control.
SureDrop leverages Senetas's state-of-the-art encryption security to provide secure collaboration and data sovereignty. SureDrop provides the same Senetas crypto-agility, scalability and ease of use as the network data encryption solutions. It is also an ideal solution for service providers' large-scale deployment as a “Security-As-A-Service” customer solution.

Senetas encryptors have been trusted to protect much of the world's most sensitive information for nearly 20 years. They are used to protect everything from government and defence data and secrets, to intellectual property and business data, to financial transactions, CCTV networks, SCADA critical infrastructure control systems and citizen identities.

Senetas CN and CV Series encryptors provide optimised encryption security for everything from modest bandwidth requirements of 10Mbps to the ultra-fast 100Gbps networks required for aggregated Big Data, Cloud and data centre applications.

Senetas encryption solutions are used in more than 35 countries. Senetas encryptors are distributed and supported internationally by Thales, the world's largest data security company, under its SafeNet Identity and Data Protection products.

www.senetas.com