



Senetas Corporation Limited

2019 Full Year Results – 26 August 2019

FY2019 Highlights

- Revenue of \$21.3m – up 12.3% on FY2018 – well ahead of industry growth, driven by Increasing global awareness of cyber security concerns
 - Growth in both sales and maintenance revenue, with particularly good European sales
 - Revenue from Thales up 15.8%
 - Thales confirmed as Senetas exclusive global distribution partner following completion of Gemalto acquisition
- Operating profit before tax of \$3.9m (excluding the impairment to the investment in Smart Antenna Technologies & share of Votiro loss)
- Net loss after tax of \$0.46 million
- Votiro results to date in line with expectations and good progress being made in building distribution relationships and sales capability
- Strong balance sheet with \$17.9 million of cash and no debt
- Distribution for FY2019 of \$0.000462 per share subject to shareholder approval

Sales outlook improving



100Gbps
Encryptors

Ongoing sales
momentum with
growing sales
pipeline

VOTIRO
SECURED.

Expanding
distributor
relationships &
sales capabilities

THALES

Senetas's global
distribution partner
post acquisition of
Gemalto

*Encouraging customer
engagement*

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

European
certification for core
hardware products
to broaden the
addressable market

- R&D spend in FY2019 was similar to the spend in FY2018 – slightly lower than anticipated due to slower than expected progress on the new European certification
- A number of successful trials completed – plans to launch products in FY2020

KEY FINANCIALS



FY2019 Key Financials

Full year ended 30 June 2019 (\$000's)	FY2019	FY2018	Change
Revenue from ordinary activities	21,313	18,971	12.3%
Gross profit	16,694	15,414	8.3%
Gross Margin %	78%	81%	(3.7%)
Other income	708	2,949	(76.0%)
Profit before tax from ordinary activities	3,864	5,799	(33.4%)
Writedown of unlisted investments & share of Votiro loss	(3,544)	(1,362)	-
Statutory profit before tax	320	4,438	(92.8%)
Tax expense	(783)	(2,482)	(68.5%)
Net profit (loss) after tax	(463)	1,955	(123.7%)

- 12.3% growth in operating revenue well ahead of industry growth
 - 15.8% growth in revenue from global distribution partner, Thales
 - Recurring maintenance revenue - **40%** of total revenue
- Gross margins at **78%** – reflects increased sales of higher cost 100Gbps encryptors
- Share of Votiro loss of \$1.65m was in line with expectations and carrying value of SAT investment reduced to nil
- FY2019 tax expense includes an R&D credit of \$1.40m - FY2018 R&D rebate included in Other Income was \$2.05m

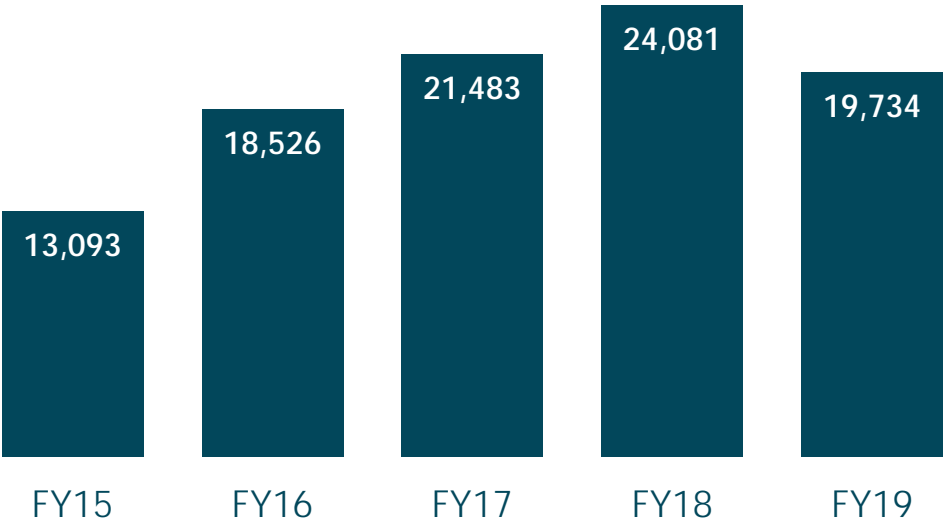
Reconciliation to underlying operating profit

Full year ended 30 June 2019 (\$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	1,651	-
– Non-recurring legal and other expenses	919	-
– R&D refund included in Other Income in FY2018	-	(2,053)
Underlying operating profit before tax	4,783	3,747

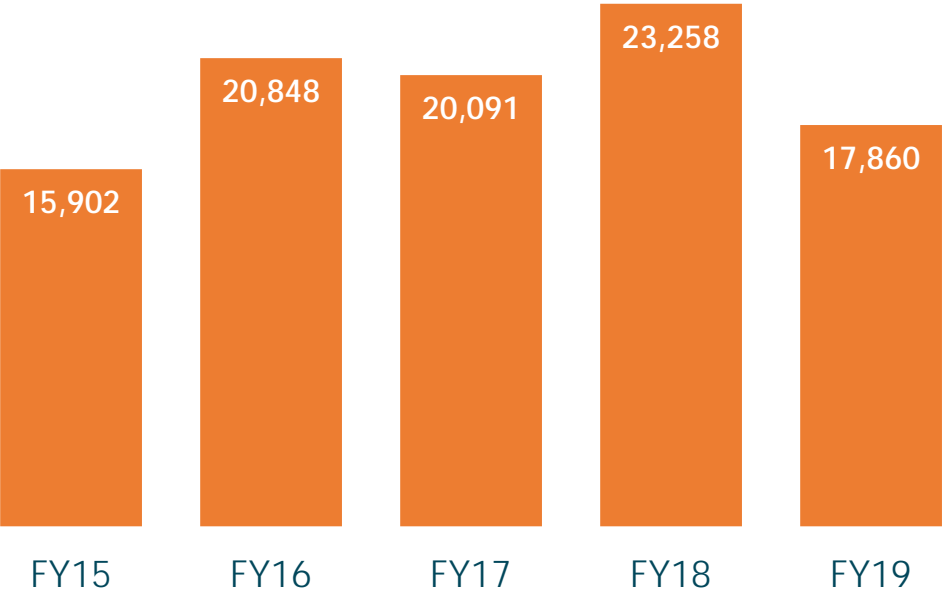
- FY2019 underlying operating profit before tax up 28% over FY2018
- The reconciliation provides a like-for-like comparison of the underlying operating results without the impact of changes to Senetas's R&D offset, the impact of Senetas's share of Votiro losses which did not impact FY2018, and other non-recurring expenses

Strong Balance Sheet With No Debt

NET ASSETS \$000's



CASH & CASH EQUIVALENTS \$000's



OPERATIONAL UPDATE



Votiro Update



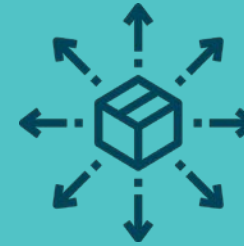
Proven
technology
with customers
and revenue
producing



Limited
competition in
CDR space



The task - build
scale and
global
relevance



Materially
enhances
Senetas's
product
portfolio

- Expands Senetas's product portfolio into Content Disarm and Reconstruction (CDR) technology – a significant opportunity across multiple end user markets
- Focus on building distribution relationships and sales capability
- US\$2m second tranche of the investment in Votiro is to be paid in 2 instalments - US\$1m (A\$1.48m) was paid in August 2019, remainder to be paid prior to the end of CY2019.

Votiro Target Markets



Expansion into the US market

- **Geographical expansion to U.S.**
 - Strategic sales opportunities and largest addressable market
 - Pursue pilot sales opportunities
 - Hired US based Sales VP
 - New sales and marketing campaigns underway
- **Build large strategic opportunities**
 - In discussion with potential strategic partnerships across U.S. and beyond

Building steady revenue growth

- **Expand distributor relationships**
 - New distribution relationships established in Japan, APAC and the US
- **New customer wins**
 - Signed a large financial institution in Asia
 - Additional new sales in Japan and Israel

Acquisition of Gemalto by Thales

- Thales completed its acquisition of Gemalto in April 2019
- Thales subsequently confirmed to continue as Senetas's global exclusive distribution under Thales' Digital Identity & Security division
- Thales - #1 globally for data encryption and key management - over 650 sales staff in 50 countries
- Significant opportunity for Senetas to leverage growing product portfolio and Thales's huge customer base and sales force to expand the market coverage for our products

SureDrop Update

- Selling and marketing SureDrop across APAC region through 3 distribution partners
- Signed a distribution agreement with Thales earlier this year – SureDrop officially launched as a new product to Thales customers in August 2019 – leads have already been encouraging
- Integrated SureDrop with Votiro CDR technology to thwart Zero-Day attacks



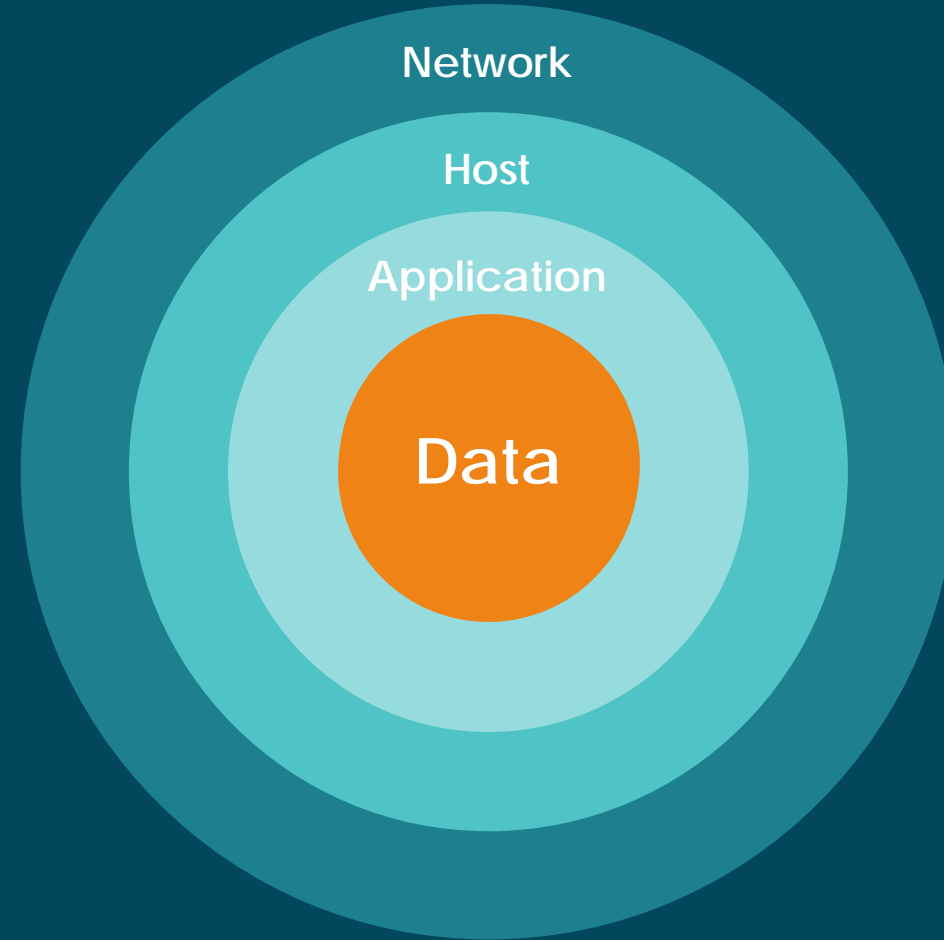
Senetas Strategic Plan



OUR STRATEGY

“ To be recognised globally as a trusted provider of high-assurance security solutions. Protection without compromising systems’ performance or user experience. ”

Committed to providing protecting our customers' most valuable asset, their data!



Lets take a closer look...

Investment focus in 4 key areas – driven by customer needs

Investment Areas



Value Created



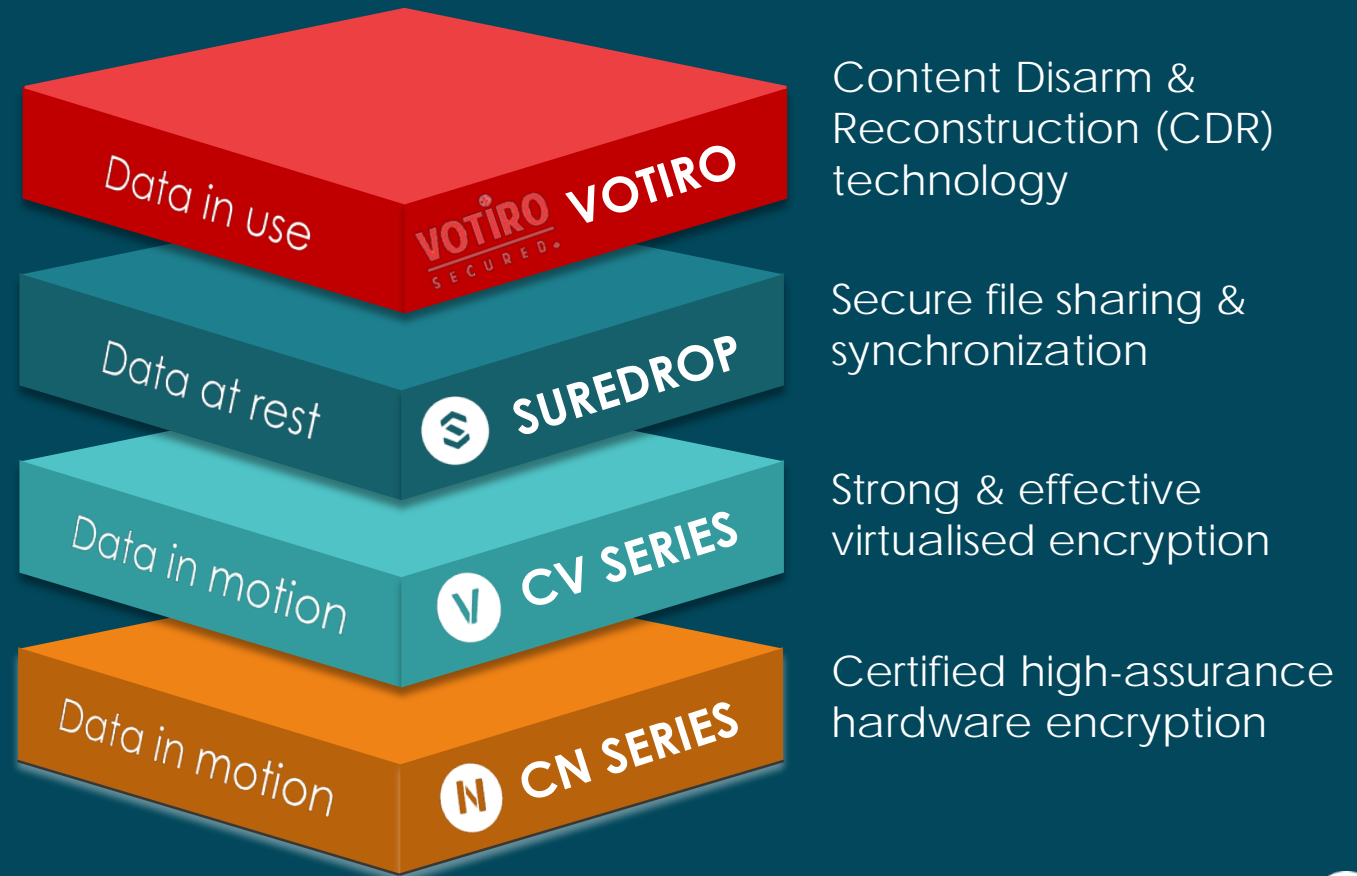
Leverage high-assurance security capabilities to build a robust security portfolio

Strong Engineering Foundation

Started from a market-leading position in high-assurance network encryption hardware



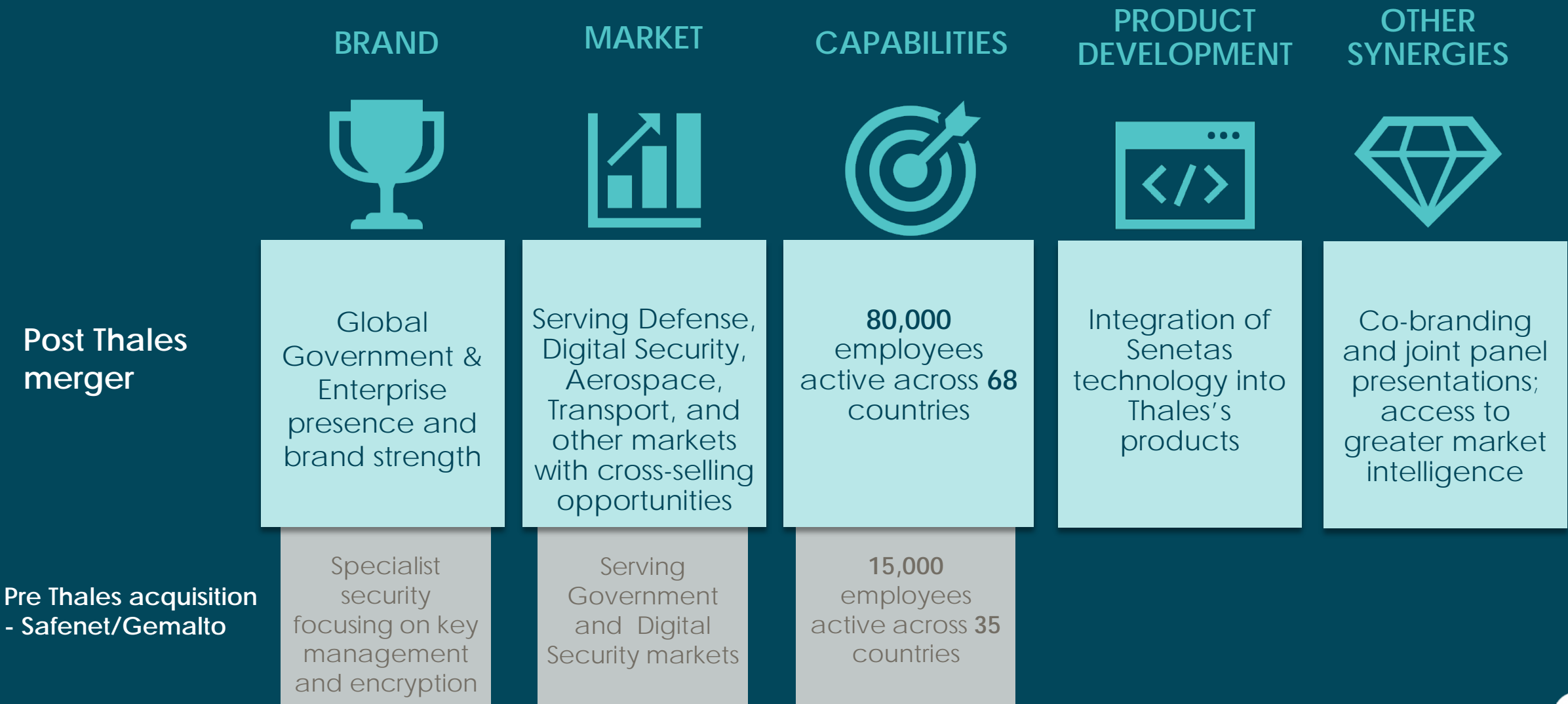
Growing Security Products & Service Portfolio



Broader product set meets more of our customers' security needs

Technology area	Enhancement	Implications
Network protocols	Encryption for Layers 3/4 in addition to Layer 2	Expands ability to use encryption across a variety of use cases including Private, Cloud, and SaaS applications
Virtualization	Software provisioned encryption in VMs	Allows access to new markets with modern network architectures with rapid scalability, flexibility, and cost-effective end-point data protection
High-performance processing	Encrypt up to 10Gbps in software and up to 100Gbps in hardware with very low latency	Allows broad array of customer types and usage scenarios from branch office to hyper-scale cloud protection
Content Security	Integrated Content Disarm and Reconstruction and Secure File Storage	Move beyond typical file sharing where files are securely stored and transmitted files, to making sure that content itself is free of malicious code and can thwart Zero-Day attacks <i>before</i> they happen

Enhanced market reach and sales capability through global distribution partnership with Thales



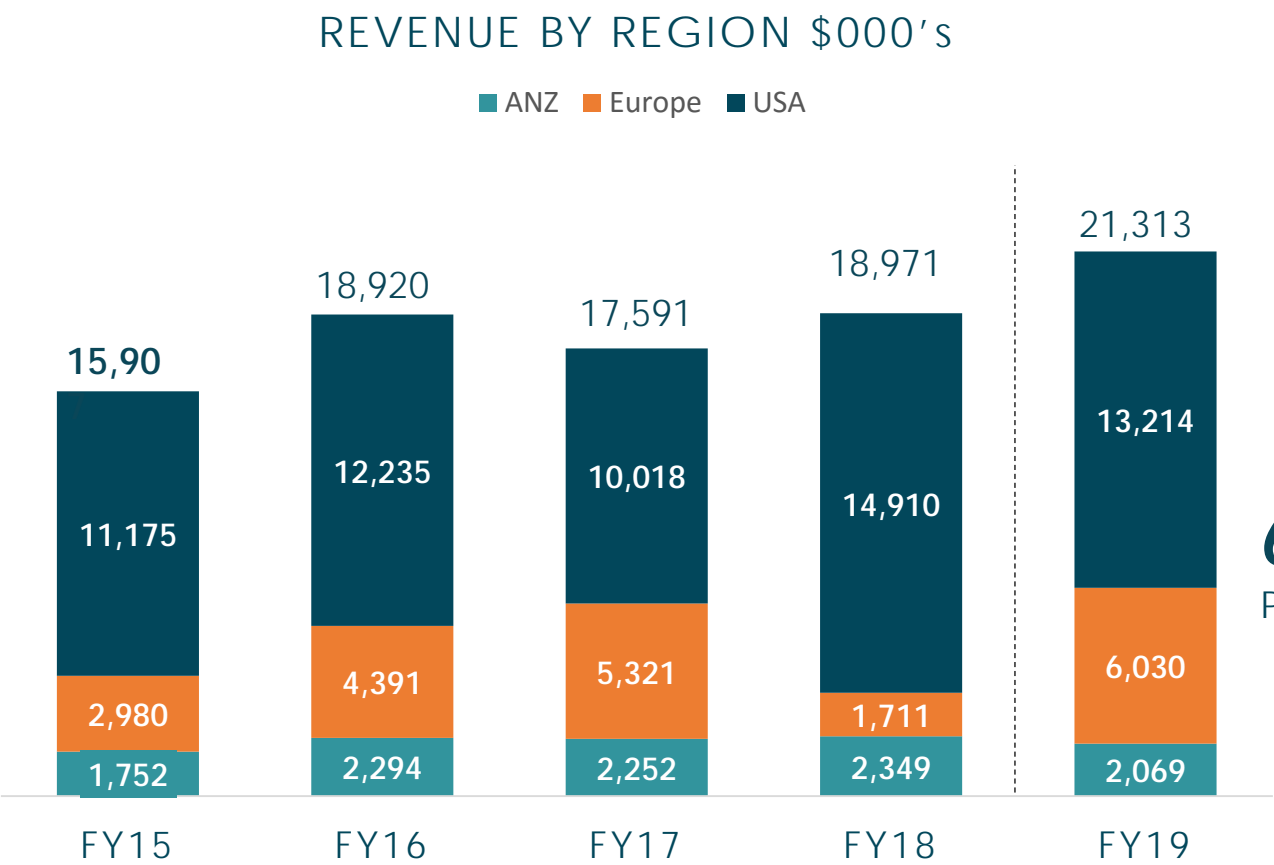
We continue to invest and lead through thoughtful innovation and contribution to global standards

Area	Investments	Implications
Crypto Agility	GOST, Quantum Cryptography	Unique field programmable hardware capabilities allow to rapidly prototype and implement custom encryption algorithms and stay ahead of the curve with Quantum-resistant security features
Certification	Common Criteria EAL 4+, GOST, FIPS 140-2 level 3	Have the broadest array of international certifications to deliver high-assurance products and services across USA, UK, EMEA, and Asia
Key Management	Customer-controlled encryption keys that's easy to scale and use	Complements Thales's enterprise-grade HSM and key management solutions and allows customers to use cloud services while retaining sovereign security controls.
Crypto Innovation	Secure Docker, Bouncy Castle	Contribute to setting international standards through support of open source secure cloud container and encryption technologies

DETAILED FINANCIALS



Operating Revenue



- Strong sales in the European market, softer ANZ revenue
- FY2019 total revenue **12.3%** up on FY2018

60%
Product sales revenue

FY15-18 revenue has not been restated for the application of new AASB15

Cash Flow

Full year ended 30 June 2019 (\$000's)	FY2019	FY2018	Change
Receipts from customers	23,781	19,739	20%
Tax paid	(679)	(414)	64%
Payments to suppliers & employees	(17,547)	(14,539)	21%
Operating cash flows	5,865	5,201	13%
Investing cash flows	(7,208)	(2,093)	244%
Cash and cash equivalents at 30 June	17,860	23,258	(23%)

- Receipts from customers up **20%** reflects sales growth and higher maintenance payments
- Higher payments to suppliers & employees reflects increased production volumes due to higher sales and higher inventory held by Senetas at 30 June 2019
- Investing cash flows reflect the first tranche of the investment in Votiro and associated costs
 - Additional US\$1m (A\$1.48m) subsequently invested in Votiro in August 2019
- Other significant cash outflows during the year related to the special and final 2018 distributions of \$4.0m that were paid in January 2019

Balance Sheet Remains Strong

Full year ended 30 June 2019 (\$000's)	FY2019	FY2018*	Change
Cash and cash equivalents	17,860	23,258	(23%)
Trade and other receivables	5,056	6,529	(23%)
Unlisted investment securities	-	1,893	-
Investment in Votiro	4,973	-	-
Total assets	33,359	35,968	(7%)
Trade and other payables	(2,509)	(1,932)	30%
Contract liabilities	(9,090)	(6,910)	32%
Total liabilities	(13,625)	(12,417)	10%
NET ASSETS	19,734	23,552	(16%)

* Restated for AASB15

- Strong balance sheet with net assets down 16% in FY2019 reflecting the distribution payment of \$4.0m, the impairment to the SAT investment and the share of Votiro loss for the period
- Cash on hand of \$17.9m and no debt – lower cash balance reflects payments of A\$6.6m relating to the initial investment in Votiro and A\$4.0m of distributions paid in FY2019
- Cash balance at 1 August 2019 was \$19.9m

Effect of AASB15

- AASB15 applies to Senetas's results for the first time in the period beginning FY2019
- 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 increase in revenue and net profit before tax by \$0.2m after application of AASB15 is a result of higher inventory held by Gemalto (now Thales) held at 31 June 2019 compared to 30 June 2018

Note: The balance sheet at 30 June 2018 has been restated for AASB15, but FY2018 numbers in Senetas's income statement have not been restated

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 resolved to put the business into the hands of administrators
- 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.

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