

28 February 2020

ASX ANNOUNCEMENT

Senetas Corporation Limited Half-Year Results Announcement for the six months to 31 December 2019

- Group operating revenue of \$10.6 million – up 7.5%
- Second tranche of Votiro investment made in HY2020
- Final Votiro tranche invested in January 2020 resulting in an increase in the ownership interest of Senetas to approximately 60%
- R&D investment delivers new product development and further market opportunities
- Votiro global sales and marketing capability established – key sales in the North American market in HY2020
- Strong balance sheet position and no debt

Senetas Corporation Ltd (ASX: SEN) (Senetas / the Company), today announced its results for the six months ended 31 December 2019 (HY2020).

HY2020 financial highlights

Half year ended 31 December 2019 (\$000's)	HY2020	HY2019
Revenue from ordinary activities	10,601	9,862
Gross profit	9,008	7,494
Other income	324	303
Share of loss of an associate (Votiro)	(1,234)	(324)
Profit (loss) before tax	(529)	(799)
Tax expense	(480)	(385)
Net profit (loss) after tax	(1,009)	(1,184)

The following table highlights the underlying operating results for the Senetas operating segment for HY2020. The share of loss of an associate reflects Senetas's share of Votiro results for the 4 months to 31 October 2019. Votiro became a controlled entity from 1 November 2019 and its results for the 2 months to 31 December 2019 have therefore been reflected in the Votiro operating segment and consolidated in Senetas's financial statements for HY2020.





Half year ended 31 December 2019 (\$000's)		
Senetas operating segment	HY2020	HY2019
Revenue from ordinary activities	9,524	9,862
Gross profit	8,027	7,494
Other income	324	303
Profit (loss) before tax	103	(799)
<i>Adjustments to calculate underlying Senetas segment net profit before tax</i>		
Share of loss of an associate (Votiro)	1,234	323
Gain on step acquisition	(33)	-
Impairment to investment in SAT	-	1,893
Underlying net profit (loss) before tax	1,304	1,417

- Consolidated operating revenue of \$10.6 million was up 7.5% over the prior year (HY2019: \$9.9 million)
- Consolidated operating revenue growth includes 2 months of Votiro revenue after it became a controlled entity during the period
- Gross margin of 85% was significantly higher than the prior period reflecting lower inventory transfers as Thales utilised existing hardware inventory
- The net loss before tax of \$0.5 million includes losses of \$1.87 million associated with Senetas's increased investment in Votiro – \$1.23 million for Senetas's share of Votiro losses for the first 4 months of the period before Votiro became a controlled entity, and \$0.63 million of operating losses for the final 2 months
- The consolidated net loss after tax was \$1.0 million including the results for Votiro
- The underlying operating profit before tax for the Senetas operating segment in HY2020 was \$1.3 million, slightly below the prior period.
- Higher gross margins in the Senetas business were offset by higher R&D and overheads in HY2020 associated with finalising European certification and transport layer independence for Senetas's hardware encryption products
- The US\$2 million second tranche of Senetas's investment in Votiro was paid in 2 instalments totaling A\$2.9 million in August and October 2019. The final US\$2 million (A\$2.9 million) tranche of the investment was paid in January 2020
- In December 2019 Senetas paid a distribution to shareholders in the form of a return of capital of \$0.000462 per share following shareholder approval at the 2019 AGM. The total cash distribution was approximately \$0.5 million
- Senetas retains a strong balance sheet with no debt and \$14.5 million of consolidated cash at 31 December 2019. The key non-operating cash outflows during HY2020 were the \$2.9 million relating to the investment in Votiro and the \$0.5 million capital return to Senetas shareholders



Commenting on the six months to 31 December 2019, Senetas CEO, Andrew Wilson, said: "The last six months has seen further progress as Senetas continues to develop its portfolio and distribution opportunities to drive sustainable business growth.

"Key developments in the period included the successful completion of the Thales takeover of Gemalto which has delivered Senetas a global partner with enhanced distribution capability. We see great opportunity for Senetas's growing product portfolio aligned with the Thales' large customer base, channel partners and sales force to significantly expand the market coverage for our products.

"Progress on our new European certification and completing the development of transport layer independence capabilities for Senetas's hardware encryptors will open up new markets in Europe and enable our hardware products to encrypt across layers 2, 3 and 4, providing access to more data network encryption opportunities.

"The half year also saw some important developments with our investment in Votiro. Following the tranche 2 investments made during the period, Senetas had a controlling interest in Votiro of 50.3%. The subsequent tranche 3 investment in January 2020 increase Senetas's interest to approximately 60%.

"Votiro delivered good revenue growth during the period, driven primarily by the Japan and North American markets. The establishment of the new North American sales and marketing team has led to Votiro's first significant sales in that market and the development of a strong sales pipeline. Market interest in Votiro's CDR technology continues to grow and we are excited about the growth potential ahead of us.

"With Senetas taking a controlling interest in Votiro during HY2020, Group revenue for the period was aided by the inclusion of Votiro's results for the last 2 months. Underlying Senetas revenue was similar to the prior period. As expected there was some minor sales disruption as the merger of Thales and Gemalto was completed, however, with that process now finalised we see positive sales momentum into the second half of FY2020.

"Higher R&D costs associated with finalising the European certification and transport layer independence for our hardware encryptors offset higher gross margins with Senetas's underlying encryption business delivering a net profit before tax similar to the prior period.

"Despite the significant cash outflows relating to the planned investment in Votiro, Senetas's balance sheet remains strong with no debt and \$14.5 million of cash on hand at 31 December 2019."

Operational review

Operating revenue growth of 7.5% in HY2020 comprised slightly lower revenue from Senetas's underlying encryption business and the first time inclusion of Votiro revenue for the final two months of the period. Senetas encryption revenue across the APAC, US and Europe businesses was broadly similar to the prior period. Maintenance revenue was higher than HY2019 and product sales revenue lower.

Higher gross margins were the result of lower cost of goods sold due to lower hardware production volumes. Thales depleted its existing inventory during the period and Senetas inventory was also lower at period end. Long term gross margins for Senetas's hardware encryption business have been circa 80% and over the longer term are expected to remain at a similar level.

The sales of 100Gbps encryptors continue to grow as governments and large corporate customers adopt 100Gbps networks, but there has been an offsetting moderation in sales of 10Gbps encryptors.



Product sales revenue was impacted by some disruption to the sales teams as the Thales takeover of Gemalto was completed. With that process now substantially completed, Senetas is confident that it is well placed to leverage Thales' market leading position in digital security to drive sales growth in the second half of FY2020 and beyond.

Senetas's partnerships with Thales and ADVA in relation to virtualised encryption are providing important opportunities for technical development, customer trials and ongoing product enhancements. At this stage the market has been slow to adopt software defined networking (SDN) technology, however, customer interest in the technology is strong and we continue to see good revenue opportunities as the SDN market matures.

R&D and new product development

R&D and new product development remain the core drivers of future revenue growth for Senetas. The major areas of R&D focus in HY2020 were:

- Development of transport layer independence capabilities across layers 2, 3 and 4 for Senetas hardware encryptors; and
- The new European certification for Senetas's hardware encryptors
- Investment in quantum safe encryption

The development of transport layer independence capabilities for Senetas's hardware products follows the market release of Senetas's virtualised encryption products with multi-layer capabilities in 2019. Development of the new hardware encryptors is now substantially complete and the new 1Gbps and 10Gbps products will be launched into the market during CY2020.

The process to achieve a new European certification for Senetas hardware encryptors has been a lengthy and time consuming process over the past 2 years, however, we believe the certification will strengthen Senetas's position in European markets and generate substantial additional sales in the region where we cannot currently compete. The security audit process to achieve the certification is now complete and Senetas expects the certification will be finalised before the end of FY2020.

The digital security threat posed by Quantum computing is fast approaching, and Senetas is investing in Quantum readiness including the implementation of NIST candidate Quantum Resistant Algorithms, use of a Quantum entropy source and support for Quantum Key Distribution (QKD). In summary we have architected our products to be crypto agile and future proof by design.

Votiro

HY2020 was an important milestone for Votiro with the establishment of its new North American sales and marketing team being a vital step in providing access to the world's largest digital security market. The period saw the first significant sales of Votiro's CDR product in North America and included completing its largest ever transaction, a multi-year deal with an online lending company in the US market.

Votiro revenue of \$1.1 million for the two months to 31 December 2019 was up strongly on the prior period with sales momentum accelerating throughout HY2020. The key regions driving revenue growth were North America and Japan with the sales pipeline building month to month.

North America, Japan and the APAC region represent the key growth markets to prioritise in the near term, with the North American market expected to become Votiro's largest sales market within 12-18 months. Votiro will continue to build business capability across all key regions in



CY2020 with a focus on technical and sales & marketing resources for ongoing product development and to drive sales growth.

Votiro is continuing to explore strategic partnership opportunities with large scale industry participants to expand sales and distribution capability and accelerate growth.

Balance sheet and cash flow

Senetas's balance sheet remains strong with no debt and substantial cash reserves. Consolidated net assets reduced 11% to \$17.6 million reflecting the capital distribution payment to Senetas shareholders of \$0.5m in December 2019, and the Votiro losses recognised for the period. The cash balance at 31 December 2019 was \$14.5 million following the \$2.9 million of payments for the second tranche of the Votiro investment during HY2020 and the capital distribution.

Operating cash flow for HY2020 was (\$1.5) million, including a (\$1.1) million contribution from Votiro.

Outlook

Commenting on the Company's outlook, Mr Wilson said: "HY2020 has seen good progress as we evolve the Senetas business from its core focus on hardware encryption to becoming a trusted provider of a portfolio of high-assurance digital security solutions.

"Our traditional hardware encryption business continues to deliver solid earnings and cash flows, providing government and corporate customers who take data security seriously with certified, high-assurance encryption without compromising network performance. The pending new European certification for Senetas's hardware encryptors will also open up new markets in the region where we do not currently compete.

"New products such as Senetas's virtualised encryption solutions, SureDrop and the soon to be released multi-layer hardware encryptors provide significant upside potential for the business over the medium term as we begin to exploit the expanded market opportunities they create.

"And the investment in Votiro presents a further expansion of our security product suite and another exciting opportunity for growth. The building of Votiro's sales and distribution capability across the business in HY2020 has seen immediate results with sales momentum and a pipeline of opportunities building strongly in recent months.

"Votiro's financial results will continue to have an impact on our profit in the near term, however, we remain very positive about the outlook for its revenue growth as that sales momentum builds."

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ABOUT SENETAS CORPORATION LIMITED

Senetas is an Australian listed public company (ASX:SEN) and a leading developer of high-performance encryption security solutions. From certified high-assurance hardware and virtualised encryption for data networks, to the most secure file-sharing collaboration application providing data sovereignty control; all are based on the Senetas crypto-agile, quantum-ready platform.

Senetas solutions protect enterprise, government, defence, technology service provider and critical national infrastructure customers against data breaches and cyber-attacks. Leveraging end-to-end encryption and state-of-the-art key management, they provide long-term data protection without compromising network and application performance, or user experience.

- **CN Series** Hardware Encryption: Certified, high-assurance and network independent encryption for core network and IT infrastructure.

Certified by leading independent authorities (Common Criteria, FIPS and NATO), CN Series high-performance encryptors provide maximum data protection and security for public and private networks. Their designed-in agility protects mixed network types and topologies. Operating from ultra-fast 100Gbps to modest 10Mbps bandwidths, they feature near-zero latency and overheads.

- **CV Series** Virtualised Encryption: Scalable, flexible and crypto-agile encryption for virtual customer premises equipment and wide area networks.

Scalable to thousands of endpoints, the CV Series is a software version of the trusted Senetas encryption platform. Network independent, it delivers concurrent, policy-based multi-Layer encryption at up to 5Gbps. It is ideally suited to cloud, distributed and software-defined networks. The CV Series enables flexible licence based deployment to ensure data protection to the network virtual edge.

- **SureDrop** Encrypted File-Sharing Collaboration: The secure file-sharing collaboration application with 100% data sovereignty control and more.

SureDrop has the usability of box-type file sharing and other collaboration tools, with the added benefits of end-to-end encryption security and 100% data location control. It may be deployed as an on-premises or service provider SaaS solution. SureDrop is also available with Votiro Disarmer; the award-winning file content sanitisation tool. It protects against all types of malicious content, malware and zero-day attacks.

Senetas encryption solutions have been trusted to protect much of the world's most sensitive information for more than 20 years. They are used to protect everything from government and defence data to intellectual property, financial transactions, citizen privacy to real-time CCTV networks and SCADA control systems.

Senetas encryption solutions are used in more than 40 countries. They are distributed and supported internationally by Thales, and in Australia and New Zealand by Senetas and its partner community.

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