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ASX ANNOUNCEMENT

Senetas Corporation Limited Full-Year Results Announcement for the year to 30 June 2020

- Group operating revenue of \$22.6 million – up 6.1%
- Underlying Senetas segment operating profit before tax up 4.8% to \$4.1 million prior to the impact of Votiro investment
- R&D investment continues to deliver new market opportunities
- Votiro global sales and marketing capability established – new North American distribution agreement signed with Thales
- 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 2020 (FY2020).

FY2020 financial highlights

Full year ended 30 June 2020 (\$000's)	FY2020*	FY2019
Revenue from ordinary activities	22,605	21,313
Gross profit	19,641	16,692
Other income	712	708
Share of loss of an associate (Votiro)*	(1,234)	(1,651)
Profit (loss) before tax	(2,855)	320
Tax expense	(696)	(783)
Net profit (loss) after tax	(3,551)	(463)

*Votiro results consolidated from November 2019. Loss of associate in FY2020 reflects Senetas's share of Votiro results from July-October 2019

The following table highlights the underlying operating results for the Senetas operating segment for FY2020. 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 8 months to 30 June 2020 have therefore been reflected in the Votiro operating segment and consolidated in Senetas's financial statements for FY2020.





Full year ended 30 June 2020 (\$000's)		
Senetas operating segment	FY2020	FY2019
Revenue from ordinary activities	19,790	21,313
Gross profit	16,950	16,692
Other income	1,254	708
Profit before tax	3,269	320
<i>Adjustments to calculate underlying Senetas segment net profit before tax</i>		
Share of loss of an associate (Votiro)*	1,234	1,651
Gain on step acquisition	(452)	-
Impairment to investment in SAT	-	1,893
Underlying Senetas segment net profit before tax	4,051	3,864

* Loss of associate in FY2020 reflects Senetas's share of Votiro results from July-October 2019

- Group operating revenue of \$22.6 million was up 6.1% over the prior year (FY2019: \$21.3 million)
- Group operating revenue includes \$2.8 million of revenue from Votiro for the period after it became a controlled entity in November 2019
- Gross margin of 87% was significantly higher than the prior period reflecting 96% gross margins for Votiro and the depletion of hardware inventory during the year
- The Group net loss before tax of \$2.9 million includes Senetas's share of Votiro losses for the first 4 months of the period before Votiro became a controlled entity (\$1.23 million), and \$6.1 million of Votiro operating losses for the 8 months from November 2019
- The Group net loss after tax was \$3.6 million including the results for Votiro
- The underlying operating profit before tax for the Senetas operating segment in FY2020 was \$4.1 million, 4.8% ahead of the prior period.
- Higher R&D in FY2020 was largely associated with finalising European certification and network independent encryption for hardware products
- Cost reduction initiatives implemented during FY2020 reduced Senetas corporate overheads by over 8%
- 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 resulting in Senetas holding a controlling interest of approximately 60%
- Senetas retains a strong balance sheet with no debt and \$15.7 million of consolidated cash at 30 June 2020.

Commenting on the year to 30 June 2020, Senetas CEO, Andrew Wilson, said: "The past year has seen further important developments in our business as we continued to bring new products to market and completed our investment in Votiro.



"Importantly, in the current economic climate, the performance of the Senetas business has been strong despite a second half slowdown in hardware sales to US commercial customers, with good sales to government customers and strong recurring maintenance revenue streams leading to growth in FY2020 underlying profit before tax.

"Overall, customer interest in Senetas and Votiro products remains strong, however, sales execution in some market segments has slowed as a result of COVID-19 related disruption to the normal customer engagement process and product testing procedures. However, we are pleased that no supply chain issues have emerged at this stage.

"Notable milestones during the year included the final tranche of our investment in Votiro being completed in January 2020 leading to Senetas taking a controlling interest of approximately 60%. Votiro returned strong revenue growth during the year driven by the expansion of Asia Pacific sales to Singapore and the ANZ region, and initial sales into the North American market.

"FY2020 also saw the completion of our development to provide network independent encryption capabilities for our hardware portfolio which now have the capability to encrypt across both ethernet and internet networks, significantly expanding the customer environments across which Senetas hardware encryptors can be used.

"After a significant period of development and testing Senetas has now finalised its custom algorithm encryptor that was developed specifically for the Eastern European market. Sales of the new encryptor remain subject to final Australian Government approvals prior to commencing export, however, a significant pipeline of orders for 10Gbps and 1Gbps encryptors has already been developed and we are optimistic that the first sales will be completed in the first half of FY2021.

"Senetas's balance sheet remains strong with no debt and \$15.7 million of cash on hand and no debt at 30 June 2020."

Operational review

Group operating revenue growth of 6.1% in FY2020 was attributable to the consolidation of Votiro into Group revenue for the period from November 2019.

Senetas segment operating revenue was down 7.1% with lower product sales partially offset by good growth in maintenance revenue. Product sales revenue was higher in the Asia Pacific region, but lower in Europe and North America. Overall there was good growth in product sales revenue from government customers, offset by lower sales to commercial customers.

Recurring maintenance revenue in the Senetas business segment increased 15% in FY2020 and now represents 50% of total Group revenue. Stronger maintenance revenue reflects the increasing number of Senetas hardware encryptors in use globally.

Underlying net profit before tax for the Senetas business (prior to any impacts from the investment in Votiro and one-time items included in FY2019) was up 4.8% on a like for like basis compared to FY2019.

Having reached a position of control over Votiro during the year, Senetas has consolidated 100% of Votiro's revenue and earnings from November 2019. The Votiro segment net loss after tax for the period from November 2019 was \$5.8 million, of which \$2.5 million was attributable to non-controlling interests in Votiro.

Higher gross margins for the Group reflect lower inventory transfers and the depletion of Thales inventory during the period, and 96% gross margins for the Votiro business.



Sales of 100Gbps encryptors continue to grow as more customers move to adopt 100Gbps networks, but there has been an offsetting moderation in sales of 10Gbps encryptors.

Senetas entered into a partnership in Australia with AUCloud during the year in relation to SureDrop. AUCloud is a sovereign Australian IaaS provider which now offers file sharing and collaboration capability with 100% data sovereignty and end-to-end encryption security to Australian customers.

Higher R&D costs in FY2020 were primarily associated with finalising the new European certification and the network independent encryption capabilities for hardware products. However, cost reduction initiatives implemented during FY2020 reduced Senetas corporate overheads by over 8%.

R&D and new product development

The major areas of R&D focus during the year were:

- Development of network independent encryption capabilities across layers 2, 3 and 4 for Senetas hardware encryptors; and
- European certification for Senetas's hardware encryptors
- Completion of development of Senetas's custom algorithm encryption solutions for the Eastern European market
- Investment in quantum safe encryption

Development of network independent encryption capabilities for Senetas's hardware encryptors was completed during the year and the 1Gbps encryptor has been launched into the market. Network independence for Senetas's CN series hardware encryptors provides the capability to operate concurrently across Ethernet and Internet networks – substantially increasing the product use cases.

Senetas has finalised its submission for the new European certification for Senetas hardware encryptors during the year and is awaiting final clearance. The certification will strengthen Senetas's market reach and creates the opportunity to generate new sales in the region where we cannot currently compete.

Development of Senetas's custom algorithm encryption solutions is targeted specifically at the Eastern European market. The first stage of product development was funded by a local technology partner but finalisation of the project has been delayed by a number of regulatory requirements both in Australia and offshore. A pipeline of sales has been developed for the new product and Senetas is optimistic that once the final Australian regulatory clearances are achieved that sales can commence in the first half of FY2021.

The advent of quantum computing poses the single greatest cybersecurity threat in history putting today's 'conventional' mathematics-based data encryption at risk. The Senetas crypto-agile and high-performance encryption platform is evolving from 'conventional' mathematics-based encryption algorithms to future quantum mechanics-based algorithms.

- Evaluated candidate quantum resistant algorithms
- Advanced random number generation
- Quantum key distribution

Providing an almost limitless and entirely random encryption of data. This will provide customers long-term data protection against the arrival of quantum computing.



Votiro

Senetas completed its 3 tranche investment in Votiro convertible notes during the year with the 3rd tranche payment made in January 2020. Subsequently, Senetas's convertible notes automatically converted into ordinary shares in accordance with the terms of the notes in July 2020. Senetas's investment of US\$8 million across the 3 tranches resulted in a controlling interest in Votiro of approximately 60%.

FY2020 saw a number of highlights for the Votiro business. Sales grew strongly driven by initial sales into the North American market and the expansion of Asia Pacific sales into Singapore, Australia and New Zealand. Votiro's target markets in the near term remain Japan, Asia Pacific and North America with the North American market expected to become Votiro's largest sales market within the next 2 years.

Ransomware attacks are one of the greatest cyber security threats the world is facing. The capability of Votiro's File Disarmer to protect users against most ransomware threats is driving significant customer interest from both commercial and government customers.

In July 2020 Votiro announced a partnership and distribution agreement with Thales in relation to Votiro's Secure File Gateway product line. The partnership will focus on government agencies in North America and allow Votiro to substantially increase its footprint in the region.

Votiro R&D team has recently completed an upgrade to the Company's CDR technology to become a rapid deployment virtual appliance, further broadening the market opportunity for its products. The first deployment of the new product was delivered successfully in the US in May.

Despite COVID-19 uncertainty, Votiro continues to expect good sales growth in FY2021. Existing pipeline opportunities have been slower to progress, however, Votiro has been encouraged by ongoing customer interest in its products, including requests for proof of concept deployments. Large existing customers are also continuing to expand their user bases, with one large international financial services company having recently increased its user base for Votiro's CDR technology to over 30,000 instances.

Balance sheet and cash flow

Senetas's balance sheet at 30 June 2020 includes Votiro after it became a controlled entity from November 2019. Consolidated net assets increased 3% to \$20.3 million during the year with no debt and cash on hand of \$15.7 million at 30 June 2020.

Investing cash flows during the year included the first instalment of the 2nd tranche of Senetas's investment in Votiro (US\$1 million / A\$1.5 million), prior to Votiro becoming a controlled entity.

Other significant cash outflows during the period include \$0.5 million relating to the return of capital approved by shareholders at the 2019 AGM.

Net cash flow from operating activities in FY2020 was \$0.2 million, comprising \$3.3 million of operating cash inflows for the Senetas business segment and \$3.1 million of operating cash outflows for the Votiro business segment.



Outlook

Commenting on the Company's outlook, Mr Wilson said: "FY2020 has seen some important technical milestones achieved with finalisation of our application for European certification, final developments on network independent encryption capability for our hardware encryptors and completion of the custom algorithm encryptors, all of which continue to expand the use case and customer opportunities for our products.

"However, the broader economic impacts of COVID-19 across our key markets have caused some sales disruption and created uncertainty in relation to the near term outlook.

"We have already seen some slowing of product sales to commercial customers in the second half of FY2020 but we have been encouraged by the resilience of the Senetas business and the ongoing market interest in Votiro's File Disarmer.

"Whilst we remain confident about the outlook for the Senetas and Votiro businesses, it seems clear that COVID-19 will cause some disruption in the near term. In particular, the disruption to normal customer engagement and product testing processes has the potential to lengthen the sales cycle and lead to some delays in sales completion, particularly in the Votiro business which doesn't have the same benefit of many long term customer relationships that the Senetas business has.

"The FY2021 Senetas sales pipeline currently reflects a modest softening in near term sales demand, but no material impact is expected on recurring maintenance revenue. At this stage our global distribution partner, Thales, is expecting near term US commercial sales to be soft, however, the outlook for government customers and the EMEA region and Eastern Europe is looking positive.

"The capability of Votiro's File Disarmer to eliminate most threats posed by ransomware attacks is creating significant customer interest which is expected to drive continued Votiro sales growth in FY2021, but in the current COVID-19 environment that growth will potentially be at a slower rate than had been previously forecast.

"The benefit of cost saving initiatives undertaken in FY2020 across the business are expected to continue into FY2021.

"The increasing focus on cyber security by governments and commercial organisations continues to create opportunities for Senetas. In Australia, both the Federal and NSW Governments have recently made announcements focussed on sovereign cyber security initiatives.

"The Australian government recently highlighted the growing threats to Australia's cybersecurity through increasingly sophisticated cyber-attacks targeting businesses and governments at all levels, and stressed the importance of cyber-resilience and sovereign cybersecurity solutions. This has been highlighted in the government's 2020 National Cybersecurity Strategy.

"The government's statements about Australia's national cybersecurity resilience, in the face of these increasing cyber-threats, have included emphasis on Australian sovereign cybersecurity solutions. This emphasis provides important recognition of the world class Australian products and leadership in cybersecurity categories, and Senetas is increasingly seeing this translate into the choice of Australian cybersecurity solutions."

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ABOUT SENETAS

Senetas is a global leader in high-performance encryption security solutions. Senetas cybersecurity solutions are developed and manufactured in Australia. **Senetas high-speed encryptors** protect network data in transit without compromising performance. They include certified high-assurance hardware encryptors for core IT network infrastructure and virtualised encryption to the network edge. For secure user-friendly file sharing and collaboration, **SureDrop** is the most secure application also providing 100% data sovereignty control and protection against malware and zero-day attacks.

All Senetas solutions share a crypto-agile and quantum-ready end-to-end encryption platform.

Senetas solutions are used to protect much of the world's most sensitive data, from enterprise, government, defence and intelligence agency data, to technology service provider and critical national infrastructure customers against data breaches and cyber-attacks. Leveraging end-to-end encryption, state-of-the-art key management and quantum-ready design, they provide long-term data protection without compromising network and application performance, or user experience.

Senetas encryption solutions are used in more than 40 countries. They are distributed and supported internationally by Thales, the world's largest security company.

www.senetas.com