

### DECEMBER QTR 2021 – APPENDIX 4C QUARTERLY ACTIVITIES REPORT AND OPERATIONAL UPDATE

Tesserent Limited (ASX:TNT) (Tesserent, the Group or Company) is pleased to provide its quarterly cash report and business update of its activities and achievements for the quarter ended 31 December 2021.

#### **HIGHLIGHTS**

First half	Operating EBITDA of \$4.6M for the first half, up 166% on H1 FY21 comparative period	<b>Turnover of \$59.2M</b> for the <b>first half</b> , up 62% from H1 FY21	ARR (annual recurring revenue) now 44% of annual turnover	Completion of three acquisitions announced at time of capital raise
2 <sup>nd</sup> Quarter	Operating EBITDA of \$2.6M for Q2 FY22, up 101% on Q2 FY21 comparative period	<b>Turnover of \$32.3M</b> for the <b>second quarter</b> , up 51% from Q2 FY21	Operating cashflows of \$4.2M for the quarter Q2 FY22 on qtr EBITDA of \$2.6m	<b>\$13.6M Cash on Hand</b> as at 31 December 2021

- \* Turnover includes gross (billed) revenue from consulting and advisory services, plus turnover from product sales
- \* Q1and Q2 earnings results are unaudited. Operating EBITDA (excludes one-off acquisition costs and statutory AASB16 adjustments)

#### **FINANCIAL UPDATE**

#### OVERVIEW - key highlights

Tesserent is pleased to announce significant growth for the first six months, with the Group performing ahead of budget at both the turnover (+62% vs. PCP) and operating EBITDA lines (+166% vs. PCP).

In Q2 FY22, Tesserent also completed all three acquisitions (Loop Secure, Claricent and Pearson) which were planned and formed the basis of the capital raise in late September 2021.

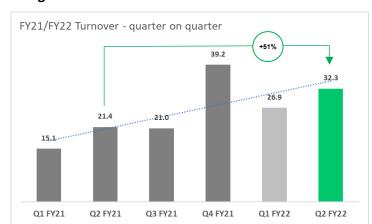
Management highlights that earnings within the business are highly seasonal (with operating EBITDA in H1/H2 FY21 reported at 23% / 77%). The Group also expects similar seasonality within the current year.

#### **SECOND QUARTER**

#### Continued strong growth in turnover and earnings

The Company is pleased to report continuing strong growth in the underlying business in the second quarter, with year-on-year growth of 51% against the prior year comparative quarter.

This overall growth is made up of both organic growth and turnover growth from acquisitions (see further detail below).



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Operating EBITDA has continued to grow strongly (taking into account the impact of seasonality) with an increase in Operating EBITDA for Q2 of **101%** from the prior comparative period.

This overall EBITDA growth is made up of both organic growth (versus prior year comparative period of 30%) plus growth from acquired EBITDA.

Improved Operating EBITDA reflects improved operating leverage through the business, plus improved pricing and margin recovery on certain contracts – see margin analysis below.

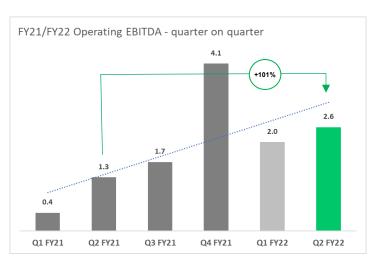


Figure 2 – Operating EBITDA on quarterly basis for current period and previous year

**Organic vs. non-organic growth** - Analysis of underling earnings growth (EBITDAC)

Pleasingly, overall growth in **EBITDAC** (earnings before corporate costs) was 101% for the current quarter and 116% for H1 FY22 vs. prior year comparative period. The organic growth vs. growth from acquisition is broken down further in the chart below.

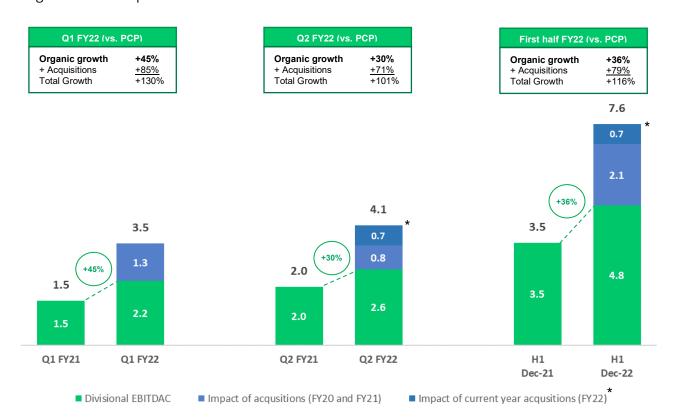


Figure 3 – Analysis of total growth in the business over the first 2 quarters and H1 of FY22 vs. PCP

<sup>\*</sup> Note – Impact of current year acquisitions includes contribution from Loop Secure only (i.e. no material impact from Claricent and Pearson which were completed in latter half of Dec-21)

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#### Margin improvement

Turnover
Operating EBITDA

Operating EBITDA margin

Q1	Q2	Q1	Q2
FY21	FY21	FY22	FY22
15.1	21.4	26.9	32.3
0.4	1.3	2.0	2.6
3.0%	6.0%	7.5%	

Q1	Q2	1H
growth	growth	growth
78%	51%	62%
351%	101%	166%



#### Operating cashflow

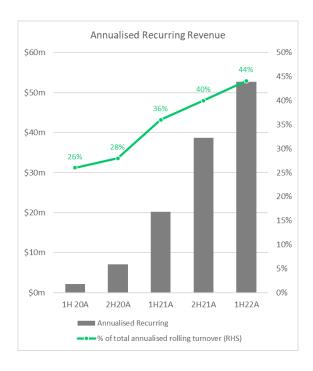
The Company achieved strong operating cash flow in the second quarter FY22 of \$4.2m, following a lower cash flow result in Q1 as a result of movements in net working capital. Overall, EBITDA to cash conversion for the half was 105% of EBITDA – comprising a Q1 conversation rate of 30% and a Q2 conversion of 163%, illustrating the sensitivity of the cash flow result to working capital fluctuations.

The key factors impacting movement of working capital from quarter to quarter are customer prepayments for large software product deals and purchases by the Group of implementation software from third party vendors.

#### Continued Annual Recurring Revenue (ARR) Growth

As reported previously, the Group's recurring revenue as a proportion of total annual sales has been growing and is tracked as a key performance measure within the business (alongside total contracted revenue)





#### **CAPITAL RAISE**

As announced on 28 September 2021, the Group completed a capital raise (via an equity placement with a number of institutional investors) raising \$25m to fund future identified acquisitions.

The capital raise was undertaken primarily for the purpose of a further three strategic acquisitions (Loop Secure, Claricent and Pearson) which have now completed, and in each case are consolidated into the operations and financial results of the business immediately. All three acquisitions are earnings accretive and are expected to deliver significant shareholder value via increased scale, access to new clients and cross selling.

A proportion of the funds raised was also used to fund deferred consideration and earn-out payments on previous acquisitions. In the six months ended 31 Dec-21, the Group paid down a significant proportion of its deferred consideration and earnout liabilities from its FY21 acquisitions – settling \$13.2m of deferred payments and materially reducing its deferred settlement liabilities.

#### **BRAND AND BUSINESS UNIT INTEGRATION UPDATE**

Following the Brand and Business Unit integration announcement on 11 August 2021, the Company is pleased to report that the integration of business units acquired over the course of FY20 and FY21 has now been largely completed and the business is successfully engaging with its current and prospective customers across its Defend, Detect and Cloud service divisions and identifying cross sell opportunities that both enhance the number of services by customer, but also identify and address potentially critical security deficiencies in customer infrastructure and networks.

Tesserent's government business units and GRC Advisory practices also continue to experience high demand and growth.

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#### ABOUT TESSERENT

Our mission is to be the sovereign cybersecurity provider of choice for the protection of Australia and New Zealand's digital assets.

Tesserent provides full service, enterprise-grade cybersecurity and networking solutions targeted at midmarket, enterprise and government customers across Australia and New Zealand. The Company's Cyber 360 strategy delivers integrated solutions covering identification, protection and 24/7 monitoring against cybersecurity threats. With more than 390 security engineers, Tesserent has the capability to support organisations to defend their digital assets against increasing risks and cyber-attacks.

Tesserent has been transformed via the integration of several high-quality cybersecurity businesses making it Australia's largest listed dedicated cybersecurity firm.

Learn more at www.tesserent.com

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Authorised by the Disclosure Team under Tesserent's Continuous Disclosure policy



## **Appendix 4C**

# Quarterly cash flow report for entities subject to Listing Rule 4.7B

#### Name of entity

Tesserent Limited

#### ABN

#### Quarter ended ("current quarter")

13 605 672 928

31 December 2021

Con	solidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	37,827	77,869
1.2	Payments for		
	(a) research and development		
	(b) product manufacturing and operating costs	(17,571)	(43,651)
	(c) advertising and marketing	(185)	(431)
	(d) leased assets		
	(e) staff costs	(15,054)	(27,281)
	(f) administration and corporate costs	(748)	(1,486)
1.3	Dividends received (see note 3)		
1.4	Interest received	1	3
1.5	Interest and other costs of finance paid		(12)
1.6	Income taxes paid	(36)	(176)
1.7	Government grants and tax incentives		
1.8	Other (provide details if material)	(38)	(33)
1.9	Net cash from / (used in) operating activities	4,196	4,802

2.	Са	sh flows from investing activities		
2.1	Pay	ments to acquire or for:		
	(a)	entities	(13,092)	(13,836)
	(b)	businesses		
	(c)	property, plant and equipment	(497)	(523)
	(d)	investments		
	(e)	intellectual property		
	(f)	other non-current assets		(50)

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment	1	1
	(d) investments		
	(e) intellectual property		
	(f) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other – deferred settlement payments M&A	(7,718)	(13,280)
2.6	Net cash from / (used in) investing activities	(21,306)	(27,687)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	25,000	25,000
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options and warrant shares	402	708
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(1,402)	(1,402)
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings	(580)	(1,160)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9 a	Other – Interest paid	(767)	(1,495)
3.9 b	Other – (provide details if material)		
3.10	Net cash from / (used in) financing activities	22,654	21,650

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	8,083	14,860
4.2	Net cash from / (used in) operating activities (item 1.9 above)	4,196	4,802

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(21,306)	(27,687)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	22,654)	21,650
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	13,626	13,626

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	13,626	8,083
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	13,626	8,083

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000	
6.1	Aggregate amount of payments to related parties and their associates included in item 1	-	
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-	
	Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.		

7.	Financing facilities  Note: the term "facility' includes all forms of financing arrangements available to the entity.  Add notes as necessary for an understanding of the sources of finance available to the entity.	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000	
7.1	Loan facilities	35,000	35,000	
7.2	Credit standby arrangements			
7.3	Other (please specify)			
7.4	Total financing facilities	35,000	35,000	
7.5	Unused financing facilities available at quarter end -			
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.			
	Facility #1: Pure Asset Management (\$15 million @ 8.9% pa, maturing 31 Aug 2024)			

Facility #2: Pure Asset Management (\$20 million @ 8.5% pa, maturing 19 Apr 2025)

8.	Estimated cash available for future operating activities	\$A'000	
8.1	Net cash from / (used in) operating activities (item 1.9)	4,196	
8.2	Cash and cash equivalents at quarter end (item 4.6)	13,626	
8.3	Unused finance facilities available at quarter end (item 7.5)	-	
8.4	Total available funding (item 8.2 + item 8.3)	13,626	
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	N/A	
	Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.		
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:		
	8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?		

Answer: N/A

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

#### **Compliance statement**

- This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 28 January 2022

Authorised by: The Disclosure Team

(Name of body or officer authorising release – see note 4)

#### Notes

- 1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
- 2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 107: Statement of Cash Flows apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
- 3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
- 4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
- 5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.