

25 February 2022

ASX ANNOUNCEMENT

Senetas Corporation Limited

Half Year Results for the six months 31 December 2021

- Group operating revenue of \$12.8 million – down 10%
- Votiro revenue up 82%
- Votiro annual recurring revenue (ARR) up 63% and subscription ARR up 135%
- Strong take up of Votiro's new subscription/SaaS model
- Key customer wins included Votiro's largest ever sale to an Asia Pacific government agency worth over US\$1 million annually
- COVID and other supply chain delays have led to a global shortage of electronic components that temporarily impacted Senetas revenue which was 21% lower
- Senetas sales pipeline is strong and significantly ahead of any other time in the past 12 months
- Group net loss before tax was \$4.8 million including a net loss before tax for Votiro of \$5.6 million
- Group net loss after tax attributable to members of \$2.8 million
- No debt and cash on hand at 31 December 2021 of \$9.7 million

Senetas Corporation Ltd (ASX: SEN) (Senetas / the Company), today announced its results for the six months ended 31 December 2021 (HY2022).

HY2022 Group Financials

Six months ended 31 December 2021 (\$000's)	HY2022	HY2021
Revenue from ordinary activities	12,837	14,272
Gross profit	10,350	12,159
Other income	3	349
Profit (loss) before tax	(4,861)	(1,666)
Tax expense	(75)	(734)
Net profit (loss) after tax	(4,786)	(2,399)
Net profit (loss) after tax attributable to members	(2,753)	(387)





- Group operating revenue of \$12.8 million was down 10% over the prior period (HY2021: \$14.3 million)
- Group revenue was 10% lower as strong growth in revenue for Votiro was offset by the COVID related component shortages and supply chain issues temporarily impacting the Senetas segment
- Group operating revenue includes \$2.8 million of revenue from Votiro for the period (HY2021: \$1.5 million)
- Gross margin for the Group of 81% - lower than the prior period due to higher inventory transfers to Senetas's global distribution partner, Thales
- The Group net loss before tax of \$4.9 million includes a \$5.8 million operating loss before tax for Votiro
 - \$2.0 million of the Votiro loss is attributable to minority interests
 - Votiro's loss before tax includes non-cash items such as share based payments expense and amortisation totaling \$1.8 million
- The Group net loss after tax was \$4.8 million including a \$5.6 million loss after tax from Votiro – net loss after tax attributable to members was \$2.8 million
- The operating profit before tax for the Senetas operating segment in HY2022 was \$1.0 million
- Cost reduction initiatives continued to provide further benefits in HY2022 with corporate overheads down by over 10% compared to the prior period
- Senetas retains a strong balance sheet with no debt and \$9.7 million of cash on hand at 31 December 2021

Commenting on the six months to 31 December 2021, Senetas CEO, Andrew Wilson, said: "HY2022 has delivered some significant progress for the Votiro business, but has also brought some near term challenges for the Senetas business due to the global shortage of electrical components.

"Votiro's recent progress has exceeded our expectations with some very important new client wins and ARR reaching US\$3.9 million at the end of December 2021, up 63% on the prior year. Significantly, after the release of Votiro's new SaaS subscription offering during the period, subscription ARR was up 135% to US\$2.6 million driven by the strong uptake in markets outside Japan.

"The December 2021 quarter was Votiro's strongest ever. Key customer wins during the period included Votiro's largest ever sale to an Asia Pacific government agency that is worth over US\$1 million annually for a minimum of 3 years. Large enterprise customers represent a significant opportunity for Votiro and its early success in targeting larger corporate and government customers has seen its average deal size double in the past 12 months.

"Votiro's growth outlook is very encouraging with a strong schedule of proof of concept trials and increasing customer enquiry creating a large pipeline of opportunities as we enter the 2022 calendar year.

"The global shortage of electronic components across the industry is creating some near term challenges for the Senetas business. Whilst Senetas's sales pipeline is in as strong a position as it has been in for some time, customers are delaying order confirmation and shipment because of delays they are facing in building their new networks.



"The strength of the pipeline from the US market is particularly encouraging, and we are also seeing good pipeline growth from the South American and European regions, however, shipment of these orders once finalised is likely to be extended over the next 12-18 months whilst the component shortages persist across the industry.

"Both Senetas and Thales have invested to build additional inventory in order to fulfill orders as required, however, there has been a temporary impact on sales, gross margins and cash on hand in HY2022.

"One of the highlights for the half year was the strong sales of our 100Gbps encryptors, which doubled compared to the prior period and have now become the largest single revenue generating product for Senetas.

"The component shortages are expected to remain an issue throughout most of 2022 and we anticipate that Senetas segment revenue could be up to 10% lower in FY2022. However, with a strong contribution from Votiro we continue to expect consolidated group revenue will be higher than in FY2021."

Group overview

Group revenue was 10% lower in HY2022 with 82% growth in Votiro revenue offset by the COVID related component shortages and supply chain issues temporarily impacting the Senetas segment.

Gross margins for the group were lower due to higher inventory transfers to Senetas's global distribution partner, Thales. Votiro gross margins remain in excess of 90%.

Group net loss before tax was \$4.8 million which included a net loss before tax for Votiro of \$5.8 million. The Group net loss after tax attributable to members was \$2.8 million

Senetas's balance sheet remains strong with \$9.7 million of cash on hand at 31 December 2021 and no debt.

Votiro operational review

Votiro's revenue growth of 82% was driven by strong growth in new client wins and renewals in both the Asia Pacific and US markets.

Votiro's annual recurring revenue (ARR) at 31 December 2021 was US\$3.9 million, up 63% compared to ARR at 31 December 2020. The key driver of ARR growth was subscription ARR which grew 135% following the release of Votiro's new SaaS product during the period, with strong uptake of the new product in both the US and Asia Pacific markets.

Votiro's HY2022 loss before tax was \$5.8 million up 13% on the prior period, with good revenue growth offset by higher costs as Votiro builds business capability and expands its footprint in the US and Asia Pacific regions. The loss before tax includes non-cash items of \$1.8 million relating to amortisation and share based payments expense. Votiro's after tax loss was \$5.6 million, \$2 million of which is attributable to the minority interests in Votiro.

Total contract value for Votiro at 31 December 2021 was US\$7.3 million and average deal size has doubled since HY2021.

Key client wins were achieved through HY2022 across a wide range of enterprises including large government agencies, financial institutions and industrial companies across Asia Pacific, US and Europe.



The key customer wins during included Votiro's largest ever sale to an Asia Pacific government agency worth over US\$1 million annually for a minimum of 3 years. The Asia Pacific is currently Votiro's largest market accounting for US\$1.5 million of subscription ARR and US\$2.8 million of total ARR.

Votiro is continuing to build a strong schedule of proof of concept (POC) trials and POC conversion remains very strong with Votiro consistently winning in head to head technology trials against its competitors.

The North American market opportunity remains significant and is still expected to become Votiro's largest market in the near term with an extensive sales pipeline as we enter calendar 2022. Target customers for Votiro include enterprises that have a large daily volume of inbound documents; high velocity businesses that can't afford security delays in file/email delivery; large teams across multiple locations; access to sensitive and confidential data; and where document fidelity is essential.

With a strong sales pipeline and conversion rate, ARR is expected to more than double in the next 12 months driven by growth in sales of its SaaS offering with the non-SaaS ARR (largely support and maintenance in Japan) expected to remain largely constant.

Following the strong results to date and the very encouraging outlook for the Votiro business, Senetas has continued to fund Votiro's growth in recent months via a secured debt facility that stands at US\$2.5 million at the end of February 2022.

Senetas operational review

Senetas segment revenue in HY2022 was impacted by COVID and other supply chain delays that have created a global shortage of electronic components that temporarily impacted Senetas revenue. Sales revenue was lower in the US and European markets, but was higher in Asia Pacific. Maintenance revenue in HY2022 represented 46% of total Senetas segment revenue.

The customer pipeline remains robust, but component shortages across the industry globally have had the effect of extending the lead time for orders and, in particular, have caused delays to customer's network upgrade projects, which impacts the timing of Senetas's product shipments.

Both Senetas and Thales have invested to build additional inventory in order to fulfill orders as required, however, this has caused a temporary reduction in Senetas's gross margins in HY2022 and cash on hand 31 December 2021.

Senetas segment profit before tax was \$1.0 million (HY2021: \$3.5 million) which reflects the lower sales and maintenance revenue. Lower revenue was partly offset by lower overheads with Senetas's operating expenses almost 10% below the prior period.

Whilst the electronic component shortages are expected to remain an ongoing issue throughout most of 2022, Senetas anticipates some easing of those shortages towards the back end of the calendar year.

Sales highlights included the good sales of Senetas's 100Gbps encryptors, with sales in HY2022 doubling compared to the prior period. Senetas's 100Gbps encryptors are now the largest single revenue generating product for the company. SureDrop sales remain very small but are significantly higher than HY2021. We continue to be encouraged by the level of customer interest, with most sales at this stage in the Asia Pacific region, with increasing focus going forward on international opportunities via Thales



The current pipeline of customer orders for Senetas products is very strong across all regions and significantly ahead of any other time in the past 12 months. The orders from the US, South American and European regions are particularly encouraging, however, shipment of these orders once finalised is likely to be extended over the next 12-18 months whilst industry component shortages persist.

The major R&D focus during the period has been on product upgrades including building improved functionality and quantum readiness capabilities for Senetas's transport independent mode hardware encryptors, and building enhanced capabilities for Senetas's virtualised encryption products for operation in much wider range of cloud gateway environments.

Balance sheet and cash flow

Consolidated net assets at 31 December 2021 were \$11.3 million with no debt and cash on hand of \$9.7 million. The lower net assets at 31 December 2021 reflect the consolidation of the current period loss from Votiro. Lower cash on hand at 31 December 2021 reflects the impact of the Votiro losses and a build up of inventory in Senetas to mitigate impacts from the global electronic component shortage and longer lead times.

Receipts from customers were slightly ahead of revenue for HY2022. Group net cash outflows from operating activities was \$2.4 million, comprising \$0.4 million of operating cash outflows for the Senetas business segment and \$2.0 million of operating cash outflows for the Votiro business segment.

Outlook

Commenting on the Company's outlook, Mr Wilson said: "As we enter the second half of the FY2022 financial year, the growth outlook for the Votiro's business remains very encouraging with strong momentum building across both the US and Asia Pacific regions. The December 2021 quarter was Votiro's strongest quarter ever and its total contract value at the end of December 2021 was US\$7.3 million.

"With a full schedule of POC trials early in 2022 and consistently beating our competitors in head to head technology trials, we expect Votiro will more than double its ARR over the next 12 months driven by sales of Votiro's SaaS offering.

"Whilst the Asia Pacific region is currently Votiro's largest market, we continue to see the US market as providing the greatest sales opportunities and it is expected to become Votiro's largest market in the near term.

The Senetas business will continue to be impacted by global component shortages for the remainder of FY2022 and into early FY2023. Despite this global market disruption, Senetas's pipeline of customer orders is very strong and significantly ahead of any other time in the past 12 months. Senetas has significantly increased inventory levels to mitigate the impact on sales, however, we anticipate the increase lead times for shipment of Senetas's products may lead to a temporary reduction in Senetas's revenue for FY2022 of up to 10%.

"With strong revenue growth from Votiro in FY2022 we continue to expect consolidated group revenue to be higher than in FY2021".

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ABOUT SENETAS CORPORATION LIMITED

Senetas is an Australian public company (ASX:SEN) specialising in cybersecurity solutions - from high-performance network encryption to secure file-sharing collaboration and anti-malware applications. Used by global commercial and technology enterprises and governments in more than 45 countries, Senetas solutions are distributed and supported internationally by Thales, the world's largest security company.

Senetas cybersecurity solutions are trusted to protect business, government, defence, national infrastructure, cloud and technology service provider data against breaches and prevent crippling cyber-attacks.

A global leader in the protection of data transported across the high-speed networks essential to businesses and governments, Senetas provides network independent encryption hardware and virtualised solutions. These share a crypto-agile and quantum ready cybersecurity platform.

Certified by leading independent authorities (Common Criteria, FIPS and NATO), Senetas encryptors leverage end-to-end encryption and state-of-the-art key management providing long-term data protection without compromising network performance.

Senetas's encrypted file-sharing and collaboration application, SureDrop, provides the information security and data sovereignty control essential in today's world of rapidly growing remote work. SureDrop has the usability of box-type file-sharing and other collaboration tools, but with the added benefits of Microsoft 365, Outlook and Azure integration. It may be deployed on premises or as a service provider Software as a Solution (SaaS).

Secure File Gateway by Votiro, a Senetas subsidiary, prevents crippling malware and zero-day attacks such as ransomware and viruses. Votiro's award-winning and patented technology prevents malicious file content through email, web downloads and other file gateways.

Senetas 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 secrets to intellectual property, financial transactions, citizen privacy to real-time CCTV networks and critical national infrastructure.

www.senetas.com

ABOUT VOTIRO

Votiro is an award-winning cybersecurity company with a mission of securing organizations from all file-borne threats. Its proprietary, award-winning positive selection technology allows users to safely open email attachments, download and transfer files, share content, while keeping performance and functionality intact. With over 400 customers globally, Votiro has offices in US, Singapore, Australia, and Israel. Votiro is a Gartner Cool Vendor award winner and certified by the international standard of Common Criteria for Information Technology Security Evaluation (ISO/IEC 15408). Votiro has also been [recently recognised](#) as Best CDR Provider by the 2020 Cybersecurity Excellence Awards and named a Bronze winner in the Hot Security Technology Category by the 2020 Infosecurity Products Guide Awards.

www.votiro.com