

MARCH QTR 2022 - 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 March 2022.

HIGHLIGHTS

	Turnover	% change (vs. PCP)	EBITDA	% change (vs. PCP)
YTD (3 Qtrs.)	\$104.4M	+82%	\$8.5M	+148%
3rd Qtr.	\$41.5m	+97%	\$3.9M	+130%

^{*} Turnover includes gross (billed) revenue from consulting and advisory services, plus turnover from product sales

- Organic growth (excluding acquisitions) recorded at 36% for both the third quarter and year-to-date
- Annual Recurring revenue (ARR) reaches 45% of annual turnover
- Future growth bolstered by continuing successful recruitment of key cyber talent, with the Group growing its headcount by a further 24 employees during the third quarter (96 employees for the year to date)
- Further innovation investment of \$1.1m made in strategic partner Daltrey focusing on biometric security
- The Group's reported cash position is \$10.0m as at 31 March 2022

FINANCIAL UPDATE

OVERVIEW - key highlights

Tesserent is pleased to report continuing growth in Q3 FY22 and over the first three quarters of FY22, with the Group recording significant increases in both turnover (+82%) and operating EBITDA (+148%), versus prior year comparative periods (PCP).

As highlighted in previous releases, earnings within the business are highly seasonal, and the profile of earnings is exhibiting a similar seasonality within the current year. This is expected to continue into the last quarter of FY22.

^{*} Q3 earnings results are unaudited. Operating EBITDA (excludes one-off acquisition costs and statutory AASB16 adjustments)

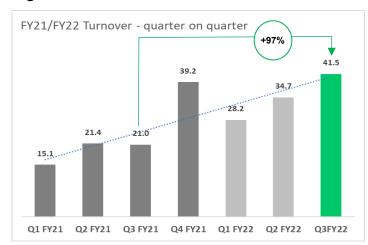


THIRD QUARTER

Continued strong growth in turnover and earnings

The Company reports continuing strong growth in the underlying business in the third quarter, with year-on-year growth of **97%** against the prior year comparative quarter.

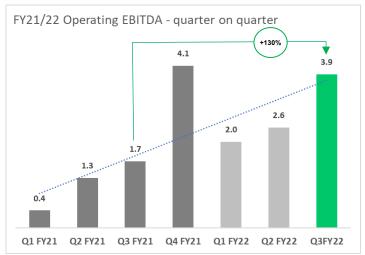
This overall growth is made up of both organic growth and turnover growth from acquisitions (see further detail below).



Operating EBITDA has continued to grow strongly (taking into account the impact of seasonality) with an increase in Operating EBITDA for Q3 of **130%** from the prior comparative period.

This overall EBITDA growth is made up of both organic growth (versus prior year comparative period of 36%) 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.



Figures 1 & 2 – Turnover and Operating EBITDA on quarterly basis for current period and previous year

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

Overall growth in **EBITDAC** (earnings before corporate costs) was 119% for the current quarter and 117% for the combined first three quarters of FY22 vs. prior year comparative period. The organic growth vs. growth from acquisition is broken down further in the chart below.

Q1 FY22 (vs. PC	P)	
Organic growth	45%	
+ Acquisitions	85%	
Total Grow th	130%	

Q2 FY22 (vs. PCP)	
Organic growth	30%
+ Acquisitions	71%
Total Grow th	101%

Q3 FY22 (vs. P	CP)
Organic growth	36%
+ Acquisitions	83%
Total Growth	119%

First 3 Qtrs FY22 (vs. PCP)			
Organic growth	36%		
+ Acquisitions	81%		
Total Grow th	117%		



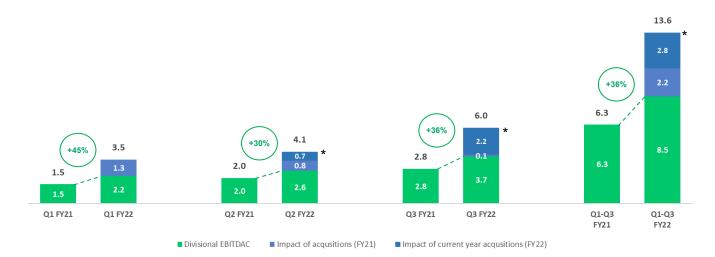


Figure 3 – Analysis of total growth in the business over the each of the first three quarters FY22 vs. PCP

Margin improvement

	Q1 FY21	Q2 FY21	Q3 FY21	*Q1 FY22	*Q2 FY22	Q3 FY22	Q1 growth	Q2 growth	Q3 growth	Q1-Q3 growth
Turnover	15.1	21.4	21.4	28.2	34.7	41.5	86%	63%	94%	82%
Operating EBITDA	0.4	1.3	1.7	2.0	2.6	3.9	351%	101%	136%	148%
Operating EBITDA margin	3.0%	6.0%	7.8%	7.1%	7.4%	9.5%				

^{*} Note – Q1 and Q2 Turnover figures have been adjusted from prior 2Q Appendix 4C report (increased by \$3.7m) following finalisation of half year FY22 audited accounts.



Operating cashflow

The Company recorded operating cash flow <u>outflow</u> in the third quarter FY22 of \$1.1m, as a result of movements in net working capital.

Investment in net working capital increased in the third quarter, primarily due to an increase in debtors and unbilled WIP balance – driven by growth in the Group's workforce coupled with a seasonal step up in the level of consulting activity in Q3.

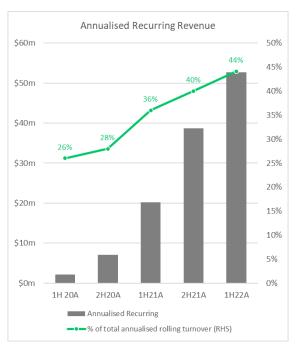
^{*} Note – Impact of current year acquisitions includes contribution from Loop Secure (from Oct-21) and Claricent and Pearson (from Jan-21)



Overall, EBITDA to cash conversion for the first three quarters was 43% of EBITDA. Management expects that this seasonal build in net working capital will unwind in Q4.

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)



FURTHER INNOVATION INVESTMENT

During the current quarter, Tesserent increased its investment in Daltrey subscribing for a further \$1.1m of share capital in the biometric security business.

The further investment solidifies the strategic partnership with the business with Daltrey having met all its key growth targets and partnering with Tesserent on a number of opportunities with key clients in the transition to zero trust user authentication without passwords.

FEDERAL BUDGET INVESTMENT IN OFFENSIVE AND DEFENSIVE CYBER CAPABILITIES

The recent Federal Government 2022-23 budget included an additional \$9.9bn over the next decade to expand the Australian Signals Directorate (ASD's) 'cyber and intelligence capabilities' (REDSPICE).

The program is expected to double ASD's size, and budget commentary indicates REDSPICE will offer '\$5 billion in opportunities for Australian industry', along with a focus on sovereign capability. As the largest Australian provider of cybersecurity services in the Canberra/Federal Government space (and the largest cybersecurity company listed on the ASX), Tesserent looks forward to supporting the ASD to meet this objective, and to further grow the services Tesserent currently provides Government, including cybersecurity consulting, testing, training and bespoke tools.

Tesserent is also helping to promote Australian capability to US government, industry and partners via its subsidiary Seer Security, as a part of Team Defence Australia at the upcoming US

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Armed Forces Communications and Electronics Association (AFCEA) cyber conference, TechNet Cyber 2022. Seer Security specialise in security research and software development, building security focused software for government and enterprise clients.

RECURITMENT OF KEY TALENT AND HEADCOUNT GROWTH

As at the end of March 2022, the group has grown to a headcount of 404, having recruited an additional 24 employees (net) in the current quarter, and 96 employees in the current financial year to date.

The business is focused on recruiting and retaining key talent to continue to provide an outstanding level of customer service to our clients, whilst continuing to grow our coverage in all aspects of the Cyber 360 delivery to the market. Our senior leadership team continue to be a key differentiator in attracting talent to Tesserent with a number of recent senior hires coming from competitors and key industry brands.

Tesserent has also recently appointed Samantha Riddle to the role of Director of People and Culture (P&C) and Samantha has taken on leadership of the P&C corporate team as well as developing the P&C plan for implementation in FY23 across all the operating businesses. This plan includes:

- Strategic talent attraction and acquisition
- Targeted graduate/cadet program
- Interlocking with Tesserent Academy on training initiatives
- A progressive focus on diversity in Cyber Security
- Enhancing our employee experience and value proposition

Samantha has extensive corporate experience in assisting senior business leaders in high growth IT and Finance industries.

BRAND AND BUSINESS UNIT INTEGRATION UPDATE

Following the completion of the acquisitions of Claricent and Pearson in December 2021, the operations of these businesses have been promptly integrated into the Group's existing government advisory business and given the strong demand for services in this sector, are already trading ahead of expectations set at the time of acquisition.

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.

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Learn more at <u>www.tesserent.com</u>

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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 March 2022

Cor	solidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000	
1.	Cash flows from operating activities			
1.1	Receipts from customers	37,967	115,836	
1.2	Payments for			
	(a) research and development			
	(b) product manufacturing and operating costs	(21,605)	(65,257)	
	(c) advertising and marketing	(213)	(644)	
	(d) leased assets			
	(e) staff costs	(16,019)	(43,300)	
	(f) administration and corporate costs	(900)	(2,385)	
1.3	Dividends received (see note 3)			
1.4	Interest received		3	
1.5	Interest and other costs of finance paid		(13)	
1.6	Income taxes paid	(341)	(516)	
1.7	Government grants and tax incentives			
1.8	Other (provide details if material)	(11)	(44)	
1.9	Net cash from / (used in) operating activities	(1,122)	3,680	

2.	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	(a) entities	(71)	(13,307)
	(b) businesses		
	(c) property, plant and equipment	(564)	(1,086)
	(d) investments	(1,100)	(1,700)
	(e) intellectual property		
	(f) other non-current assets		(50)

ASX Listing Rules Appendix 4C (17/07/20)

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Con	solidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment		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	775	(12,505)
2.6	Net cash from / (used in) investing activities	(960)	(28,647)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		25,000
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options and warrant shares	29	738
3.4	Transaction costs related to issues of equity securities or convertible debt securities		(1,402)
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings	(743)	(1,903)
3.7	Transaction costs related to loans and borrowings	(100)	(100)
3.8	Dividends paid		
3.9 a	Other – Interest paid	(768)	(2,264)
3.9 b	Other – (provide details if material)		
3.10	Net cash from / (used in) financing activities	(1,582)	20,069

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	13,626	14,860
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,122)	3,680

Con	solidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(960)	(28,647)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(1,582)	20,069
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	9,962	9,962

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	9,962	13,626
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)	9,962	13,626

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	-
	if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include nation for, such payments.	de a description of, and an

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)	(1,122)
8.2	Cash and cash equivalents at quarter end (item 4.6)	9,962
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	9,962
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 figure for the estimated quarters of funding available must be included in item 8.5.		em 8.5 as "N/A". Otherwise, a
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 April 2022

Authorised by: The Disclosure Team