

JUNE QUARTER 2022 – APPENDIX 4C QUARTERLY ACTIVITIES REPORT AND OPERATIONAL UPDATE

TESSERENT DELIVERS RECORD TURNOVER AND EBITDA GROWTH FOR THE FULL YEAR AND RECORD FOURTH QUARTER GROWTH

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 30 June 2022.

	Turnover	% change (vs. PCP)	EBITDA	% change (vs. PCP)
Full year FY22	\$163.0M	+69%	\$16.3M	+115%
4th Qtr.	\$58.6m	+50%	\$7.8M	+88%

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

HIGHLIGHTS

Strong revenue and earnings growth for the 4th Quarter including a strong operating cashflow result of \$11.1m. The Group's cash position was \$14.5m as at 30 June 2022

- Successful delivery of Q4/2nd half seasonality performance
- Successful recruitment of key cyber talent with the Group growing headcount by 55 employees during the quarter (151 employees for the year to date) – taking the total headcount to 459 at the end of FY22
- Completed refinancing and upsizing of debt facilities replacing previous facilities (\$35m) with a new Market Rate Loan provided by the Commonwealth Bank of Australia with additional undrawn facilities of up to \$24m
- Annual Recurring Revenue (ARR) has maintained its growth profile and now represents 46% of annual Group turnover



^{*} Q3 and Q4 earnings results are unaudited. Operating EBITDA (excludes one-off acquisition costs and statutory AASB16 adjustments)



FINANCIAL UPDATE

OVERVIEW - key highlights

Tesserent is pleased to report continued growth in both Q4 FY22 and for the full year FY22, with the Group recording significant increases in both turnover (+69%) and operating EBITDA (+115%), versus the prior year (FY21).

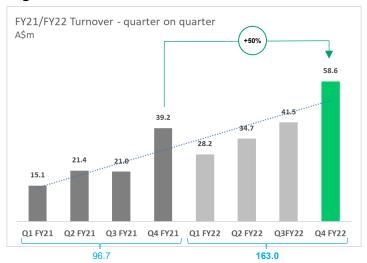
FOURTH QUARTER

Continued strong growth in turnover and earnings

The Group reported continued strong growth in the underlying business in the fourth quarter, with year-on-year growth of 50% against the prior year comparative quarter.

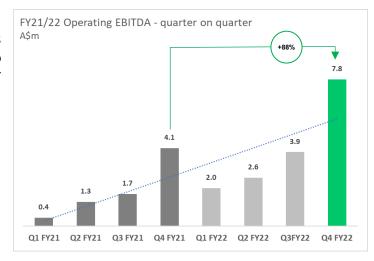
The full year FY22 turnover result of **\$163m** represents growth of 69% compared to FY21 turnover of \$96.7m.

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



Operating EBITDA repeated strong fourth quarter seasonality (as forecast) and has continued to grow strongly with an **88%** increase in Q4 against the prior year comparative period.

This overall EBITDA growth for the year ended FY23 is made up of both organic growth (of 25%) plus growth from acquired EBITDA.



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

Overall growth in **EBITDAC** (earnings before corporate costs) was 59% for the current quarter and **89%** for the full year FY22 <u>vs. prior year comparative period</u> (PCP). The organic growth vs. growth from acquisition is broken down further in the chart below.





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

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

Q3 FY22 (vs. PCP)		
Organic growth	36%	
+ Acquisitions	83%	
Total Grow th	119%	

Q4 FY22 (vs. PCP)		
Organic growth	13%	
+ Acquisitions	47%	
Total Grow th	59%	

Full year FY22 (vs. PCP)		
Organic growth	25%	
+ Acquisitions	64%	
Total Grow th	89%	

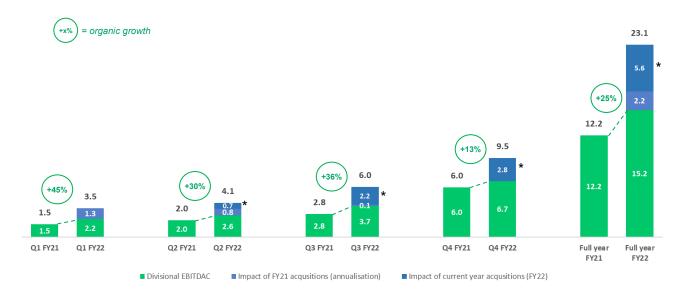
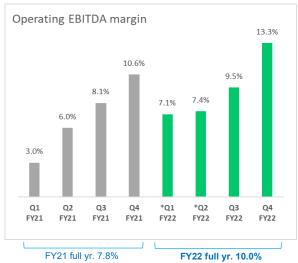


Figure 3 – Analysis of total growth in the business over each quarter of FY22 vs. PCP

* Note – Impact of current year acquisitions includes contribution from Loop Secure (from Oct-21) and Claricent and Pearson (from Jan-22)

Margin improvement

Tesserent has achieved continued growth in EBITDA margin through improved pricing and margin recovery on certain contracts, plus enhanced operating leverage.





Operating cashflow

The Group recorded positive operating cash flow in the fourth quarter FY22 of \$11.1m, as a result of favourable movements in net working capital. Investment in net working capital which increased in the third quarter has unwound in the fourth quarter of FY22.

EBITDA to cash conversion was 142% of EBITDA for the fourth quarter and 91% for the full year FY22. Favourable operating cashflow is expected to continue in Q1 FY23, as the WIP balance built from consulting activity in Q3 and Q4 unwinds to 'normal' levels.

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)



DEBT REFINANCING AND ADDITIONAL FACILITIES

During the current quarter, Tesserent completed a refinancing and upsizing of its debt facilities – replacing its core debt facilities (\$35m) with a new Market Rate Loan provided by the Commonwealth Bank of Australia.

In addition to the refinancing of existing debt, CBA is providing a further Market Rate Loan of up to \$20m to be used to fund cash consideration payments on existing and future acquisitions; plus ancillary facilities of \$4m – to cover Bank Guarantees, FX and corporate cards for the Group.

The implementation of the new financing arrangements will materially reduce the (cash) interest cost of the existing debt and result in a notional interest saving in excess of \$5 million on drawn new debt facilities over the next three years (based on current benchmark interest swap rates).

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RECRUITMENT OF KEY TALENT AND HEADCOUNT GROWTH

As at the end of June 2022, the group has grown to a headcount of 459, having recruited an additional 55 employees (net) in the current quarter, and 151 employees during the full year FY22.

The business remains 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 players.

BRAND AND BUSINESS UNIT INTEGRATION UPDATE

As announced earlier this month, George Katavic has been promoted to Managing Partner of Tesserent Federal which completes the integration of the North, Claricent and Pearson businesses. Tesserent Federal is now the largest provider of cybersecurity consulting services to the Federal Government.

The Group achieved strong outcomes in driving cross-selling initiatives with the sales teams proficient in identifying security risks in client environments which can be mitigated with Tesserent's offering of Consulting Services & Critical Controls.

As a key organic growth example, the former Rivium business (now operating as the integrated "Security Data & Analytics Practice" within Defend BU), is largely focused on providing SIEM consulting services and has more than doubled its consulting team through FY22. This business is now operating at a turnover level almost 3 times of what was acquired in FY20 and approximately 1.5 times EBITDA.

The former Airloom business, acquired in late 2020 (also within the Defend BU), is now operating as the Protect practise delivering Security Strategy, Architecture & Engineering consulting services and has achieved EBITDA growth of greater than 1.6 times.

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 440 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

30 June 2022

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	53,278	169,115
1.2	Payments for		
	(a) research and development		
	(b) product manufacturing and operating costs	(24,740)	(89,997)
	(c) advertising and marketing	(391)	(1,035)
	(d) leased assets		
	(e) staff costs	(14,385)	(57,685)
	(f) administration and corporate costs	(1,753)	(4,138)
1.3	Dividends received (see note 3)		
1.4	Interest received		3
1.5	Interest and other costs of finance paid	(3)	(16)
1.6	Income taxes paid	(927)	(1,442)
1.7	Government grants and tax incentives		
1.8	Other (provide details if material)	(4)	(50)
1.9	Net cash from / (used in) operating activities	11,075	14,755

2.	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	(a) entities		(13,307)
	(b) businesses		
	(c) property, plant and equipment	(814)	(1,900)
	(d) investments		(1,700)
	(e) intellectual property		
	(f) other non-current assets	(874)	(924)

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

Page 1

Con	solidated statement of cash flows	Current quarter \$A'000	Year to date (12 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	(1,000)	(13,505)
2.6	Net cash from / (used in) investing activities	(2,688)	(31,335)

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		738
3.4	Transaction costs related to issues of equity securities or convertible debt securities		(1,402)
3.5	Proceeds from borrowings	35,000	35,000
3.6	Repayment of borrowings	(35,463)	(37,366)
3.7	Transaction costs related to loans and borrowings	(2,205)	(2,305)
3.8	Dividends paid		
3.9 a	Other – Interest paid	(1,174)	(3,438)
3.9 b	Other – (provide details if material)		
3.10	Net cash from / (used in) financing activities	(3,842)	16,227

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	9,962	14,860
4.2	Net cash from / (used in) operating activities (item 1.9 above)	11,075	14,755

Con	solidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,688)	(31,335)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(3,842)	16,227
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	14,507	14,507

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	14,507	9,962
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)	14,507	9,962

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 includation 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	59,000	35,000
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	Total financing facilities	59,000	35,000
7.5	Unused financing facilities available at quarter end		24,000

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.

Refinancing undertaken 23 June 2022 has resulted in a replacement of the existing debt facilities of \$35m, previously provided by Pure Asset Management (PAM), with a new Market Rate Loan provided by the Commonwealth Bank of Australia (CBA).

In addition to the refinancing of existing debt, CBA is providing:

- a further Market Rate Loan of up to \$20m to be used to fund cash consideration payments on existing and future acquisitions; and
- ancillary facilities of \$4m to cover Bank Guarantees, FX and corporate cards for the Group.

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	11,075
8.2	Cash and cash equivalents at quarter end (item 4.6)	14,507
8.3	Unused finance facilities available at quarter end (item 7.5)	24,000
8.4	Total available funding (item 8.2 + item 8.3)	38,507
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

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 July 2022

Authorised by: The Disclosure Team

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

Notes

- 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.
- 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.