

27 August 2015

## **ASX ANNOUNCEMENT**

### **Senetas Corporation Limited Full Year Results Announcement For the year to 30 June 2015**

#### **Senetas delivers strong full year profit growth and cash flow**

Senetas Corporation Limited (ASX: SEN), a leading developer and manufacturer of certified, defence-grade data encryption solutions, is pleased to announce its results for the year ended 30 June 2015 (FY2015), delivering strong growth in revenue, profit and cash flow as the business successfully executes its growth strategy.

#### **FY2015 highlights:**

- Net profit before tax up 2.4 times to \$6.02 million (FY2014: \$2.46 million).
- Net profit after tax up 36% to \$4.02 million (FY2014: \$2.96 million).
- Operating revenue up 47% to \$16.21 million (FY2014: \$11.04 million) driven by:
  - 41% growth in product sales; and
  - 55% increase in maintenance services revenue.
- Gross margin of 83% and pre-tax profit margin of 37%.
- Continued positive cash flow, with net operating cash flow up over 200% to \$9.58 million (FY2014: \$2.88 million).
- Strong balance sheet:
  - No debt;
  - Cash on hand at 30 June 2015 up over 100% to \$15.90 million (FY2014: \$6.81 million); and
  - Net assets up 45% to \$13.09 million (net tangible assets \$12.97 million).
- Sustained realisation of the operational and financial benefits from the business transformation and growth plan executed since 2012.
- Consolidation of the new master distribution relationship with SafeNet Inc. (now Gemalto NV since completion of its \$US870 million acquisition of SafeNet Inc. in January 2015).
- Ongoing development of Senetas' proprietary R&D and certified encryptor roadmap driving future growth opportunities.

Commenting on the Company's results, Senetas CEO Andrew Wilson said, "The strong full year results were clear evidence that Senetas is building a sustainable track record of financial performance and delivery on its growth strategy."

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The past year has been an important period for the Company as it continues to build a strong foundation to support its future growth.

The benefits from the transformation and growth plan implemented since 2012 have clearly been delivered through growth across all key business metrics. Operating revenue was up 47% to \$16.21 million, while earnings grew much stronger generating a net profit before tax of \$6.02 million.

The strong revenue growth represents the first full year benefits of the improved master distributor agreement with Gemalto and includes good growth from both new product sales and maintenance services. Pleasingly, growth in new product sales is primarily the result of orders from new customers, particularly in the commercial sector.

FY2015 has seen Senetas continue its significant investment in research and development (R&D) and building stronger relationships with our master distributor, technology partners and end customers. These are critical factors to ensure Senetas builds both the capability and relationships necessary to drive future revenue growth.

Senetas completed the year in a strong financial position off the back of growing operating cash flows and strong working capital management. With no debt, and \$15.90 million of cash at 30 June 2015, the Company is uniquely placed to continue its growth.

Senetas' experienced leadership team, together with the skilled team of product development engineers and marketing and partner development activities have played key roles in supporting the Company's international master distributor and other partners. The growth over the past three years, and in particular over the past twelve months, would not have been possible without the dedication and commitment of the Company's talented team."

### **International Distribution – SafeNet's acquisition by Gemalto**

The acquisition of SafeNet by Gemalto was completed in January 2015. Gemalto ownership of SafeNet provides Senetas products with increased access to global markets. Gemalto has a large global 'footprint' and a sales force located across 44 countries which service their global customer base.

The relationship with Gemalto remains strong and mutually beneficial and Gemalto has confirmed its commitment to the SafeNet product suite, including Senetas' High-speed Encryption (HSE) products and ranks HSE among its most important product groups.

The Senetas master distributor agreement continues unchanged after the acquisition and Senetas supports this relationship with training in product capabilities and support for Gemalto staff on engagement with strategic customer accounts.

### **Research and Development**

R&D remains the Company's core activity and the major driver of long-term growth prospects. Historically Senetas has invested approximately 35% of revenue annually into these activities. Senetas is building significant new capabilities that will drive revenue growth in FY2017 and beyond. In this regard, FY2016 R&D is expected to increase above historic reinvestment rates as a large pipeline of new products are developed, including:

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- 100Gbps encryptor – with customers already indicating a need for increased data throughput and the economies of scale 100Gbps will bring;
- ‘High-density’ encryptors – through a ‘multi-port’ design providing customers with their need for cost-per-port economies and other benefits;
- A custom encryption algorithm capability following enquiries from customers in Asia, Europe and the Middle East; and
- Virtualisation of encryption – developing new technologies for changing networking protocols and ways of managing networking.

Senetas therefore expects FY2016 R&D expenditure will be approximately 30% higher than it was in FY2015.

### **Business strategy**

Looking forward, in order to maximise Senetas’ profitable revenue growth, the Company is focusing on a business strategy with five key growth drivers:

1. Key Senetas HSE markets:
  - Accelerate (and protect) growth by working with Gemalto to increase the sales, marketing and customer footprint in traditional markets.
2. Low HSE penetration markets:
  - Develop markets where Senetas products have low market penetration by working closely with Gemalto. These include: India, Japan, Singapore, South America, Eastern Europe, France, Germany and Italy.
3. New faster and ‘high-density’ products:
  - Release new market-leading encryptors that reflect emerging customer security needs. These include faster, 100Gbps, and ‘high-density’ (multi-port) platform.
4. New customer centric custom algorithm projects:
  - Leveraging Senetas’ unique and proprietary electronics engineering capabilities and products. Senetas commenced work in the first half of calendar 2015 on a large custom algorithm project for a major European customer.
  - In order to build other custom algorithm opportunities, Senetas will complete a custom software toolkit to address unique requirements for customers in Asia, Europe and the Middle East.
5. New technology partnerships:
  - Senetas completed a technology partner agreement with major international data networks provider, Avaya, in January 2015. It will provide Senetas/Gemalto access to the rapidly growing Avaya ‘Fabric Connect’ network technology and its large customers around the world.
  - Senetas has identified two other technology partnership opportunities with major technology companies which are expected to extend the company’s technology and market.

These five key growth drivers are expected to drive strong revenue and profit growth from FY2016.

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The Company's strategic growth plan is being supported by product marketing, brand recognition and data security thought leadership focused on the commercial, government and networks service providers in targeted geographic markets.

### **Well positioned for future growth**

Commenting on the Company's growth outlook, Mr Wilson said:

"We continue to see significant opportunities as we increase our focus on the demand for HSE in the commercial sector. To date we've seen some significant sales to large-scale commercial enterprises that recognise the critical need to encrypt large volumes of data in motion and we expect this will continue to drive growth as it has throughout FY2015.

Having built a sustainable foundation to support future growth it is critical now that Senetas continues to reinvest in the business to meet customer needs and drive new revenue opportunities in FY2017 and beyond. The increased R&D investment rate and the increase in international sales resource in FY2016 is a necessary ongoing step to continue developing our technology capability and build closer relationships with our master distributor, technology partners and end customers.

Senetas expects that strong industry fundamentals and increased focus on driving sales execution in partnership with our key partners will continue to drive good profit growth and cash flow in FY2016. However, with the benefits of the new master distributor agreement now fully realised and an increase in business reinvestment rates over the next 12 months we expect that profit growth in FY2016 may moderate from that achieved in FY2015. However, we see medium term profit growth as strong as we start delivering new technologies into the market."

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