



ASX ANNOUNCEMENT | COVATA LIMITED

Q1 FY2016 Results Update

Dear Investors,

As a further update to the recently lodged Quarterly Cash Flow Report for the period ending 30 September 2015, I would like to provide some increased granularity on the Company's Telco/MSP business model.

Headline Results as at end of Q1 FY2016.

- Paid end users up on last quarter to 1,961
- Run-rate revenue from these seats to 30 June 2016 > \$73k
- Average net revenue per user per month of \$3AUD (minimum target) exceeded in Q1
- Run-rate revenue at close of Q1 for FY2016, including un-earned revenue, is \$340k (against total revenue of \$350k for FY2015) (see point 1.5 below)
- Current pipeline of >50 enterprise and government opportunities exceeds internal Q3 targets for No of paid end users. These opportunities are in the UK, Australia and Europe through 3 Telco's
- 3 new Telco's in trial in Asia and Latin America
- More than 10 active enterprise and government customers

The objective of distributing Safe Share through Telco's and MSP's is to gain market share and accelerate a scaleable model and generate recurring revenue through Software as a Service (SaaS).

On the 1st of September this year the company released an Investor Update to the market. In this presentation an *Example Business Model* was given. The purpose of this was to illustrate the value of building recurring revenue over two years from a subscription service. Separately, the Company has stated that the goal for each of the quarters in FY2016 is to acquire high quality Telco/MSP reseller partners in strategic geographic regions ("sell-to"). In parallel to this, the Company must enable its reseller partners to "sell-through" to its enterprise customers. This is not an easy or a quick strategy to execute, but if done successfully it has the potential to deliver significant revenue and value.



I recognise it is difficult for investors to assess progress with only one quarter of results. Additionally, investors typically like to understand customer case studies. Unfortunately when it comes to data security many customers do not agree to being named publicly and/or the Telco/MSP partner does not agree to Covata naming their customers. They often fear it is no gain to them and, if anything, an invitation for hackers or other internet trolls to quietly or publicly attack them.

As we progress through the year we feel confident that the number of public case studies will grow as a result of the increased number of enterprises on board.

In previous presentations, the Company has stated it is targeting large enterprises where there is a minimum goal of 1,000+ paid end users. The current enterprise customer base and pipeline represents this.

Enterprise and Government organisations often take a modest number of paid end users on board up front with the objective of wider take-up/roll-out over time. Therefore the acquisition of an enterprise with less than 1,000 seats initially is typically done with the view of near/mid-term growth; therefore the subscriber growth comes through two activities - acquiring new customers through Telco/MSP partners and growing the subscriber base of end users in existing enterprises.

Of course we will not share sensitive aspects of pipeline progress that would be valuable to competitors but a snapshot of the quality of the Q1 work achieved by the team in the Telco/MSP business is summarised below:

1.0 Q1 Results and KPI's.

1.1. Target average price per end user per month earned by Covata after all reseller partner commissions is \$3AUD.

1.2. Actual average net revenue per end user per month achieved in Q1 FY2016 exceeded \$3AUD.

1.3. The majority of the 1,961 paid end users were signed in late September on a 12 month minimum contract. This represents paid user growth exceeding 500% from the previous quarter. Billing to cash receipt is typically a 30-90 day cycle depending on the reseller partner.

1.4. The 1,961 paid users represent an annual run-rate exceeding \$98,000, or \$73,000 from 1 October through to 30 June 2016.

1.5. \$73,000 annual run rate to 30 June 2016 plus \$267,000 of licence revenue/cash received from a prior year deal and to be recognized during FY2016 means expected revenue of \$340,000 for the year ended 30 June 2016 (\$350,000 for the year ended 30 June 2015). This revenue recognition explanation is to allow investors to assess top line



revenue performance on a Q1 FY2016 basis against the prior year. To provide further clarity this means that in the absence of signing up one more end user the Company has almost achieved its entire previous 12 months revenue by end of Q1.

1.6. The 1,961 paid users is made up of more than 10 enterprise and government customers in Europe and Australia.

2.0 Active Pipeline

2.1. There are over 50 opportunities in the pipeline from 'Prospect to Trial' stage as we entered Q2.

2.2. These opportunities collectively have an identified number of paid end users well exceeding management's Q3 targets.

2.3. The majority of opportunities in the European pipeline are through T Systems Germany, T Systems Switzerland and Colt. Macquarie Telecom in Australia continues to build end users within existing customers and sign new government department customers in Canberra. Asia Pacific and Latin America regions are in Telco/MSP acquisition stage and thus were not at the customer/opportunity pipeline stage as at end of Q1.

2.4. The opportunities in the pipeline are spread across varied industries including: airline, government, manufacturing, automotive, banking/finance, insurance, technology and FMCG.

2.5. Average net revenue per end user is a result of many other pricing inputs and will vary by region, and by country within a region. Safe Share is typically priced per end user per month in local currency and then accounted for in AUD. It is therefore subject to foreign currency fluctuations as local currencies either appreciate or depreciate against the AUD. The Company aims to achieve an average net revenue per end user per month of \$3AUD.

2.6 We continue to grow the pipeline of Telco/MSP reseller partners in Latin America and Asia Pacific. This is evidenced by trial instances deployed in more than 3 leading Telco's in these regions.

The inclusion of the end user update in the recently lodged Appendix 4C – Quarterly Cash Flow (Q1 FY2016) was consistent with the release to market at the start of October. Going forward updates of end users will be released with each quarter's Appendix 4C only.

Progress continues to be made in the Covata Platform business with the Cisco partnership well underway and the San Francisco office set to deliver maximum value for the business and our shareholders out of the Covata Platform for not only Cisco, but for other partners seeking Key as a Service (KaaS) type security.

In summary, the Company is on track against internal targets and has made significant progress in the past 6 months to execute its Telco/MSP strategy. I am extremely conscious of delivering results as quickly as possible whilst doing so in a sustainable fashion. That being said, cash and expenditure has been well managed (on and or below forecast) and



this has been done in a macro environment where our expenditures have increased in foreign currencies (USD/GBP/EUR) that have all strengthened significantly over the last 12 months against the AUD; AUD being our base currency and the only currency that we have received investment proceeds.

I would like to close by re-iterating that the past, current and next 2 quarters are focused on the acquisition of new Telco/MSP reseller partners. On top of this, we are focused on building a repeatable 'Target Operating Model' (TOM) that is implemented by each Telco/MSP to maximize the acquisition of end users in enterprise customers. Finally, we have a further tactical and operational plan aimed at ensuring that the number of paid end users grows within each enterprise - supported by data analytics and account service activities.

Thank you again for your continued support of the Company.

Regards,

A handwritten signature in black ink, appearing to read "Trent Telford", enclosed within a hand-drawn oval shape.

Trent Telford
CEO & Founder

Legal and Regulatory note: The above statistics and facts do not represent a forecast and as such should not be relied upon for future success. Any statement which expresses or involves discussions with respect to objectives, targets, goals, assumptions or future events or performance are not statements of fact. Any forward looking statements are based on expectations and estimates at the time the statement is made and involve a number of risks and uncertainties which could cause actual results or events to differ materially from those presently anticipated.



Media and Investor Relations:

Nikki Parker

Vice President Growth and IR

Covata

+1 (571) 353-4273

nichola.parker@covata.com

About Covata

Covata enables true ownership and control over your data in the cloud and over mobile services. We deliver data-centric security solutions without compromising simple usability; providing true end-to-end security. Your data is always protected wherever it may travel – inside your network, beyond the domain, to mobile devices and to the cloud – with granular access controls that extend to external ad hoc users, view-only restrictions, real time revocation and complete visibility and auditability.

Own Your Data, control your data and choose where it is stored – with complete assurance that it is protected and secure. For further information please visit Covata.com.