

29 February 2016

ASX ANNOUNCEMENT

Senetas Corporation Limited Half-Year Results Announcement For the 6 months to 31 December 2015

Senetas profit in line with market guidance

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 6 months ended 31 December 2015 (HY2016), delivering profit in line with the market update announcement on 25 January 2016.

HY2016 highlights:

- Operating revenue up 7% to \$8.67 million (HY2015: \$8.12 million)
- Net profit before tax down 35% to \$1.85 million (HY2015: \$2.82 million)
- Net profit after tax down 18% to \$1.59million (HY2015: \$1.94 million)
- Gross margin of 83% and pre-tax profit margin of 21%
- Cash flow remained positive, with net operating cash flow of \$0.57 million (HY2015: \$3.57 million)
- Strong balance sheet
 - No debt;
 - Cash on hand at 31 December 2015 of \$16.34 million (FY2015: 15.90 million); and
 - Net assets up 13% to \$14.75 million.
- Acceleration of R&D roadmap progressing with all new product development on track.

Commenting on the Company's results, Senetas CEO Andrew Wilson said, "The half year profit was at the high end of the guidance range provided by the Company in its market update announcement on 25 January 2016.

"The profit result was impacted by three key factors:

1. Delays in contracts that were expected to be concluded prior to 31 December 2016;
2. Some temporary sales disruption resulting from the restructure of the sales force at Senetas' master distributor, Gemalto N.V.; and



NATO Classification
Restricted - Green

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3. The planned increase in research and development (R&D) expenditure that was forecast in the Company's 2015 full year profit announcement.

“Despite the delays and temporary sales disruption, revenue continued to grow during the period reflecting the strength of the business and the benefits of the transformation and growth plan implemented since 2012. With the benefits of the new master distributor agreement with Gemalto now fully realised, the split of Senetas revenue has now stabilised at 60% from new product sales and 40% from maintenance services.

“Whilst the profit for the period was below expectations, the Company believes the contributing factors are temporary and delayed sales should be completed by 30 June 2016. Gemalto continues to forecast good growth in sales for Senetas' products during the 2016 calendar year.

“Senetas' financial position remains very strong, with net assets up 13% during the period, no debt, and cash on hand in excess of \$16 million.

“Progress on the Company's growth initiatives continues as planned, including development of new products such as the 100Gbps encryptor. Government and commercial interest in these new products remains strong and the 100Gbps encryptor is currently undergoing customer testing with expectations it will be released into the market during the first half of FY2017”.

Revenue Growth

Revenue growth of 7% was driven by a 27% increase in maintenance revenue, offset by a small (3%) decline in product sales revenue. The delayed product sales include a major government customer and only partial completion of a transaction with a large commercial customer. Sales to government customers remain the largest share of the Company's sales, however, sales to commercial customers continue to grow as a percentage of total sales.

The Gemalto integration of SafeNet post its acquisition in January 2015 has seen a significant restructure of parts of the sales organisation. The restructure caused some temporary disruption during the period and has resulted in significant changes to personnel. Senetas has consequently been taking a more proactive role in business development and sales throughout the USA and Europe. However, the restructure has also resulted in a significant increase in the number of sales people in the Gemalto division responsible for the sale of Senetas products, creating further opportunities to grow the number of sales people actively selling encryptors. The integration is now largely complete and Senetas expects increased sales and marketing focus during 2016.

Research and Development

R&D remains the Company's core activity and the major driver of long-term growth prospects. Senetas is significantly increasing its investment in R&D during FY2016 in order to fast-track initiatives that will build new capability and drive revenue growth in FY2017 and beyond.



R&D expenditure in the first half of FY2016 was 65% higher than the prior period and reflected an investment of 33% of revenue.

Development of the 100Gbps encryptor is well advanced and customer testing is expected to commence in the next few months. The certification process for the 100Gbps encryptor is due to commence mid-year. At this stage Senetas expects the 100Gbps encryptor will be released to customers and become revenue producing late in the first half of FY2017.

Progress in the development of Senetas' CN6140 multi-port encryptor is also well advanced. The multi-port encryptors have encryption capability up to 10Gbps and should become available to customers for testing in late calendar 2016 and commence producing revenue for Senetas in the second half of FY2017. Senetas' custom encryption algorithm product has been released to the market recently and is also expected to commence producing revenue for Senetas in FY2017.

Senetas is continuing to work with its customers, master distribution partner and technology partners to identify new product opportunities that will create ongoing revenue growth for Senetas in the medium and long term. At this stage Senetas expects R&D will moderate slightly in FY2017 after the significant step up in spend during FY2016.

Balance Sheet and Cash Flow

Senetas' balance sheet remains very strong and provides significant capacity to support the necessary investments to drive both organic and inorganic future growth.

Net operating cash flow remained positive in HY2016, however, two main factors have contributed to lower cash flow compared to the prior period:

1. Senetas made tax payments of \$1.25 million during HY2016 compared to nil in the prior period; and
2. The previously announced step up in R&D expenditure.

Outlook

Commenting on the Company's outlook for the remainder of FY2016, Mr Wilson said:

"The data security industry continues to grow and customer interest in Senetas' existing products and products under development remains very strong. The Company's master distributor Gemalto is forecasting good growth in sales for Senetas products in calendar 2016.

"With increased stability post Gemalto's sales restructure and the completion of delayed product sales during the second half of FY2016 Senetas expects higher revenue and profit than the first half of FY2016. Current expectations are that Profit Before Tax for the second half of FY2016 will be similar to or slightly higher than the prior corresponding period which would result in a Net Profit Before Tax of approximately \$5 million for the full year to 30 June 2016.



“New products to be released into the market in FY2017 are expected to drive medium term growth and Senetas will be in a position to provide more specific guidance in relation to the precise timing of these opportunities at the release of the Company’s full year results in August 2016.”

END.

Investor and analyst conference call

The Company will be holding an investor and analyst conference call at 11.00AM AEDT today.

Dial in details:

Participants can dial **+61 2 9007 8048** or 1800 908 299 (toll free) to join the call.
When prompted, please enter **Conference ID: 687056**

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