



Security without compromise

# SENETAS 2016 INTERIM RESULTS

29 February 2016

# AGENDA

- HY16 profitable – but below expectations
- Balance sheet and cash position remain strong
- Continuing investment to drive new revenue opportunities
- Outlook remains positive

**HY16 PROFITABLE – BUT BELOW EXPECTATIONS**

# HY16 HIGHLIGHTS

## Profitable

- Operating revenue increased 7% to \$8.7m
- Net profit before tax of \$1.8m
- Net profit after tax of \$1.6m

## Strong Balance Sheet

- Net assets at 31 December 2015 – \$15.0m
- Cash balance at 31 December 2015 – \$16.3m

## Continuing to build capability

- All new product development on track
- Customer trials and certification processes underway

# HY15 FINANCIAL OVERVIEW

	HY16 \$000's	HY15 \$000's	Change
Revenue from ordinary activities	8,665	8,119	7%
Profit before tax	1,832	2,820	(35%)
Net profit after tax	1,586	1,944	(18%)

Revenue continued to grow in HY16 despite sales delays and temporary sales force disruption

- Delays in finalising key government contracts
- Temporary sales disruption due to the restructure of Gemalto's sales team

Profit declined against HY15

- Increased R&D spend to fast-track NPD as forecast in August 2015 announcement
- Gross margins remain strong at 83% (in line with FY15)

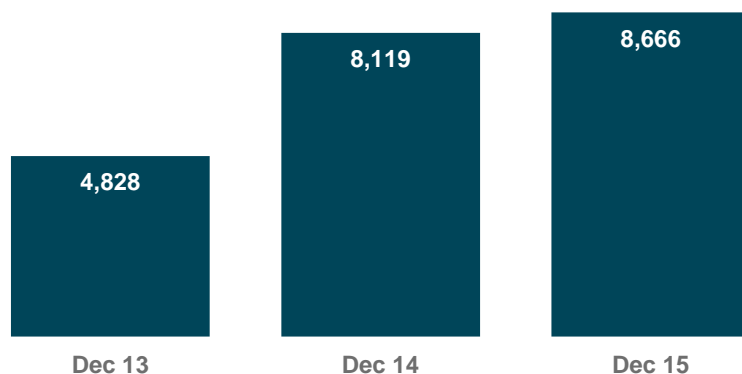
Net profit of \$1.6m

- Lower effective tax rate due to tax losses utilised

# REVENUE TREND REMAINS POSITIVE

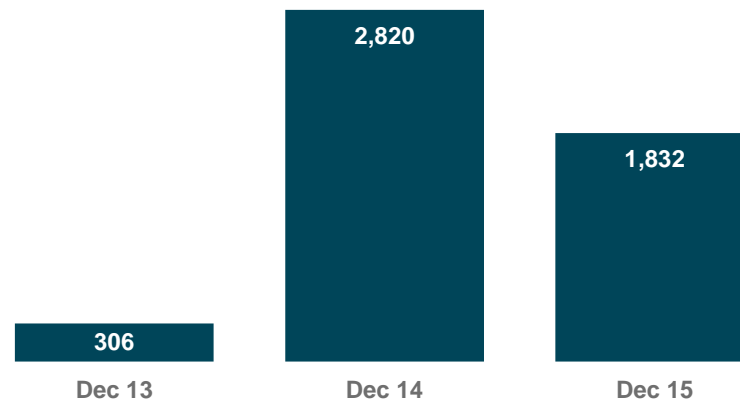
## TRADING REVENUE

half yearly, \$'000



## PROFIT BEFORE TAX

half yearly, \$'000



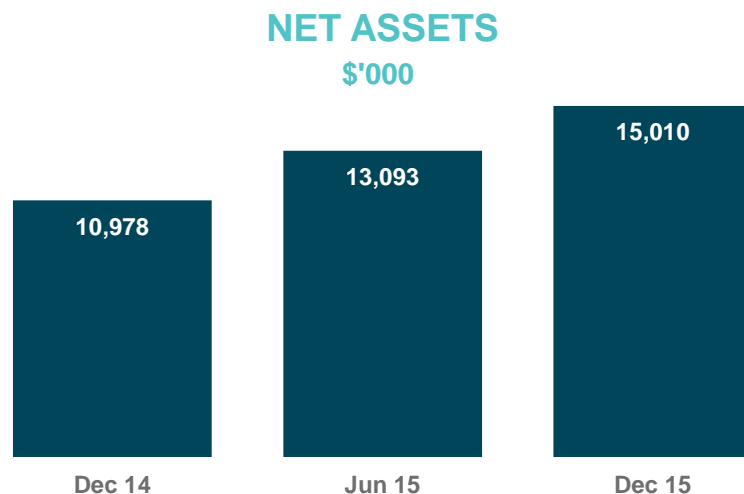
## Revenue up 7%

- Non-government sales continue to grow as a percentage of sales.
- Stable split between product sales (60%) and maintenance revenue (40%).
- Delayed sales are expected to be completed before the end of FY16.

## Net margins lower

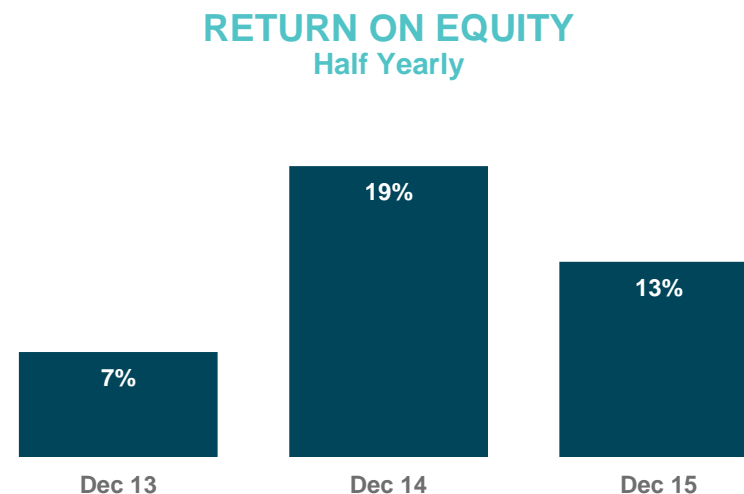
- Reduced by the forecast FY16 increase in R&D expenditure.
- R&D expenditure was 65% higher in HY16 than the prior period and reflected an investment of 33% of revenue.

# RETURNS ON INVESTMENT



## Net assets up 15% to 15.0m

- Continued profitability driving growth in shareholder equity.
- Net assets up 37% over the past 12 months.



## Attractive return on assets

- Return on equity remains high at 13% for the 6 month period to 31 December 2015.
- HY16 returns lowered by the forecast increase in R&D expenditure during the period.

## BALANCE SHEET AND CASH POSITION REMAIN STRONG



# OPERATING CASH FLOWS

	<b>HY16 \$000's</b>	<b>HY15 \$000's</b>	<b>Change</b>
<b>Operating cash flows</b>	570	3,573	(84%)
<b>R&amp;D tax concession net of tax paid</b>	401	1,447	(72%)
<b>Investing cash flows</b>	(132)	(363)	64%

## Operating cash flow lower but positive

- Key drivers of lower cash flow in HY16 were:
  - Income tax paid of \$1.25m (nil tax paid in HY15).
  - 65% increase in R&D spend in Hy16 v HY15.
- New product development costs are expensed.

## R&D tax concession for HY16 of \$1.65m – up from \$1.45m in HY15

- Ongoing investment in new technologies during FY16 should see a significantly higher R&D concession in FY17.

# BALANCE SHEET SUPPORTS GROWTH

	<b>HY16 \$000's</b>	<b>FY15 \$000's</b>	<b>Change</b>
<b>Cash and cash equivalents</b>	16,339	15,902	3%
<b>Trade and other receivables</b>	2,909	4,043	(28%)
<b>Total Liabilities</b>	(6,843)	(9,298)	26%

## Cash balance at 31 December 2015 of \$16.3m

- Cash balance continues to grow creating flexibility for further capability investment and other potential investments in organic and inorganic business opportunities

## Trade and other receivables declined

- Ongoing improvements in overseas inventory management with Gemalto

## Liabilities reduced 26%

- Income tax paid during HY16
- Lower pre-paid maintenance income as maintenance contracts mature

CONTINUING INVESTMENT TO DRIVE NEW REVENUE  
OPPORTUNITIES

# HY16 OPERATIONAL OVERVIEW

## Sales of encryptors remain the key revenue driver:

- Sales were 60% of revenue and maintenance fees were 40% of revenue in HY16.
- With the full benefits of the new contract with Gemalto now realised Senetas expects the balance between maintenance and sales revenue to be quite stable in future.

## Sales to corporates are continuing to grow as a percentage of total sales

- Government sales remain the majority of Senetas' sales but corporate sales, particularly in the North American market, are becoming increasingly important.

## New product development on track

- 100Gbps encryptor is the major focus and most advanced in its development.

## Certifications

- NATO certification for new products has recently been awarded.

## Technology partnerships

- Beginning to realise some small sales opportunities from the Avaya relationship.

# HY16 OPERATIONAL OVERVIEW

## Delays with the completion of key contracts

- Sales to key overseas government customers that were expected in HY16 have been delayed.
- The delayed sales are expected to be completed prior to 30 June 2016.
- Commercial sales were also impacted by only partial completion of a large contract that was expected to be completed pre 31 December 2015.

## Temporary sales disruption in HY16

- Gemalto integration of SafeNet has seen a significant restructuring of parts of the sales team.
- Integration is largely complete now and increased sales and marketing focus is expected in 2016.
- Senetas has been taking on a more proactive role in business development and sales throughout Europe and the USA.
- The Gemalto sales restructure has resulted in a significant increase in the number of sales people within the Gemalto division now responsible for the sale of Senetas products.

# RESEARCH & DEVELOPMENT UPDATE

## **Acceleration of R&D roadmap with all key new product development on track**

### **– 100Gbps encryptor**

- Development well advanced and customer testing commencing shortly
- The certification process is due to commence mid calendar 2016
- Expect to be released into the market and become revenue producing late in the first half of FY17

### **– Virtual encryption technologies**

- Multi-port encryptors with capability up to 10Gbps
- Development on track and will become available for customer testing late in the first half of FY17
- Expected to become revenue producing in the second half of FY17

### **– Custom algorithm products**

- Recently released to the market for testing
- Expected to become revenue producing in the first half of FY17

OUTLOOK REMAINS POSITIVE

## 5 KEY GROWTH DRIVERS REMAIN UNCHANGED

1. Accelerate growth in key high speed encryptor (HSE) markets in partnership with Gemalto to leverage their increased sales and marketing footprint
2. Develop new opportunities in low HSE penetration, markets such as India, Japan, Singapore, South America, Eastern Europe, France, Germany and Italy by working closely with Gemalto
3. New faster and 'high-density' products – market-leading encryptors that reflect emerging customer security needs – faster 100Gbps and 'high-density' (multi-port) platforms
4. New custom algorithm projects leveraging Senetas' unique electronics engineering capabilities and products – custom software toolkit to address unique requirements for other customers
5. New technology partnerships to expand the reach and capabilities of Senetas products – an agreement signed with Avaya in January 2015 will provide access to Avaya 'Fabric Connect' network technology and its large customer base around the world. We also have ongoing discussions with other technology partners



# SUMMARY AND OUTLOOK

- HY16 profit was below expectations however revenue continued to grow
- Delayed sales are expected to be completed before the end of FY16
- Senetas' recent capability improvement projects and R&D initiatives are on track and are expected to begin contributing to revenue growth during FY17
- Current expectations are that second half 2016 profit before tax will be similar to or slightly higher than the prior corresponding period which will result in a Net Profit Before Tax of approximately \$5m for FY2016
- Medium term profit growth to be driven by new product releases, increased sales and marketing focus, and a moderation of R&D expenditure as a percentage of revenue as the accelerated R&D roadmap is concluded

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