

ASX RELEASE

30 October 2020

Scout Security September 2020 Quarter Update and Appendix 4C

Home security provider Scout Security Ltd ((ASX: SCT), "Scout" or "the Company") is pleased to present its Appendix 4C - Quarterly Cash Flow Report for the period ending 30 September 2020 and an update on business progress.

During the quarter, Scout:

- **Signed a five-year Commercial Agreement with Prosegur**
- **Integrated its system with the Amazon Alexa Guard offering**
- **Was named by Amazon as a Guard Plus launch partner for its 2021 rollout**
- **Secured a \$2 million Convertible Note Facility, with recent drawdown to fund acceleration of progress with white label partners**
- **Appointed Martin Pretty as a Non-Executive Director of the Company**
- **Progressed product customisation work with Prosegur leading to their first Purchase Order in October**

Operational Highlights

Scout generated cash receipts of A\$0.90 million (US\$0.67 million) in the September quarter, an increase of 122% year-on-year ("YOY") from Q3CY19. The quarter's cash flow included:

- US\$485,000 in Development Fees (compared to \$83,342 YOY)
- US\$53,476 in hardware sales (compared to \$95,302 YOY)
- US\$129,913 in recurring revenues (compared to \$112,722 YOY)

Progress of Commercial Agreement with Prosegur and the White Label Business

In July, Scout announced it had entered into a five-year commercial agreement with its strategic partner and largest shareholder, multinational security company Prosegur Compañía de Seguridad, S.A. (BMAD: PSG, "Prosegur"). Under the agreement, Prosegur plans to launch and market new and innovative security products based on Scout's technology in an initial market this calendar year and then potentially in up to 26 of its global markets.

Scout's partnership with Prosegur forms part of the Company's white label program which sees Scout partner with well-resourced players in the security and connected home industries. This model allows Scout to leverage iconic branding, global distribution networks and unique product development capabilities to accelerate scalable growth of the Company's business. As such, the agreement gives effect to Scout's ambition to become a global home security platform supplier.

After the end of the quarter, Scout announced that Prosegur has placed its first purchase order for hardware through Scout, valued at US\$200,000. The parties remain on schedule to jointly launch Prosegur-branded hardware from Scout into their first target market this calendar year, subject to the delivery of hardware.



Integration with Amazon's Alexa Guard

In August, Scout announced it had integrated with the Alexa Guard offering by Amazon (NASDAQ: AMZN), its long-time partner and a Scout shareholder.

Alexa Guard uses Amazon Echo devices to detect the sound of glass breaking, smoke alarms and carbon monoxide alarms. Alexa Guard can send smart alerts when these sounds are detected and can be integrated with Scout Alarm for police dispatch when an alert is received. For consumers who have a Scout Alarm system with the Always On+ plan, the Alexa Guard system will send a signal to Scout's monitoring centre for dispatch. Scout's retail price for the Always On+ plan is US\$19.99 per month.

Named Amazon Alexa Guard Plus Launch Partner

The Company further announced in September that it was expanding the aforementioned Alexa Guard integration with the addition of Amazon's new Guard Plus feature set, which will launch in 2021.

Guard Plus will be an additional premium paid service available from the two companies. It will expand on the core Guard product with the ability to detect potential intruders such as footsteps and door closing; to deter intruders by playing audible sounds such as dogs barking; and emergency helpline access, allowing users to connect to emergency response agents in Scout's monitoring centre by saying phrases such as "Alexa, call for help".

In announcing the Alexa Guard Plus service, Amazon named Scout as one of a limited list of 2021 Guard Plus launch partners. The Guard Plus service will mark the first additional fee-for-service from Scout outside its current subscription plans.

Amazon and Scout will split revenue from Guard Plus subscriptions, marking the first additional fee-for-service offering from Scout outside its current subscription plans and the first time that Amazon and Scout will be sharing revenue. Amazon has set pricing for Guard Plus at US\$4.99 per month or US\$49 per year.

\$2 million Convertible Note Facility with Gleneagle

Scout in July entered into a \$2.0 million Convertible Note Facility with clients of Gleneagle Securities (Aust) Pty Limited and existing shareholders of the Company, including institutional and sophisticated investors ("Note Investors").

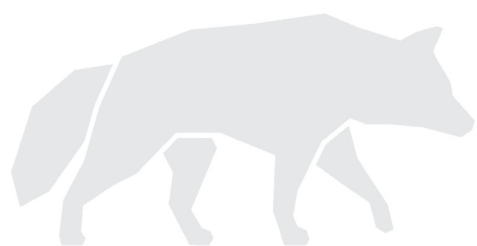
The Note's net proceeds will provide balance sheet support to fund growth initiatives. It is unsecured and allows the Company to minimise interest expenses by drawing funds only as it requires them. Scout drew \$750,000 in an initial instalment and has the option to draw subsequent instalments totalling \$1.25 million. Interest of 5% p.a. is payable on drawn funds, accruing daily and payable quarterly.

After Scout entered into the facility, in July the Company appointed experienced investment manager Mr Martin Pretty as a Non-Executive Director.

Financial Outlook

Scout continues to target the main goal of becoming consistently cashflow positive. A pipeline of new business, healthy monthly recurring revenue and the Company's development and support fees received this calendar year all provide confidence this is an achievable goal.

The Company continues to work with Stanley Black and Decker on active and planned programs of work, with certain programs delayed and such delays exacerbated by COVID-19. Scout is confident that it is in a solid position to continue towards an expanded program of works with SBD when the US retail sector fully reopens and believes SBD will want to capitalise on its investment to-date in its partnership with Scout.



The Company has been making advancements with numerous white label pipeline partner discussions. Scout believes it is still on track to announce a new white label program partner before the end of CY20. The Company also believes it has further opportunities heading into the new year.

The Company reported annual overhead of approximately \$2.7 million (US\$1.9million) in the June 2020 quarterly, and it is management's goal that recurring revenue alone grows to match this overhead by the close of FY22. As Scout adds new white label partners, overhead may grow to meet the demands of new programs, but the recurring revenue potential would be a multiple of any overhead added.

Strategic Outlook

Pandemic-related fear and uncertainty continues to be a dominant social and economic theme of 2020 and is driving increased sales of home security systems. The impact of COVID-19 on traditional retail is well documented. Scout's model of a delivered DIY solution is ideally suited to a continued shift towards online retail.

The Company notes that monthly US firearm-related background checks for gun purchases continue to set records, with the average monthly checks across the September quarter running at a rate 46% higher than Q1 FY20.

The 28.8 million gun background checks performed in the first nine months of 2020 has already surpassed the 28.4 million performed last year¹. These statistics indicate that Americans clearly remain deeply concerned for their personal safety, and as a business, Scout therefore has a positive outlook for growth in 2020 and beyond.

At the same time, businesses across a range of industries who have an interest in smart home integrations are increasingly engaging with Scout to design and provide turnkey, end-to-end security solutions to their end-users. Themes across pipeline discussions, such as interest from the telecommunications industry, have emerged. Telcos, for instance, already provide the connectivity that smart home security would leverage and is a natural add-on to existing services. With the dwindling adoption of physical phone lines, smart home devices offer the opportunity to brand a new product offering and match offerings already on offer by competitors.

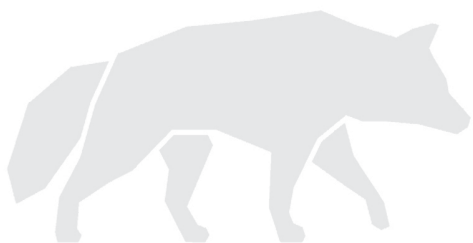
Scout Security co-founder and CEO, Dan Roberts, said:

"We have spent the quarter working aggressively to meet the tight go-to-market timelines for Prosegur as well as advancing negotiations with other potential white label partners. It has been a busy quarter, with some of the progress apparent in the form of Prosegur's initial purchase order announcement, and some progress we expect to be able to announce soon."

"Overall, I couldn't be more excited about where we're at with our white label business. The energy of the team is palpable, as we're now actively pulling in equipment for our first international deployment. As our existing relationships translate into new orders, market conditions have also enhanced our pipeline in ways that we couldn't have anticipated. Organisations across verticals are looking to contactless revenue streams, necessitated by the events of 2020. The core value of our white label security platform is just as apparent as it was when we started down this path and, seemingly, is expanding."

"We are excited by each new partner launch, but equally important is the work our team is doing behind

¹ https://www.fbi.gov/file-repository/nics_firearm_checks_-_month_year.pdf/view



the scenes with the marketing and sales teams at each partner organisation. We succeed when our partners are scaling. When Scout has partners deployed at scale, that is when we will be able to realise the step-change in recurring revenue that will propel the company forward.”

Payments to related parties and their associates

Payments for executive director fees for the quarter totalled \$33k which relates to executive remuneration, and \$45k for non-executive director fees.

Investor Webinar Presentation

On July 22, Scout CEO Dan Roberts held an Investor Webinar Presentation to update shareholders on the progress of the Company.

A recording of the webinar can be viewed by clicking on the link in the Company announcement released to the ASX on 20 July 2020.

An Appendix 4C follows.

This ASX release has been authorised by the Board of Directors of Scout Security Ltd.

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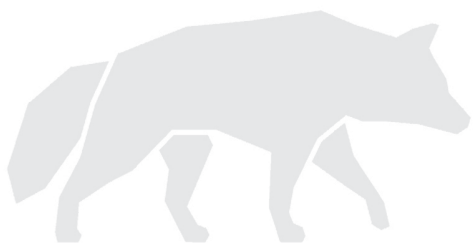
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About Scout Security Limited

Scout Security Limited (ASX: SCT) sells the Scout Alarm, a self-installed, wireless home security system that is making security more modern, open and affordable. Scout was named “Best App-Based Security System” in 2019 by US News and World Report.

Scout’s design-centric offering gives users complete flexibility around connected home security, allowing the system to integrate with other best-in-class IoT devices and offering flexible monitoring options.

Scout is an official partner of Amazon Alexa, Google's Assistant and Samsung SmartThings. Scout is also an Amazon Alexa Fund portfolio company.



Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Scout Security Limited

ABN

13 615 321 1189

Quarter ended ("current quarter")

30 September 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	899	899
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(473)	(473)
(c) advertising and marketing	(3)	(3)
(d) leased assets	-	-
(e) staff costs	(335)	(335)
(f) administration and corporate costs	(494)	(494)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(8)	(8)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(414)	(414)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(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 (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	731	731
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(77)	(77)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	654	654

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	62	62
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(414)	(414)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	654	654
4.5	Effect of movement in exchange rates on cash held	(13)	(13)
4.6	Cash and cash equivalents at end of period	289	289

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	289	62
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)	289	62

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	78
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify) Convertible Note facility	2,000	750
7.4	Total financing facilities	-	-
7.5	Unused financing facilities available at quarter end		1,250
7.6	<p>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.</p> <p>On 16 July 2020 the company entered into a convertible note deed to raise up to \$2M (Refer ASX announcement dated 16-Jul-20). An initial drawdown of \$750,000 has been completed. The term is 2 years, interest of 5% p.a. is payable on drawn funds, accruing daily and paid quarterly.</p>		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(414)
8.2	Cash and cash equivalents at quarter end (item 4.6)	289
8.3	Unused finance facilities available at quarter end (item 7.5)	1,250
8.4	Total available funding (item 8.2 + item 8.3)	1,539
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	3.7
	<i>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.</i>	
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

- 1 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: 30 October 2020

Authorised by: The Board
(Name of body or officer authorising release – see note 4)

Notes

1. 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.
2. 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.