

**ASX RELEASE**

29 October 2021

## Scout Security Quarterly 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 2021 and update on business progress.

### Highlights of the June Quarter

- **Quarterly cash receipts of A\$650k**
- **White label partner, Windstream, successfully launched Kinetic Secure Home in September**
  - **Scout will provide a business update on Monday, 1 Nov 2021 with results for first 2 months post launch**

Scout Security CEO, Dan Roberts, said:

*"We are pleased to present our September quarter results to shareholders. With over A\$2m in receipts across the June and September quarters, we are beginning to demonstrate Scout's potential to gain international scale. Hardware sales are a leading indicator for Recurring Monthly Revenue (RMR) growth and we feel we've positioned ourselves well this quarter and last to drive that RMR growth heading into the holiday season and for the balance of FY22. Having achieved first sales of Scout-powered white label products by a telecommunications carrier, we are now extremely focused on growing that program to forecasted scale.*

*"Our activity in the US telco market complements the Company's existing strategic partnership agreement with Prosegur's alarm division, through which Prosegur markets Qido-branded products into Peru, one of South America's largest consumer markets. DIY security will play a major role globally in the alarm and smart home industries. Having demonstrated our ability to deploy internationally, Scout's white label model has been validated for other potential international partner conversations. The upcoming launch of Prosegur's second country will further evidence our capabilities.*

*"Lastly, I would like to address cashflow timing. In the June quarter, the Company was essentially cashflow breakeven, while the September quarter shows large cash outflows. This is a function of timing cut-offs for hardware payments and is not a function of the business changing dramatically from quarter to quarter. Simply put, as we noted in the prior quarterly, we received payments in June from customers that weren't due to suppliers until the September quarter. This highlights that Scout actually achieved better-than-parity terms, which is a positive."*



## Financial Highlights

Scout generated cash receipts of A\$650k in Q1 FY22, predominantly from hardware sales to the Company's US telco partner. Receipts this quarter are down compared to last quarter due to supply chain strategy: namely, the desire of customers to pull forward inventory in the June quarter to create an inventory buffer and hedge against the global supply chain uncertainty which has been widely reported. The result is that Scout's clients will have ample inventory delivered for the holiday season.

The Company consumed A\$1.24m in operating cash during the quarter. This includes a payment of approx. \$500k, which as reported last quarter, represented payments for hardware supplied to Scout that the Company had sold to its customers in the previous quarter. This timing difference is evident in the delta in product manufacturing and operating costs between the June and September quarters. Adjusting for this factor, the Company's quarterly cash outflow was \$735k, which was consistent with Scout's average burn over the last 12 months.

To aid the assessment of Scout's cash flow dynamics, the Company provides the following analysis to look through timing differences in inflows and outflows that can create seasonal distortions through the middle of each calendar year.

Across the six month period of the June and September quarters, Scout generated A\$2.02m in cash inflows. Outflows in that period were A\$3.27m. This implies a quarterly cash consumption rate of approximately A\$625k.

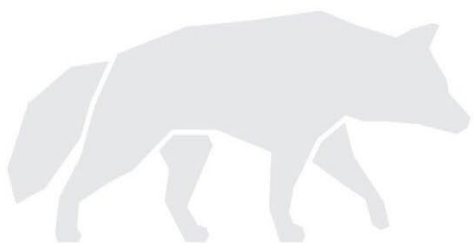
Subtracting product manufacturing and operating costs of A\$1.455m from cash receipts over the same period shows Scout having grossed A\$562k, implying gross margins of 28%.

With A\$703k of cash at bank as at 30 September 2021 and access to a \$1.25m working capital facility, we have more than three quarters of cash runway, ensuring surplus available liquidity for activities over the coming quarters. With sales through the Company's US telecommunications white label partner having increased over the course of the September quarter, current trends would extend this cash runway.

The Company has now issued notices to the providers of its working capital facility of its intention to draw \$500k of the working capital facility.

## Operational Achievements

In August, Scout announced that sales of Scout-powered products through Windstream, its first US telecommunications partner would commence in September, targeting approximately 10% penetration of their 1.4 million residential customer base in the medium term (18-24 months).



Scout is pleased to confirm that the launch did occur successfully, and that the Company intends to provide a business update on Monday 1 November, which will include results from the first two months of sales activity.

During the quarter, Scout was involved in ongoing marketing activities in Peru, alongside its partner Prosegur, while also preparing for the launch of Qido in a second market. The commercial partnership with Prosegur builds on Scout's existing relationship with the European security leader as a strategic investor in the Company. Work to roll out into the second country is completed as Scout anticipates an announcement from Prosegur on timing.

## Business Development Activities

Scout's white label sales team has, over the quarter, continued to develop the Company's white label sales pipeline with a heavy focus on closing opportunities prior to year-end. With Scout's new senior salesperson able to open doors, the Company is able to directly demonstrate its White Label Partner (WLP) experience and is uncovering a number of opportunities with a variety of potential partners in the telco, multi-unit dwelling and connected home industries. Scout has developed an extensive pipeline of projects in various stages of investigation and some in active contract negotiation.

The Company has also been exploring the potential for expansion into the Australian market, where Scout's research suggests there is opportunity for a high quality "locally supported / locally managed" security offering. Further announcements will be made as the Company continues to explore this expansion opportunity.

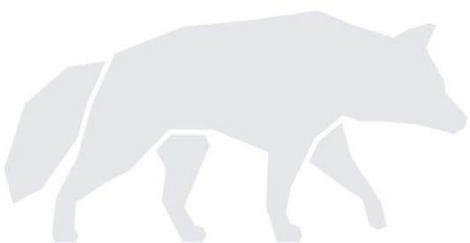
During the quarter, the Company also joined the Competitive Carriers Association (CCA), America's leading association for competitive wireless providers and stakeholders. CCA members range from small, rural carriers to regional and nationwide providers serving tens of millions of customers, as well as vendors and suppliers that provide products and services throughout the wireless communications ecosystem. The Company expects this membership to aid Scout's business development activities as its white label program continues to develop.

## Outlook

The Company has ambitious goals for FY22 and the market can expect announcements on the following:

- A business update on Monday 1 November, which will include results from the first two months of sales activity with the progress of sales by Scout's US telecommunications partner.
- Confirmation of the second Spanish-speaking Qido launch country, timing is subject to Prosegur.
- White label partner business development updates

It is a goal of the Company for RMR alone to balance monthly cash burn. This should be achieved in CY22. The Company currently has enough orders for cameras and kits from its



white label partners, that if all those units were sold into the market, the resulting boost to recurring revenue would allow Scout to achieve cash flow breakeven on an RMR-only basis.

While the macro environment continues to flex under the ongoing challenges thrown up by COVID-19, the market for app-based security systems remains robust, supporting the growth outlook for Scout.

## Corporate

### *Appointment of Chairman*

In August, the Company announced the appointment of Mr Martin Pretty as non-executive Chairman of the Board.

Mr Pretty has been a non-executive director of SCT since July 2020. He is currently the managing director of boutique investment firm, Equitable Investors, and a non-executive director of financial services group Centrepont Alliance (ASX: CAF) and technology communications company Spacetalk (ASX: SPA).

### *Investor Webinar Presentation*

In August, 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 at <https://nwrconference.webflow.io/>.

### *Statements pursuant to ASX Listing Rule 4.7C*

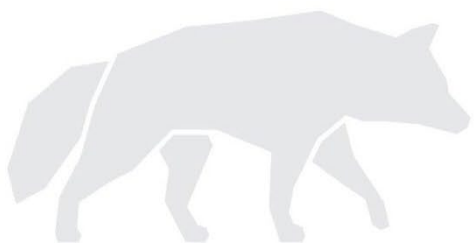
#### Statements pursuant to ASX Listing Rule 4.7C.1

Payments to related parties and their associates during the quarter totalled \$74k, \$25k of which relates to executive remuneration, and \$49k for non-executive director fees.

In reference to item 1.2(f) of the Appendix 4C, administration and corporate costs totalling \$516k were higher in the quarter, due to timing differences of cash payments where payments were made of \$120k in June creditor payments paid in the September quarter.

In reference to item 1.2(e) of the Appendix 4C, staff costs totalling \$432k were lower in the quarter, due to the timing of cash salary payments.

In reference to item 1.2(b) of the Appendix 4C, product and operating costs totalling \$911k were higher in the quarter due to the timing of purchases as explained under the heading 'Financial Highlights' of this announcement, relating to payments for hardware supplied to Scout.



The Company has today issued 'Draw-Down Requests' totalling \$500,000 in respect to an Unsecured Convertible Note Deed dated 16 July 2020, refer to the separate announcement dated 29 October lodged with ASX.

The Company retains sufficient funding to carry out its activities over the coming quarters.

An Appendix 4C follows.

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

**For more information, please contact:**

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**Tim Dohrmann**

**Investor and Media Enquiries**

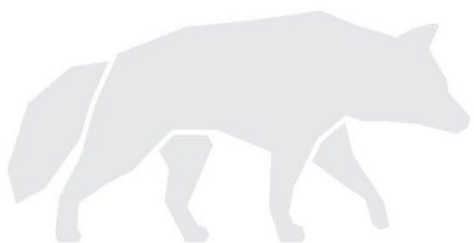
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**About Scout Security Limited**

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 (ASX: SCT)

ABN

13 615 321 189

Quarter ended (Current quarter)

30 September 2021

**Consolidated statement of cash flows**

	Current Quarter \$A'000	Year to date (3 Months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	650	650
1.2 Payments for:		
(a) research and development	-	-
(b) product manufacturing and operating costs	(911)	(911)
(c) advertising and marketing	(23)	(23)
(d) leased assets	-	-
(e) staff costs	(432)	(432)
(f) administration and corporate costs	(516)	(516)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(3)	(3)
1.6 Income taxes (paid) / refunded	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other: (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,235)</b>	<b>(1,235)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
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)	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>-</b>	<b>-</b>

<b>Consolidated statement of cash flows</b>	<b>Current Quarter \$A'000</b>	<b>Year to date (3 Months) \$A'000</b>
<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	-
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)	-	-
<b>3.10 Net cash from / (used in) financing activities</b>	-	-
<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of period	1,903	1,903
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,235)	(1,235)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5 Effect of movement in exchange rates on cash held	35	35
<b>4.6 Cash and cash equivalents at end of period</b>	<b>703</b>	<b>703</b>
<b>5. Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1 Bank balances	703	1,903
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details):	-	-
<b>5.5 Cash and cash equivalents at end of quarter</b> (should equal item 4.6 above)	<b>703</b>	<b>1,903</b>
<b>6. Payments to related parties of the entity and their associates</b>	<b>Current quarter \$A'000</b>	
6.1 Aggregate amount of payments to related parties and their associates included in item 1	74	
6.2 Aggregate amount of payments to related parties and their associates included in item 2	-	
Note: if any amounts are shown in items 6.1 and 6.2 your quarterly activity report must include a description of, and an explanation for, such payments		

<b>7. Financing facilities</b>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify):	2,000	750
<b>7.4 Total financing facilities</b>	<b>2,000</b>	<b>750</b>

<b>7.5 Unused financing facilities available at quarter end</b>	<b>1,250</b>
7.6 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.	

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. To date there have been conversions to ordinary fully paid shares totaling \$37,500. Subsequent to the 30 June quarter there was a further conversion of \$75,000.

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 <b>Net cash from / (used in) operating activities</b> (Item 1.9)	(1,235)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	703
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)	1,953
8.5 <b>Estimated quarters of funding available</b> (Item 8.4 divided by Item 8.1)	1.6

*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.*

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

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:

Yes

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:

The Company has today issued 'Draw-Down Requests' totalling \$500,000 in respect to an Unsecured Convertible Note Deed dated 16 July 2020, see separate ASX Announcement dated 29 October 2021.

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:

Yes, as explained in item 2 above, an additional \$500,000 has been requested to be drawn down under the existing Unsecured Convertible Note Deed to fund any working capital timing differences between sales revenues and product manufacturing and operating costs.

*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: Friday, 29 October 2021

Authorised by: By the Board of Directors  
(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 – e.g. 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.