

Scout Security (ASX: SCT) is a white label security-as-a-service platform and product suite powering recurring revenue for some of the largest security, internet service and telco providers in the world.



ASX RELEASE

31 January 2023

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 31 December 2022 and update on business progress.

Highlights of the December Quarter

- **Cash inflows of AU\$301k in Q4 CY22, including monthly recurring revenue (MRR) which increased by 10% quarter-on-quarter**
- **Recurring monthly revenue streams now total AU\$1.11 million in annualised recurring revenue (ARR)**
- **Telco rollout continues to gather momentum running at ~500 monthly net new customer adds with additional sales channels activating imminently**
- **Encouraging progress under the Statement of Work signed with Lumen Technologies, Inc ((NYSE: LUMN) "Lumen"), a US\$5.5bn market cap, Fortune 500 full-service US telco with 5 million broadband subscribers and US\$20bn in annual revenue**
- **Successful placement of Rights Issue shortfall, with the issue raising A\$1.38 million before costs**

Financial Highlights

Scout generated quarterly cash inflows from operations of AU\$301k, and total revenue of \$498k, primarily through monthly service and white label development fees. Inflows across the quarter remained skewed towards monthly recurring revenue (MRR) which totalled \$278k, having increased by 10% compared to Q3 CY22.

Growth in Scout's MRR reflects sell-through and activation of Scout-powered security systems, through both the Company's own sales channels as well as its white label partners. Over time, growth in MRR also decreases the significance of hardware purchase orders to the Company's cash flows.



As at 31 December 2022, the Company's annualised recurring revenue (ARR) was \$1.1 million. Although Scout's sales partnership with smart home device and service provider Zego has now concluded, the Company is executing a plan to acquire former Zego customers who retain familiarity with Scout's products and services via a joint referral agreement signed in January 2023.

In December, Scout announced the successful placement of the shortfall from its Rights Issue which had been announced on 7 September 2022.

The Rights Issue offered eligible shareholders registered on the record date the ability to subscribe for 1 new share for every 4 shares held at an issue price of \$0.03 per share, plus 1 free attaching option for every 2 shares subscribed for, to raise a maximum of \$1.38 million through the issue of 46.1 million shares (New Shares) and 23.05 million free attaching Options.

The issue raised A\$1.38 million before costs, net proceeds of which will be used to support the Company's working capital as Scout continues to scale up its home security platform rollout via white label partners, notably including its recently-added Fortune 500 partner, Lumen Technologies Inc. (NYSE: LUMN).

The Company held cash at bank of \$648k as at 31 December 2022, with cash on hand increasing by approximately \$164k over the prior quarter.

Operational Achievements

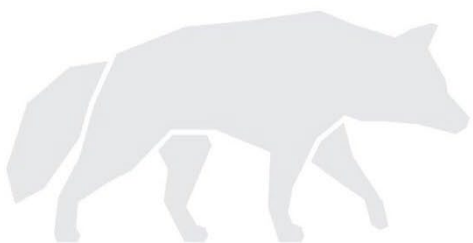
During the quarter, US sales of the Scout-powered white labelled telco home security solution continued to develop. The Company's first US ISP white label partner, Windstream, continues to add 500 net new customers monthly while it is developing an e-commerce solution with a launch date targeted for Q3 FY23.

During the quarter, Scout continued to execute its Statement of Work with Lumen Technologies, Inc ((NYSE: LUMN) "Lumen"), which constitutes the largest expansion in Scout's white label partner group to date. Lumen is a US\$5.5bn market cap, full-service US telco with 5 million broadband subscribers, adding 20,000 new broadband subscribers monthly, and US\$20bn in annual revenue.

During the quarter, Scout and Lumen executed on the complete mobile application design as well as the build out of the API infrastructure. The parties mutually agreed on an expanded scope of work in December 2022 that will yield an additional A\$76k revenue to Scout.

Scout expects to launch the smart security and control platform under Lumen's brand in the first half of CY2023, with recurring revenues to follow.

Lumen represents the largest addressable subscriber base of any Scout channel partner to-date in its growing US telco partner group. Scout's medium-term goal is to penetrate 10% of Lumen's 5 million subscriber base and 10% of new monthly subscribers.



Also during the quarter, Scout announced plans to launch its home security platform into Australia via Amazon.com.au. Amazon is a Scout shareholder and long-time partner of the Company.

The launch commenced in late October with Scout's indoor and outdoor HD cameras. The launch price of A\$59.99 per camera includes 1 month of free video cloud storage. Pricing for 14-day cloud storage has been set at A\$5 per month, with all storage revenue flowing to Scout.

Scout's Amazon.com.au launch is only the first step towards the Company entering the Australian market. Discussions continue with Australian internet service providers (ISPs) and value-added resellers (VARs) to bring Scout's Security-as-a-Service platform to Australia.

Corporate

In December, Scout advised that Mr Sol Majteles would retire from his office of Non-Executive Director with effect from 31 December 2022. Mr Majteles has indicated that he intends to remain a major shareholder and will be available to support the efforts of management and the Company to deliver shareholder value.

Outlook

Scout continues to gain scale and remains poised for significant growth in 2023. The Company has ambitious goals for the year ahead, expecting further growth in sales through Scout's US telecommunications partner and progress on its pipeline of potential white label partners.

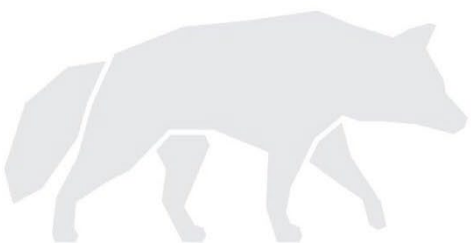
It is a goal of the Company for MRR alone to balance monthly cash burn and, based on the current rate of monthly telco adds, the Company is well on its way to achieving that goal. The Company currently has enough orders for cameras and kits from its white label partners, that if all those units were sold into the market, the resulting boost to recurring revenue would allow Scout to achieve cash flow breakeven on an MRR-only basis.

The market for app-based security systems remains robust, with greater than 50% of all home security systems being self-installed, supporting the growth outlook for Scout.

Scout Security CEO Ryan McCall, said:

"As we transition into 2023, Scout is in the most favourable position to deliver explosive growth during its history on the ASX. Our pipeline of potential new white label customers is larger than ever, and the motion sense security offering we are developing with Lumen is the future of home security. We continue to build essential partnerships, such as that with Zego, while looking at all avenues to further increase the speed at which our revenue grows."

"We continue to see industry validation that smart security is one of the most compelling extensions of the telco core, and based on the successes we're seeing with our first US partners, we have good reasons to hold a positive outlook for growth in the year ahead. To deliver this growth, the capital raising activities that we finalised during 2022 have provided us with solid foundations to gain scale and grasp the exciting opportunities in front of us."



Statements pursuant to ASX Listing Rule 4.7C.1

Payments to related parties and their associates during the quarter totalled AU\$256k, relating to executive remuneration and non-executive director fees.

Quarterly expenditure was in line with internal budgets and was focused on these areas:

- In reference to item 1.2(f) of the Appendix 4C, administration and corporate costs totaling AU\$408k were higher than the previous quarter due to higher than average legal fees and bringing a larger amount of accounts payable current.
- In reference to item 1.2(e) of the Appendix 4C, staff costs totaling AU\$601k were higher than the previous quarter due to the Company expanding its customer service team to meet the increase in customers from its white label partners.
- In reference to item 1.2(b) of the Appendix 4C, product manufacturing and operating costs totaling AU\$796k were higher than the prior quarter due to payment delivered to Scout's key camera supplier for 10,000 cameras to be sold by the Company to consumers and partners.

The Company retains sufficient funding to carry out its activities over the coming quarters based on current cashflow funding initiatives as described elsewhere in this report.

An Appendix 4C report follows.

This ASX release has been authorised by CEO Ryan McCall and Executive Director Dan Roberts of Scout Security Ltd.

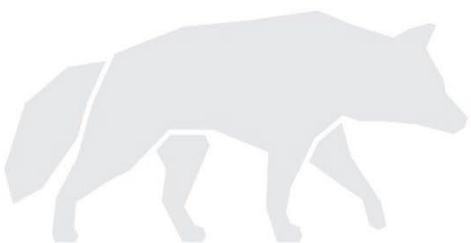
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About Scout Security Limited

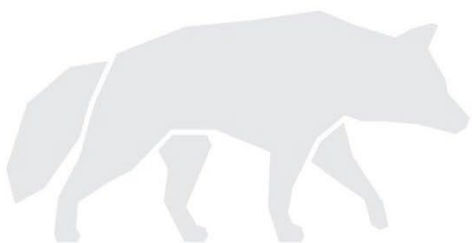
Scout Security Limited (ASX: SCT) is a white label security-as-a-service platform and product suite powering recurring revenue for some of the largest security, internet service and telecommunications providers in the world. Scout's simple and affordable DIY approach puts



security within reach for millions of residential homes, small-to-medium businesses and multi-tenant buildings.

Scout was recognised as one of Forbes' "Best Home Security Companies of 2022" and was named "Best for Custom Notifications and Alarms" in 2021 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 and Google's Assistant. 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")

31 DECEMBER 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 Months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	301	679
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(796)	(1,147)
(c) advertising and marketing	(14)	(49)
(d) leased assets	-	-
(e) staff costs	(601)	(1,100)
(f) administration and corporate costs	(408)	(730)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(18)	(38)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	393	393
1.9 Net cash from / (used in) operating activities	(1,143)	(1,992)

Note to 1.8: Received from US Government for employee retention credit.

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	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 Months) \$A'000
	(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)	-	-
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)	1,380	2,310
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	(65)	(121)
3.5	Proceeds from borrowings	-	274
3.6	Repayment of borrowings	-	(63)
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	1,315	2,400

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	484	237
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,143)	(1,992)
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 (6 Months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,315	2,400
4.5	Effect of movement in exchange rates on cash held	(8)	3
4.6	Cash and cash equivalents at end of period	648	648

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	648	484
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)	648	484

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	256
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<p><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></p> <p>Note to 6.1: Salaries and Director fees to directors.</p>		

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	1,033	1,033
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	1,475	1,475
7.4	Total financing facilities	2,508	2,508
7.5	Unused financing facilities available at quarter end		0
	<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>7.3 On 16 July 2020, the company entered into a convertible note deed to raise up to \$2M (Refer ASX announcement dated 16 July 2020). During the March 2021 quarter, the Company secured a new Convertible Note Facility to raise \$450k on the same terms as the existing facility.</p> <p>A total drawdown of \$1,475,000 has been completed. The term matures on 31 December 2023, interest of 5% p.a. is payable on drawn funds, accruing daily and paid quarterly. As of December 31, 2022, there have been conversions to ordinary fully paid shares totally \$112,500. The draw down period of 18 months has since expired and no further funds are available from the facility.</p> <p>In the June 2022 quarter, the company entered into a \$400,000 USD secured debt loan deed. The loan matures 730 days after Commencement date; interest of 7% p.a accrues daily and is paid quarterly.</p> <p>Also, in the June 2022 quarter, A short-term loan on future recurring revenue was entered into the amount of \$43,200 USD. 20% of future recurring revenue is applied against the principal of the loan. At the end of December 2022 quarter, balance on loan was \$9,485 USD.</p> <p>In the September quarter, the company entered into a \$274,406 AUS secured debt loan deed with the Founder, CEO, and Chairman of the Board. The loan term is 2 years with an interest rate fixed at 10% p.a.</p>		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,143)
8.2	Cash and cash equivalents at quarter end (item 4.6)	648
8.3	Unused finance facilities available at quarter end (item 7.5)	0
8.4	Total available funding (item 8.2 + item 8.3)	648
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	0.57
	<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: Yes, the company expects an improvement in net operating cash flow in the short term as it has significant accounts receivable above normal cash flows due in the current quarter. The quarter ending 31 December 2022 also had higher than usual cash expenditures due to hardware purchases and reduction of outstanding accounts payable. These are not expected in future quarters.

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: Yes, the Company is currently engaged with its corporate advisor and is holding discussions with investors both in the US and Australia in relation to opportunities to raise further capital, including non-dilutionary capital to fund its operations until such time that it achieves consistent positive operating cash flow.

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: Yes. As set out in 8.6.1, the Company expects improved operating cash flow in the current quarter to support the pursuit of its business objectives.

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.

31 January 2023

Date:

Board of Directors

Authorised by:
(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.