

ASX RELEASE

25 January 2018

## Scout Security December Quarter Update and Appendix 4C

### Highlights:

- Scout achieved December quarterly revenue of \$697,291<sup>\*</sup>, increasing 124% quarter-on-quarter in the Company's first full quarter since listing on the ASX
- Scout earned cash receipts for the quarter of \$317,992, an increase of 11% quarter-on-quarter (normalised)
- Annualised recurring monthly revenue (RMR) has grown by 37% year-on-year as Scout continues to ramp up hardware sales and services revenue
- First purchase orders from Amazon processed since IPO completion, with Scout receiving additional POs weekly
- Zego (formerly CasalQ) orders another 1,000 smart home security hubs from Scout for the 18.8 million unit US apartment community channel, bringing total orders from Zego to more than 2,000
- Scout launches the first-ever DIY security system to the US\$23 billion alarm dealer network, followed by executing a resale deal with the largest US alarm monitoring provider, COPS Monitoring
- Scout signs deal with retail growth consultant Scale2Shelf to accelerate entry into US brick and mortar retail
- Partnership agreed with leading smart lock product Yale Real Living to offer integration and add to hardware sales
- Scout set for launch of 1080p camera release and new DIY verified video solution for home security in Q1 2018
- Cash balance of \$1.8 million as at 31 December 2017, having raised \$1.6m in an oversubscribed share placement during the quarter
- Directors have participated in the share placement of a further \$0.15m subject to shareholder approval

Home security provider Scout Security Limited ((ASX: SCT), "Scout" or "the Company") is pleased to present its Appendix 4C — Quarterly Cash Flow Report for period ending 31 December 2017 and an update on business progress.

<sup>\*</sup> Unaudited



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

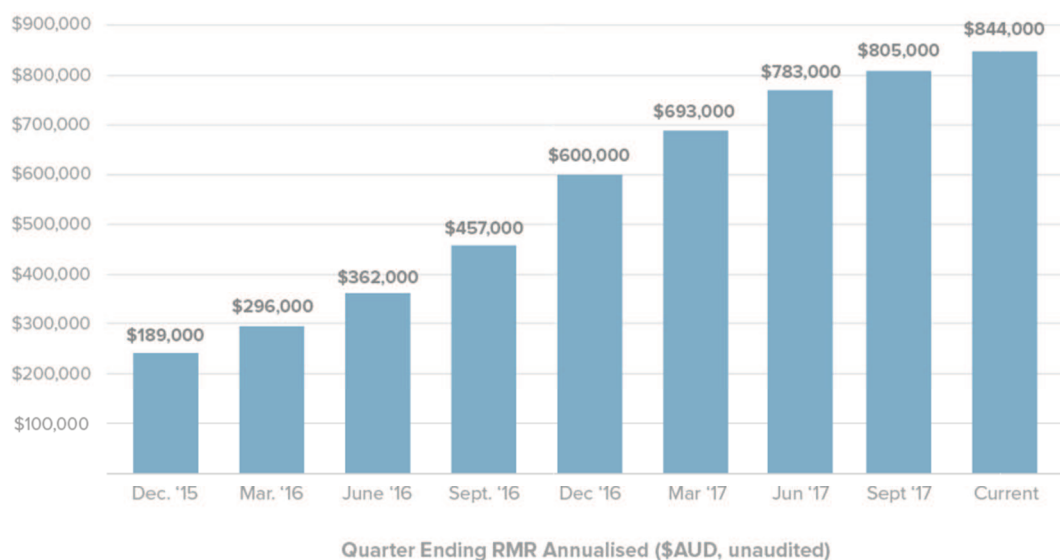
*"We doubled revenue quarter-on-quarter in Scout's first quarter post-IPO. This underscores the potential we have described of the Scout business, and is a great indicator of the growth potential ahead of us.*

*"The busy holiday selling season was a successful one for Scout, and could have been bigger had inventory arrived earlier in the quarter. Our renewed marketing push is gaining traction with consumers after we replenished our stock with our key partner Amazon during the quarter.*

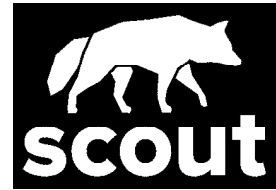
*"We are pleased to see our sales continuing to ramp up across our direct channels as well as through our distribution partners. We expect to deliver strong and sustainable growth in hardware and services revenue as we penetrate deeper into the home security market in 2018."*

## Operational Highlights

The following chart shows the consistent growth in high margin recurring monthly revenue (RMR) as system sales continue to expand.



Growth in system sales are Scout's best leading indicator of recurring revenue increases to come. Customers purchasing systems are likely to install within 30 days. When the



Scout system is installed, the US\$10 or US\$20 monthly subscription plan is activated, and the Company grows its base of recurring revenue.

Establishing and activating reseller partnerships in complementary verticals, including providers of insurance, utilities and connected home services will boost growth in system sales and recurring revenue.

Having achieved strong sales in December, Scout has been adding recurring monthly revenue at an increased rate over the course of January.

Cash receipts for the quarter were \$317,992, an increase of 11 % quarter-on-quarter (normalised).<sup>1</sup> Scout was not fully in stock during the quarter, which impacted cash receipts. The company is now in stock and well-positioned to meet growing demand.

*Sales growing through Amazon, key distribution partner and top-10 shareholder*

During the December quarter, Scout's first shipment of hardware purchased through funds raised through its IPO arrived in the US — allowing Amazon's online Scout store to restock its products. The Company is pleased to advise that strong demand has seen Amazon sell through the initial orders on its marketplace, and Scout continues to receive purchase orders on a weekly basis from Amazon.

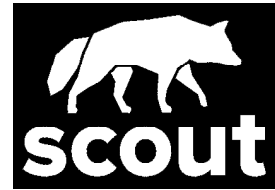
It is important to note that quarterly sales through the Amazon channel were limited given inventory arrived mid-December. No cash has been received from Amazon this quarter as the purchase orders allow for net 30 terms. The Company expects Amazon to contribute meaningfully to revenue and cash receipts going forward.

The arrival and restocking of Amazon has enabled Scout to commence marketing on the Amazon AMS platform, which is the equivalent of Google's pay-per-click platform within the Amazon marketplace. This is an important additional channel for Scout as it grows overall marketing efforts in 2018.

Scout is an Amazon portfolio company, an official integration partner of Amazon Alexa, a user of Amazon AWS, Amazon AMS and a vendor on the Amazon marketplace.

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<sup>1</sup> Scout's Q1 cash receipts as reported in the Appendix 4C on 31 October 2017 were \$440,000. This captured only 5 of the 13 weeks in the quarter, being the period following Scout's ASX listing. On a normalised basis, Scout earned cash receipts in Q1 of \$286,256, after adjusting to capture the full September quarter and stripping out the positive impact of reseller deals, the timing of which boosted cashflow in Q1 and revenue in Q2.



Amazon remains a deeply strategic partner for Scout and a core piece of the expansion of Scout's business.

Amazon remains a top five Scout shareholder and a strategic channel partner. Scout is working closely with Amazon to maximise its penetration into Amazon's massive customer base.

#### *Launch of DIY system into alarm dealer network*

In November, Scout announced the launch of a DIY security solution and product suite targeting the network of 13,000 alarm dealers in the United States, a market worth more than US\$23 billion per year.

The new product suite combines Scout's proprietary technology platform with third-party hardware that is functionally similar to Scout's direct-to-consumer offering. By leveraging third-party hardware, Scout allows dealers to offer a DIY security product that provides flexibility on branding and pricing of the hardware and security services in their local markets. This enables dealers to sell Scout's new product suite and avoid channel conflict with Scout's direct-to-consumer offering.

Dealers will buy both the hardware and software offering through Scout. Scout will offer a brand that the dealers can utilise, or the dealer can choose to use their own branding on the hardware and software for a fee.

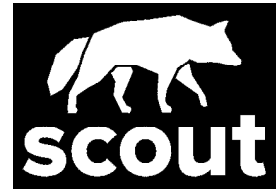
The Company has engaged with and will activate initial dealers and monitoring centres in the current quarter, ahead of key marketing opportunities at the international security conference, ISC West, in Las Vegas in April 2018.

#### *Resale deal with COPS Monitoring*

Scout announced in November the signing of a resale deal with COPS Monitoring to resell Scout's newly-launched DIY product suite to its network of 3,500 alarm dealers.

COPS is the largest independent security monitoring centre in the USA, having been in business since 1978 and now has more than 2.4 million home security accounts under management.

Scout has been working with COPS for the past four years, providing monitoring for COPS' direct-to-consumer offering.



The resale agreement with COPS will see Scout gain access to consumers who may prefer to buy through a local, trusted dealer and significantly shortens Scout's sales cycle, accelerating the Company's time-to-market for its new product suite. The resale deal leverages COPS' dealer relationships and will see Scout's product suite offered to a massive base of dealers simultaneously, saving Scout from having to strike partnerships with individual dealers.

Alarm dealers will be able to order hardware and services from Scout through COPS. In addition to up-front hardware revenue, Scout will bill for interactive services on a per account-per-month basis, providing a boost to the recurring revenue stream the Company has grown over the past two years.

Scout expects sales from this channel to commence in Q3 2018.

#### *New order from Zego (formerly CasalQ)*

Scout recently received an order for 1,000 hubs from Zego (formerly known as CasalQ), a leading US provider of smart home device and service packages to apartment residents and apartment block managers.

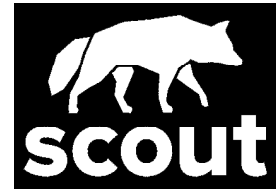
This purchase order is a key milestone in the partnership announced on 16 October 2017 for Scout and Zego to maximise market penetration in the 18.8 million unit multifamily/apartment dwelling channel in the US.

Zego has now ordered more than 2,000 Scout hubs and remains on target to deploy 5,000 to 10,000 systems in the first 12 months of the sales partnership in October 2017.

#### *Push into brick and mortar retail*

During the quarter, Scout signed a deal with retail growth consultant Scale2Shelf to accelerate the placement of Scout's self-installed home security products into the brick and mortar retail channel.

Scale2Shelf is part of the Sprosty Network, formed by a team of highly experienced former senior merchant executives who have built multi-billion-dollar retail categories through strong relationships and potential sales representation into brick and mortar retailers across the US.



The brick and mortar retail channel in the US accounts for nearly 90% of retail sales, or about US\$4 trillion each year. Except for Amazon, where Scout has an existing sales presence, top 10 US retailers are primarily physical chains.

Scale2Shelf will be Scout's exclusive sales representative for placement into brick and mortar retailers in the US. The Scale2Shelf team working with Scout comprises industry veterans with experience at Scout's target retailers such as Walmart, Best Buy, Home Depot, Target and Costco.

Scout has established a targeted list of retailers and is actively working with Scale2Shelf on mapping the Scout products for retailer-specific assortments.

At the recent CES consumer electronics trade show in Las Vegas, Scout refined its brick-and-mortar positioning and go-to-market strategy with Scale2Shelf, attracting several potential retail business development opportunities among CES' nearly 200,000 attendees and 4,000 exhibiting companies. Scout is hopeful of striking a deal with a brick-and-mortar retail group in H1 CY18, which would bring the potential to significantly boost both hardware sales and recurring revenue.

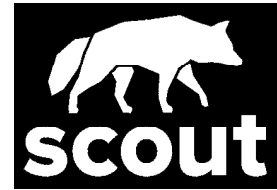
#### *High definition 1080p camera set for launch*

In December, Scout confirmed plans to launch its high definition 1080p Scout camera into the market in Q1 2018.

The highly-requested and much-anticipated camera line includes key features:

- high-definition 1080p video
- two-way audio
- built-in infrared for night vision
- sleek, modern design





Scout believes it is the first ever DIY home security company to offer verified video in a DIY camera plan, which will enable camera users to opt into verified video, giving permission to Scout's monitoring centre to verify an event for the police through video camera footage. A verified event, as opposed to an unverified event, from the monitoring center will result in immediate and highly prioritised police response.

Verified video also reduces false alarms which minimises cost for customers, Scout, the Company's professional monitoring centre and local police departments. The release of Scout's camera line further builds on the customisation and flexibility of the Scout system.

Scout's camera line will be sold direct-to-consumer under the Scout brand, but the Company plans to leverage technology for Scout's white-label line of products aimed at the security dealer channel.

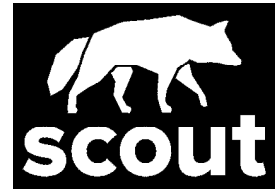
The first batch of cameras are currently in mass production, which should facilitate sales through Scout's newly-refined shopping flow in the current quarter.

#### *Partnership with smart lock manufacturer*

Scout launched an integration with ASSA ABLOY's Yale Smart Living line of connected smart locks during the quarter. Yale's smart locks provide users with the ability to lock and unlock home doors remotely, and offer the ability to synchronise door locking and unlocking with Scout security modes.



Scout customers will be able to integrate Yale Smart Living locks with Scout's direct-to-consumer home security offering as well as the Company's white label suite of products.



Sales of the smart lock on the Scout website are expected to commence in the current quarter, adding to the Company's growing hardware revenue and offering a further level of customisation to the Company's customer base.

## **Cost Management**

Each hardware system sale is profitable for Scout, with margin, and leads to the addition of high-margin recurring revenue.

As the Company's September quarterly report indicated, from time to time business growth calls for bulk outlays of cash for inventory. That cash returns to the Company in the form of hardware sales, plus margin. To fund near-term business growth, the Company intends to revolve cash as inventory is sold through to order additional inventory. In that way, while cash outflows may appear large in one quarter, cash inflows from sales in the following quarter represents that money flowing back into the Scout business, with margin. As this continues, each new subscriber adds to Scout's growing total of high-margin recurring revenue.

Of the cash-outflows directly related to inventory orders in this quarter, \$0.65m remain with the suppliers as componentry parts.

With these highly scalable economics, Scout's headcount remains unchanged quarter-on-quarter, and the Company does not see any major expansions in this area in the near future. As such, the current team expects to drive increased hardware sales and recurring revenue without seeing any significant increases in overhead.

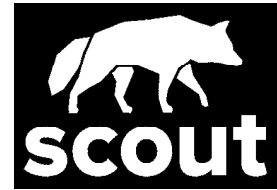
## **Corporate**

### *Oversubscribed share placement*

In December, Scout announced it had received binding commitments to raise \$1.75 million (before costs) in an oversubscribed placement of 5,833,334 shares to sophisticated and institutional investors at \$0.30 per share (this includes the directors commitments).

The Company received overwhelming demand from new institutional investors, as well as strong support from many existing shareholders, including \$150,000 from Directors (subject to shareholder approval). On this basis, the Company's Board of Directors





elected to increase its original target by accepting oversubscriptions to raise \$1.75 million.

Net proceeds of the capital raising will support investment in Scout's hardware, which is the vehicle to deliver the Company's powerful software and services platform into the connected home. This will primarily expedite the inclusion of the HD camera into Scout's home security product suite.

## **Outlook**

Coming off a successful week at the Consumer Electronics show, the Scout team has a full pipeline of new initiatives and partnerships that they expect to come to fruition in 2018, in addition to growing the Company's direct-to-consumer business with the continued marketing push. Having achieved a doubling of revenue quarter-on-quarter in the Company's first full quarter since publicly listing on the ASX, Scout has highlighted the potential of the business for strong, sustained growth over the course of 2018.

The Company is focused on delivering into demand which is anticipated to rise into the June quarter, which is the prime US home moving season. Most US 12-month home leases start or stop midway through this quarter. Scout has identified a significant near-term opportunity to address home movers directly during this key purchasing period.

Building on the interest in Scout's white label product offering, the Company expects to drive sales growth through additional uptake from leading security monitoring centres, alarm dealers and enterprise partners across the USA.

As the smart home – and specifically smart home security – market continues to grow and mainstream consumer adoption spreads, Scout believes it is well-positioned to capture its share of both direct-to-consumer purchases and enterprise partnerships. The end result of uptake for both product lines is a growth in high-margin recurring monthly revenue.

In addition to white label hardware opportunities, the Company continues discussions with partners about Scout's monitoring-as-a-service product offering. As more enterprises enter the smart home space, the ability of Scout to unlock recurring revenue on top of those offerings, without the partner having to be an alarm dealer themselves, is powerful. These partnerships would allow Scout to gain high-margin monthly recurring revenue without having to sell hardware.



In 2018, the Company anticipates unveiling additional new smart security devices that round out the Scout lineup and embed the Company in the mind of the mainstream, smart home device buyer. The Company will be evaluating these devices, in addition to the core Scout lineup, as potential offerings not only in the US market, but also with an eye to expand internationally.

The Company's cash balance at 31 December 2017 was \$1.8 million.

Appendix 4C follows.

**For more information, please contact:**

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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. In 2016, the Scout system was recognised by CNet as one of the Best Smart Home Devices of the year.

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 Works With Nest and Samsung SmartThings. Scout is also an Amazon Alexa Fund portfolio company.

[www.scoutalarm.com](http://www.scoutalarm.com)

**Scout Security Limited (ACN 615 321 189)**

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## Appendix 4C

# Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

Scout Security Limited

**ABN**

13 615 321 1189

**Quarter ended ("current quarter")**

31 December 2017

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000s</b>	<b>Year to date* \$A'000s</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	318	758
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(1,811)	(2,954)
(c) advertising and marketing	(60)	(66)
(d) leased assets	-	-
(e) staff costs	(407)	(610)
(f) administration and corporate costs	(455)	(695)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	2
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (US Consulting & Professional costs in relation to the acquisition of Scout Security Ltd)	(260)	(260)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(2,674)</b>	<b>(3,825)</b>

Consolidated statement of cash flows	Current quarter \$A'000s	Year to date* \$A'000s
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	(402)
2.4 Dividends received (see note 3)	-	-
2.5 Other (Cash acquired on acquisition))	-	156
<b>2.6 Net cash from / (used in) investing activities</b>	<b>-</b>	<b>(246)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	1,600	6,911
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	(106)	(1,186)
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>1,494</b>	<b>5,725</b>

Consolidated statement of cash flows	Current quarter \$A'000s	Year to date* \$A'000s
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\* The operations of Scout Security Inc are reflected from acquisition date of 22-Aug 2017

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of quarter/year to date	2,995	161
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,674)	(3,825)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-	(246)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	1,494	5,725
4.5 Effect of movement in exchange rates on cash held		
<b>4.6 Cash and cash equivalents at end of quarter</b>	<b>1,815</b>	<b>1,815</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	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	1,815	2,995
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
<b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,815</b>	<b>2,995</b>

**6. Payments to directors of the entity and their associates**

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
87
-

Director Salaries – 45k  
Director fees – 42k

**7. Payments to related entities of the entity and their associates**

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000
-
-

-

**8. Financing facilities available**

*Add notes as necessary for an understanding of the position*

- 8.1 Loan facilities
- 8.2 Credit standby arrangements
- 8.3 Other (please specify)

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
-	-
-	-
-	-

- 8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

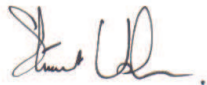
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<b>9. Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1 Research and development	-
9.2 Product manufacturing and operating costs	(500)
9.3 Advertising and marketing	(100)
9.4 Leased assets	-
9.5 Staff costs	(350)
9.6 Administration and corporate costs	(300)
9.7 Other (provide details if material)	-
<b>9.8 Total estimated cash outflows</b>	<b>(1,250)</b>

<b>10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	<b>Acquisitions</b>	<b>Disposals</b>
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

### 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.



Sign here:

(Company Secretary)

Date: 25 January 2018

Print name: Stuart Usher

**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.