

ASX ANNOUNCEMENT

# Syntonic December 2017 Quarterly Review

29 January 2018



**SYNTONIC CONFIDENTIAL**

**USA:**

Syntonic, Inc.  
119 First Avenue South  
Suite 100  
Seattle, WA 98104

**Australia:**

Syntonic Limited  
945 Wellington Street  
West Perth WA 6005

E: [ir@syntonic.com](mailto:ir@syntonic.com)  
ABN: 68 123 867 765  
ASX Code: SYT



## Syntonic December 2017 quarterly review and Appendix 4C

Syntonic is pleased to update the market on key achievements in the past quarter:

- 43% quarter-on-quarter growth and 2450% year-on-year growth in quarterly cash receipts from operations, with H1 FY18 revenues up 502% from year-on-year growth as the Company scales up monetisation of its Systems and Services businesses through global expansion
- The Freeway installed base increased to 25.3 million with 26% quarter-on-quarter growth that exceeded market guidance
- Freeway technologies preloaded on 12 new Android smartphones released during the quarter by LG, Motorola and Asus
- Two prestigious mobile industry award wins: the Best Mobile App Gold Award and Mobile Star Award for 'Best Money Saving App'
- Secured regional partnerships in five burgeoning smartphone markets – China, Vietnam, Turkey, Sub-Saharan Africa, and Mexico – to accelerate Syntonic's first-mover advantage and expedite revenue opportunities with carriers, consumers, and enterprises

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**Seattle, Washington – Syntonic Limited ("Syntonic" or "Company") (SYT.ASX)**, a leading mobile platform and services provider, is pleased to provide its Appendix 4C – Quarterly Cash Flow report for the three months ending 31 December 2017, with an update and overview of its business progress.

The Company continues to make gains across its two defined business units:

**Syntonic's Services Business:** The Company operates a direct-to-consumer business, Freeway by Syntonic®, and an upcoming B2B business, Syntonic DataFlex®.

Freeway has scaled up significantly in recent months as millions of smartphone users around the world have come to appreciate the Freeway value proposition:

- Sponsored content, where brands and content providers, pay for consumer mobile access as a cost-efficient means of customer acquisition and engagement; and

- Freeway Overpass™ brings consumers the cost savings and flexibility to purchase content plans with unlimited data access.

Syntonic DataFlex provides mobile split billing for employee smartphones, and offers the potential to significantly reduce enterprise mobile spending and increase workforce productivity. The Company has received significant in-bound interest in Syntonic DataFlex during the quarter, and the product is nearing market-readiness for launch and upcoming revenue generation.

**Syntonic's Systems Business:** This business unit licenses the Company's platform technologies to mobile carriers and service providers. The licensed technologies include the Syntonic Connected Services Platform™ ("Syntonic CSP"), the Freeway SDK™, and a white-labeled Freeway container application. The platform services enable a wide-range of app and content-centric business models, including sponsored data, zero-rated (unmetered), ad-supported and unlimited access content plans.

With worldwide carrier ARPU ("average revenue per user") in decline due to the commoditisation of mobile data, operators are seeking new means of revenue growth. The Syntonic Systems solution enables modern, differentiated revenue streams based on content offers, and is in commercial deployment today by the world's largest carriers, which includes Verizon Wireless and Tata Communications.

The Systems business has been instrumental in generating the revenue for the Company and growth in the Freeway global installed base.

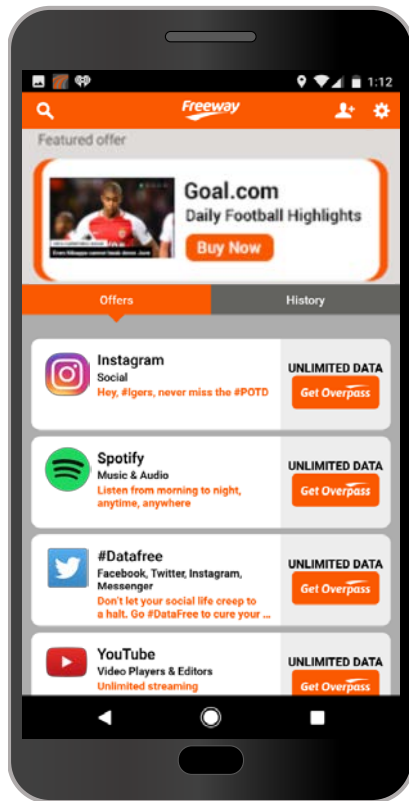
Syntonic CEO and Managing Director, Gary Greenbaum, said:

*"The investment we've made in our back-end systems' technologies continues to generate additional business opportunities with new and existing network partners and service providers. Syntonic is in a unique competitive position to offer white-labeled, carrier branded solutions based on our Freeway branded deployments to meet the industrial-grade demands of mobile carriers and aggregators. Syntonic's systems technologies are routinely stress-tested around the world for scalability, reliability, and availability, which ultimately bolsters our competitive position."*

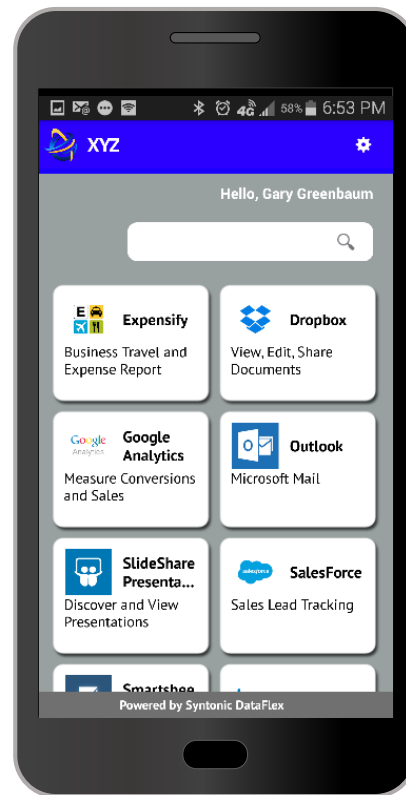
*"We are on the cusp of applying our connected content technologies to the Enterprise with Syntonic DataFlex. We're confident that the back-end investments we've made, and the commercial deployment of our systems position us well to earn immediate success."*

*"Syntonic looks forward to enhancing its track-record of originating and building partnerships in the mobile ecosystem which we intend to leverage as we open and grow new market opportunities."*

### Freeway by Syntonic



### Syntonic DataFlex

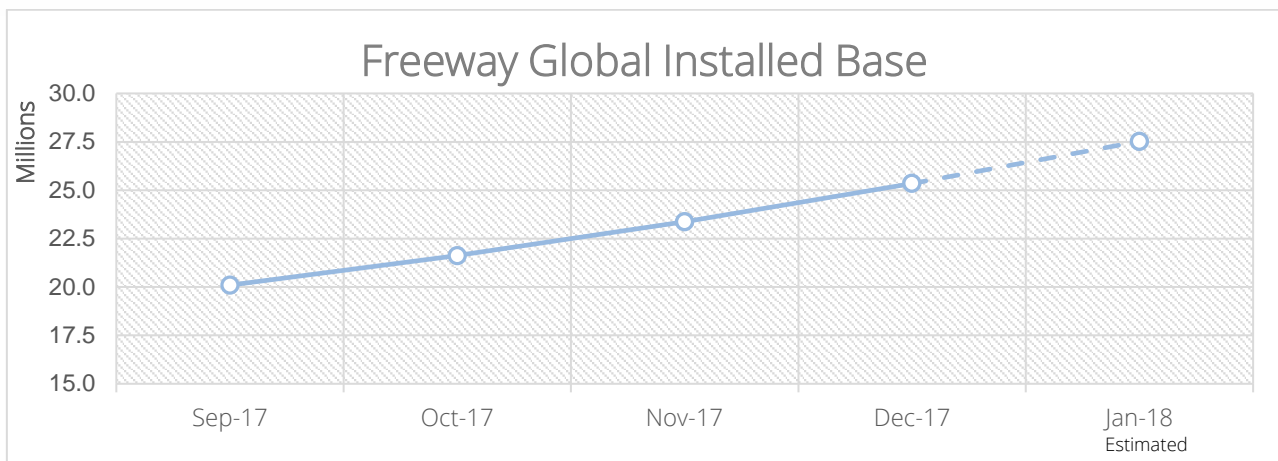


## Operational Highlights

### Strong growth in the Freeway global installed base

Syntonic's growth accelerated in December 2017 as the Company continued to broaden its consumer reach with the Freeway app and platform technologies.

The Company ended the quarter with Freeway technologies installed on more than 25.3 million unique smartphones in the U.S., Southeast Asia and Latin America. The Company exceeded its near term growth target having achieved installed based quarter-over-quarter growth of 26.1%.



Freeway's global installed base is a key metric representing the Company's future revenue opportunity. As activation and engagement continue to grow, the installed base end-points become increasingly monetisable for the Company, compounding value for consumers, carriers, brands, and investors.

The Freeway global installed base has predominantly grown during the quarter as a result of the Freeway SDK embedded within 12 new Android smartphones, and the broad geographical distribution of the Freeway app, which includes Freeway Overpass, the Company's most recent service in the U.S. market.

### **Secured valuable global reseller and channel partnership deals**

Syntonic formed five regional partnerships to accelerate the Company's path to market for both its Systems and Services businesses. These partners have proven records of accomplishment in bringing value-added services to mobile carriers and consumers.

Partnerships were established in China, Vietnam, Turkey, Sub-Saharan Africa, and Mexico, which collectively represent an addressable market of nearly 800 million smartphone users,<sup>1</sup> and are regions where Freeway's strong consumer value proposition coincides with extensive 4G network expansion and growing consumer smartphone adoption.

### **Material quarter-on-quarter and year-on-year growth in cash receipts**

As Syntonic continued to execute its commercialisation plans, the Company achieved quarter-on-quarter growth in cash receipts of 43% to \$449,446, with 2450% year-on-year growth in quarterly cash receipts from operations.

<sup>1</sup> Source: eMarketer, Sep 2016 reference forecasts by country for 2018



The Company recognised a half-annual (unaudited) revenue from operations of \$798,923, an increase of 502% from the same period last year.

Quarterly revenue reflects the seasonal contraction of the NFL Mobile service and the Company's deliberate throttling of Freeway offers in geographies that are solely supported by data rewards.

The NFL Mobile app has been the largest Freeway supported service on the Verizon network; however, it only reflects a single component of the broader Verizon mobile entertainment strategy. The growth of the Freeway installed base is indicative of the potential for Syntonic to benefit from Verizon's 2018 content strategy.

Revenue was impacted this quarter by Syntonic's decision to throttle its Freeway data-rewards offering, and to instead focus the Company's marketing investments on the higher margin revenue opportunities provided by Freeway's sponsored data and Overpass services. As a result, the reduction in data-reward revenue was partially offset by a decrease in customer acquisition costs in those regions where Freeway only support data-rewards. The Company is actively negotiating with carriers that only support Freeway data-rewards to enable a transition to sponsored data and Overpass services.

Syntonic expects to monetise Freeway in 2018 at levels materially above its current metrics as it continues to boost adoption of its technologies among carriers and consumers.

### **User Satisfaction Advancement**

Syntonic remains committed to continuously improve the consumer experience of the Company's products. The key tracked metric is customer satisfaction which is highly correlated to cost efficient customer acquisition, increased engagement, and enhanced retention.

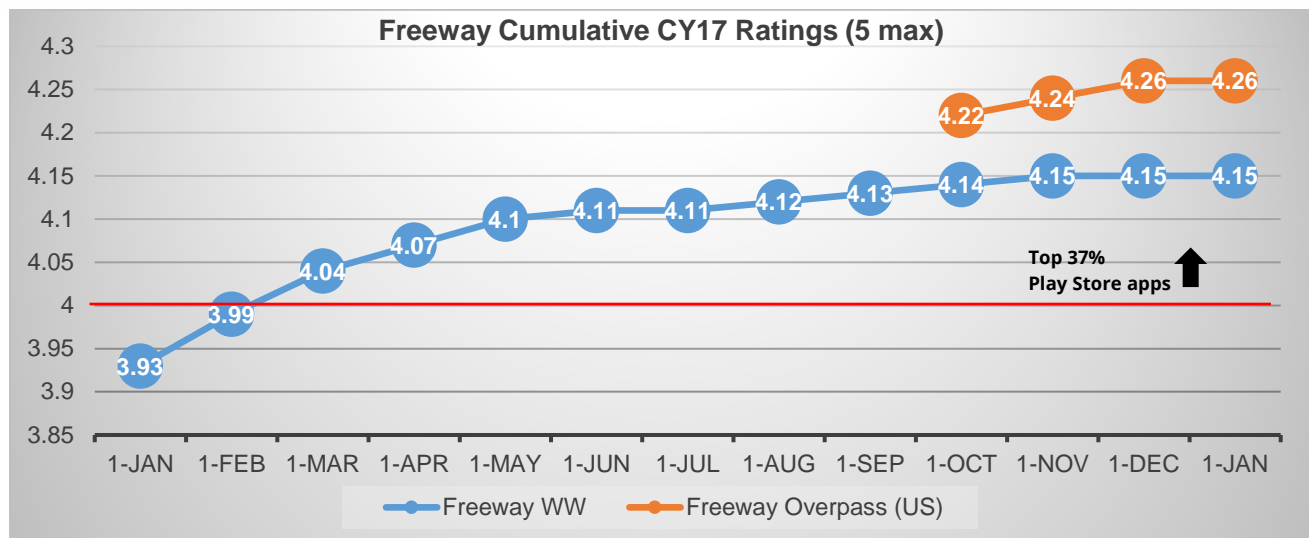
The Company is proud to report that the Freeway cumulative Android consumer ratings have continued to increase for 12 consecutive months, reaching a new high of 4.15 (out of 5.0). This continued growth in customer ratings is noteworthy because increasing a cumulate score gets increasingly difficult as the customer base grows. The Freeway app ratings place Freeway in the 37%<sup>2</sup> of all 3.6m apps in the Google Play Store.<sup>3</sup>

The graph below shows the additional contribution of Freeway Overpass to the overall Freeway rating. In the first full quarter of deployment, Overpass exceeded Freeway's cumulative world-wide average, clearly demonstrating the appeal of this new innovative service offering.

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<sup>2</sup> 37% of all Android apps receive a rating above 4.0, [www.appbrain.com/stats/android-app-ratings](http://www.appbrain.com/stats/android-app-ratings)

<sup>3</sup> <https://www.appbrain.com/stats/number-of-android-apps>



The Company issued nine product updates during the quarter for its Freeway Android app and one product update for its iPhone app. These updates represent Syntonic's commitment to improve the customer experience by refining its products and user experience.

### Customer Acquisition Cost Efficiencies

The return on invested capital is higher for sponsored data than data-rewards; and as a result, the Company has shifted its marketing spend for customer acquisition to geographies that support Freeway sponsored data and/or Overpass subscriptions, and to markets where Syntonic is positioned to quickly replace data-rewards.

During the quarter, the Company reduced its overall quarterly marketing spend for customer acquisition by 55.7% but increased its worldwide Freeway app installation by 8.1% over the previous quarter. Customer acquisition efficiencies were driven principally by organic channels, consistent with an improving customer experience.

## Industry Recognition

During the quarter, Syntonic was honoured with wins in two prestigious mobile industry awards.

The Freeway consumer app was recognised as **“Best of 2017”** in the 16th annual **Mobile Star Awards™** program, hosted by the mobile events and news site MobileVillage.com.



Freeway was honoured in the Mobile Star Awards' 'Best Money Saving App' category, in which new and established mobile products are nominated and voted on by a mobile-savvy community to determine the top apps and developers of the year.

Syntonic's leadership was also recognised with as a winner in the **Best Mobile App Awards (BMAA)**, a prestigious recognition of excellence in the mobile app technology industry. The contests acknowledge the top mobile apps available on the market across all platforms and in several categories, including productivity, lifestyle, education and gaming.

Freeway was selected as the public's overwhelming choice for BMAA's **Fall 2017 Gold Award** in the "Best Social / Lifestyle App" category.



Syntonic is proud to be recognised as a leader in the mobile technology industry. These awards reflect the fundamental mobile ecosystem benefits we provide consumers, such as cost savings, flexibility, and personalisation, and underscore the growing market awareness of Freeway.

## Corporate Highlights

In December, Syntonic raised A\$5.0 million (before costs) in an oversubscribed placement of 250 million new shares at 2 cents per share.

Syntonic received overwhelming demand from a large number of new and existing shareholders and sophisticated investors. On this basis, the Company's Board of Directors elected to increase its original target by accepting oversubscriptions to raise \$5 million.

CPS Capital Group Pty Ltd acted as Lead Manager to the share placement. The Lead Manager received 133.3 million SYT options, exercisable at 3 cents per share on or before 31 December 2020, as part of its advisory fee.

The Company has deployed net proceeds of the capital raising to support investment in Syntonic's global commercialisation activities. Specifically, the funds are enabling an acceleration of the Freeway installed base growth in recently-launched countries and an expansion into new geographies in 2018.



In accordance with ASX Listing Rule 6.1 confirmation previously given to the Company, Syntonic provides the following disclosure for the December 2017 quarter:

- There are 166,666,666 Performance Shares on issue that shall convert upon Freeway by Syntonic® (including the white-label version of the product sold by partners) having an Addressable Audience of 150,000,000 mobile subscribers within a period of 18 months from 8 July 2016 (Milestone 2 as disclosed in the Prospectus dated 13 May 2016); and
- There are 166,666,668 Performance Shares on issue that shall convert upon the Company entering into revenue generating agreements with respect to Syntonic DataFlex® (including the white-label version of the product sold by partners) with 50 businesses within a period of 24 months from 8 July 2016 (Milestone 3).

As at the date of this report the achievement of Milestone 2 is currently being independently verified and results of this independent verification will be released to the ASX as soon as they are available.

No further milestones were achieved during the December 2017 quarter and therefore no performance shares were converted to ordinary shares. The remaining performance shares will lapse if the milestones are not achieved within two years, being 8 July 2018.

## **About Syntonic:**

Syntonic Ltd (SYT.ASX) is a Seattle based software company which has developed two mobile technology services: Freeway by Syntonic®, which allows consumers unlimited mobile access to content and applications, supported by subscription and sponsorship; and Syntonic DataFlex®, which enables businesses to manage split billing expenses for employees when they use their personal mobile phones for work. Founded in 2013, Syntonic has developed worldwide strategic partnerships with leaders in the mobile ecosystem.

To learn more about Syntonic, visit [www.syntonic.com](http://www.syntonic.com).

For further enquiries, please contact:

### **Gary Greenbaum**

CEO and Managing Director, Syntonic

E: [ir@syntonic.com](mailto:ir@syntonic.com)

### **Tim Dohrmann**

Investor and Media Enquiries

E: [tim@nwrcommunications.com.au](mailto:tim@nwrcommunications.com.au)

## 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**

Syntonic Limited

**ABN**

68 123 867 765

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

31 December 2017

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	449	763
1.2 Payments for		
(a) research and development	(220)	(639)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(461)	(894)
(d) leased assets	-	-
(e) staff costs	(497)	(994)
(f) administration and corporate costs	(348)	(488)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4	23
1.5 Interest and other costs of finance paid	-	(1)
1.6 Income taxes paid	-	-
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>(1,072)</b>	<b>(2,231)</b>

<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	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(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	(128)	(128)
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material):		
	(a) cash acquired on reverse acquisition	-	-
	(b) transaction costs of reverse acquisition	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(128)</b>	<b>(128)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	5,000	5,000
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	(299)	(299)
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</b>	<b>Net cash from / (used in) financing activities</b>	<b>4,701</b>	<b>4,701</b>

<b>4.</b>	<b>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	<b>3,743</b>	4,910
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,072)	(2,231)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(128)	(128)

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)	4,701	4,701
4.5	Effect of movement in exchange rates on cash held	3	(5)
4.6	<b>Cash and cash equivalents at end of quarter</b>	<b>7,247</b>	<b>7,247</b>

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	7,183	3,679
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (AmEx deposit)	64	64
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>7,247</b>	<b>3,743</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

266

-

Payments include executive directors' wages, associated payroll expenses, and provision of software engineering services.

**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

-

-

Nil.

8. <b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
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.		

Not applicable.

9. <b>Estimated cash outflows for next quarter</b>	\$A'000
9.1 Research and development	(400)
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	(200)
9.4 Leased assets	-
9.5 Staff costs	(800)
9.6 Administration and corporate costs	(150)
9.7 Other (employee related)	(125)
<b>9.8 Total estimated cash outflows</b>	<b>(1,675)</b>

10. <b>Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	Acquisitions	Disposals
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.

[lodged electronically without signature]

Sign here: ..... Date: 29 January 2018  
(Director/Company secretary)

Print name: Kate Sainty

### **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.