

ASX ANNOUNCEMENT

# Syntonic March 2018 Quarterly Review

27 April 2018



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## **Syntonic March 2018 Quarterly Review and Appendix 4C**

### **Highlights:**

- Recognised record quarterly operational (unaudited) revenue of A\$531,778, up 89.2% from last year's corresponding period, resulting from global expansion of the Syntonic platform and services
- Significant quarterly growth in the Freeway global installed base of 25.2% with the Freeway service now installed on more than 31.7 million smartphones worldwide
- Strong operational progress, with a license grant extension to Tata Communications and securing the first Syntonic DataFlex® reseller
- Syntonic entered the new quarter with a robust cash balance of A\$5.86 million and an encouraging business development pipeline following Mobile World Congress

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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 March 2018, with an update and overview of its business progress.

Syntonic continues to make significant progress in advancing its core business as highlighted by record operating revenue recognized during the quarter. As planned, the Company has reduced its quarterly digital marketing expense for customer acquisition by 83.3% from the previous quarter. Achieving this record revenue while significantly reducing the Company's marketing costs was accomplished by use of highly efficient non-paid channels for customer acquisition and the Company's prioritized focus on its non-consumer Systems business that licenses the Syntonic platform to mobile operators and value-added service (VAS) providers.

Syntonic's Services business unit, which provides sponsored data and unlimited data content plans through the Freeway application, remains healthy and competitively well-positioned. However, the Company will continue to apply increased resources to grow its higher margin Systems business with its significant business pipeline of carriers and VAS providers, that was further bolstered after the Company's participation at Mobile World Congress 2018 in Barcelona, Spain at the end of February.

Syntonic also has renewed commercialization efforts for its Syntonic DataFlex® service, the Company's B2B service sold to enterprises to reduce the cost for deploying, managing, and



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operating mobile connectivity for their workforce. AKTAY A.S. has been retained as the first reseller of DataFlex to support business customers in Turkey.

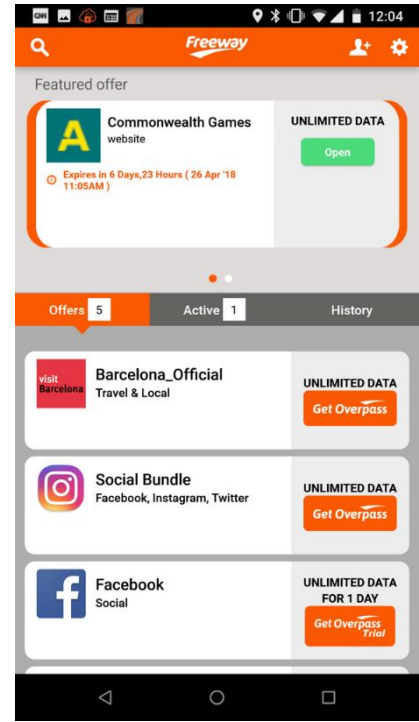
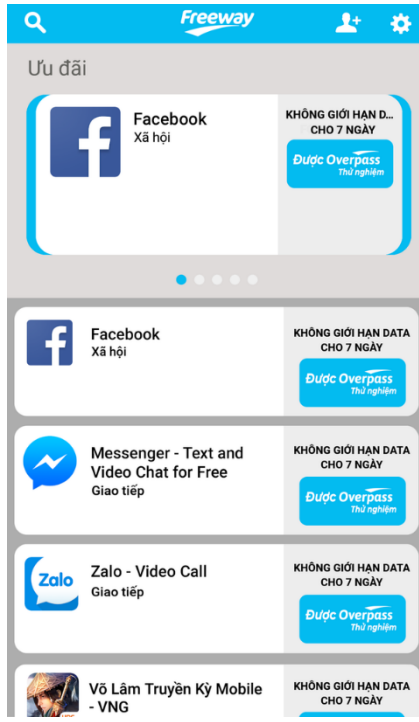
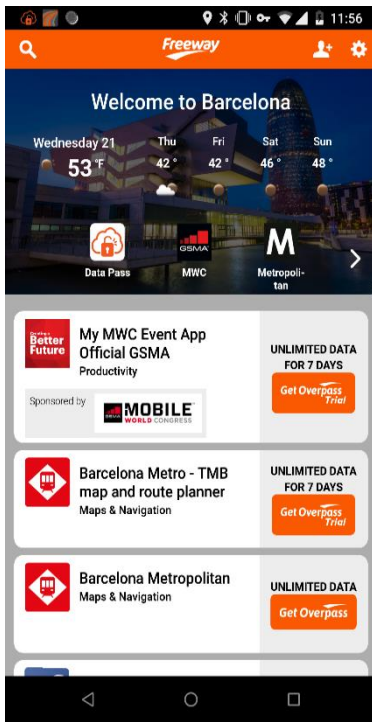
**Syntonic CEO and Managing Director, Gary Greenbaum, said:**

*"We are very pleased to report record revenues for Syntonic this quarter. The foundation for this quarter's success was developed in the second half of 2017 with local partnerships established to enable carrier integrations. These partnerships expanded our global footprint and will continue our revenue momentum.*

*"We also excited by the progress made by Tata Communications to accelerate the deployment of their Tata Sponsored Data Exchange, which has been strengthened through a new Syntonic agreement that provides Tata's Exchange additional functionality to meet the increased demands of carrier and content customers and will subsequently boost revenue for the Syntonic Systems business.*

*"Mobile World Congress 2018 was a successful event for Syntonic, where we had over 50 executive-level meetings that included prominent mobile carriers and value-added service providers. The positive reception we received to our products, including private showings of the Freeway international travel app, confirmed our market timing and alignment with the pressing needs of the mobile industry.*

*"I'm more confident than ever that Syntonic has the right products, at the right time, to meet the needs of carriers, value-added service providers and enterprises world-wide, based on the combined strength of an expanding business pipeline and the consistent product validation we received at Mobile World Congress 2018".*



Preview Freeway Applications: Freeway International Roaming App; Freeway in Vietnam; and Freeway with sponsored web browsing

## Operational Highlights

### Syntonics partnerships and business performance

Regional partnerships were established during the last half of 2017 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 represent regions where Freeway's consumer value proposition coincides with extensive 4G network expansion and growing consumer smartphone adoption.

During the quarter, the Syntonics platform was in final acceptance testing by Vodafone Ghana, MTN Ghana, Safaricom in Kenya, and Viettel in Vietnam. The Company was also in technical integration discussions with the leading carriers in Turkey, South Africa, Oman and China.

Syntonics platform technologies, deployed through these new partnerships, will generate shared revenue streams from sponsored data, paid unlimited-access content plans and mobile split billing.

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

In the March quarter, the Company broadened its distribution and licensing agreement with listed telecommunications company, Tata Communications Limited, the flagship telecom arm of the US\$103.3 billion Tata Group.<sup>2</sup>

In February 2018, Tata Communications extended their licensing agreement with Syntonic, granting Tata a world-wide, non-exclusive, limited three-year license to use additional Syntonic application program interfaces to enable broader and more flexible capabilities of the Tata Sponsored Data Exchange (SDX). The parties also agreed on a revenue share split for all business generated using the Syntonic licensed technologies in the Tata SDX.

It is expected that the broadened relationship will provide the foundation for continued global growth in the Freeway global installed base, create additional revenue streams and drive significant value for the Company and shareholders.

A reseller agreement with value-added telecommunications provider, ATKAY A.S., was secured during the March quarter. ATKAY, based in Turkey, will become a non-exclusive reseller of Syntonic DataFlex, the Company's B2B mobile split billing and business analytics service. AKTAY brings established relationships with the leading carriers in Turkey, the second largest smartphone market in Central and Eastern Europe.

The commercial launch in the Turkish market presents a timely foundation for broader monetisation of DataFlex, as several additional resellers and major customers were identified at Mobile World Congress 2018 in Barcelona at the end of February.

### **Freeway Installed Base Growth**

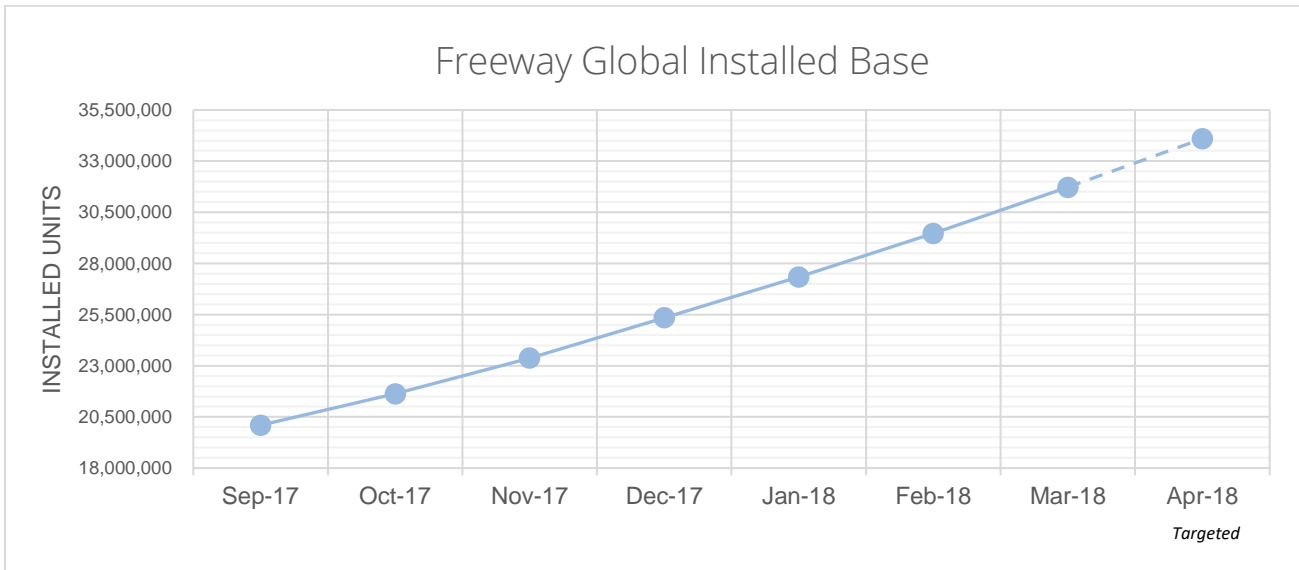
Business growth accelerated during the March quarter as the Company broadened its consumer reach with the Freeway service and platform technology. The installed base metric is the foundation of Freeway's commercialisation strategy and a key indicator of the current and future success of the Freeway service.

The Freeway global installed base grew at an accelerated pace in all three months of the quarter, achieving a 25.2% quarter-on-quarter increase to 31.7 million smartphones. This increase was primarily driven by the embedded support of the Freeway SDK™ in fourteen Android smartphone models.

With the Company's increasing focus on its Systems business, growth in the Freeway global installed base will be principally driven by white-labelled solutions using the embedded Freeway technology rather than the Freeway consumer application.

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<sup>2</sup> <https://www.tatacommunications.com/about/>



### Record Quarterly Revenue Recognition

Syntonic continues to execute on its commercial pipeline, realising a record quarterly unaudited revenue of A\$531,778, an 89.2% increase from the same period last fiscal year. This record growth is principally attributable to accelerated activations of the Freeway SDK on Verizon enabled smartphones.

New revenue from the Systems business will commence as the integration and acceptance stages in Vietnam, Sub-Saharan Africa, Turkey, and China migrate to commercial releases.

Syntonic's cash receipts from operations were A\$314,500 for the March 2018 quarter. The cash receipt discrepancy compared to reported revenue was a result of the February Net 30 payments being due on a public holiday, 30 March 2018. The February accounts receivable were subsequently received and will be reported in the June 2018 Appendix 4C.

### User Satisfaction

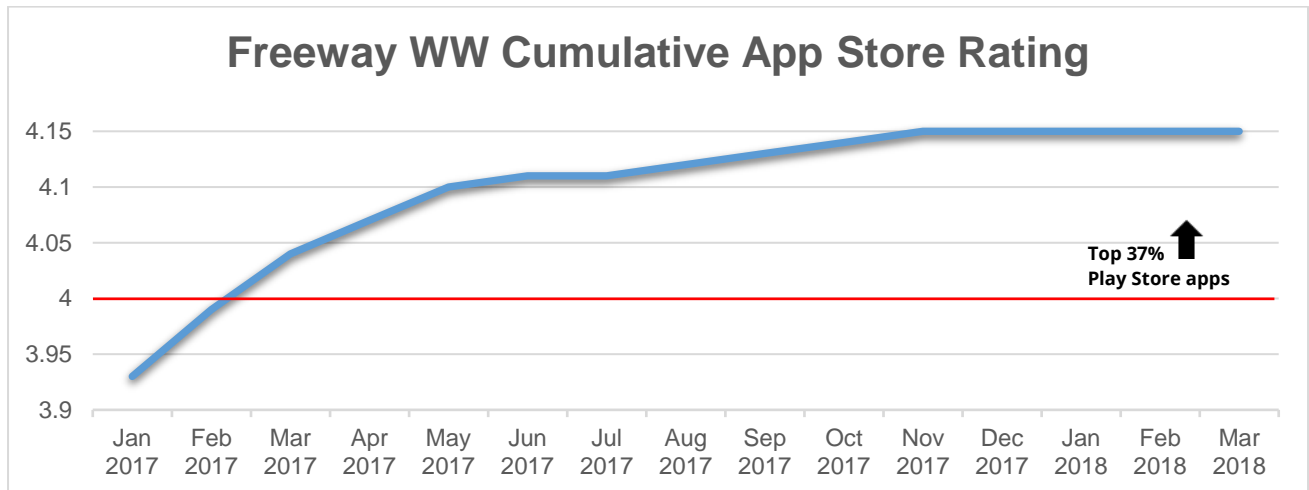
Syntonic remains committed to the continuous improvement of the consumer product experience. The key tracked metric is customer satisfaction, which is highly correlated to cost efficient customer acquisition, increased engagement and enhanced retention.

The Company is proud to report that the Freeway cumulative Android consumer ratings remain strong with a rating of 4.15 (out of 5.0). Put into context, the Freeway app rating is comparable to Facebook (4.1), Snapchat (4.0), Uber (4.2), and Messenger (4.0).<sup>3</sup>

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

<sup>3</sup> Rating as reported by the Google Play Store: <https://play.google.com/store/apps>

With the increased focus to the Company's white-labelled offering, control and oversight of the end-user experience will shift to Syntonic's licensees, mobile carriers and VAS providers. As a result, tracking the Freeway app rating over time will become a less relevant reflection of the consumer Freeway experience.



### User Acquisition Costs

During the quarter, the Company reduced its digital marketing expense for customer acquisition by 83.3%. Non-paid channels such as referrals, app store search, and online search generated 91.7% of the Freeway app downloads world-wide.

This marketing cost reduction is consistent with the Company strategy to increase resources and investment in its Systems business, where carriers and service providers are the end-customers. Syntonic will share its learnings with its Systems customers about how to achieve highly cost-effective returns on marketing investments.

## Corporate Highlights

### Mobile World Congress

Syntonic's management team strengthened its new business pipeline with over 50 productive one-on-one meetings, spanning more than a dozen leading mobile carriers, several major network equipment providers, leading mobile handset vendors and content service providers. Major institutional investors were also briefed at the conference.

Lead generation and follow-on opportunities were fostered due to significant interest in both Freeway and DataFlex. Syntonic also previewed an early version of the Freeway sponsored international roaming application, which provides paid and sponsored access to travel destination services. By adding platform support for this new service, Syntonic and mobile

operators can participate in the US\$676 billion annual revenue generated by on-line travel service transactions.<sup>4</sup>



## Performance Milestone progress

Syntonic announced it had exceeded its Performance Milestone 2 objective in mid-February 2018, reaching an addressable audience of 200 million smartphone users capable of accessing the Freeway service. The achievement of this Performance Milestone was independently verified by FTI Consulting, a pre-eminent global consulting group.

With Performance Milestone 2 achieved, 166,666,666 Performance Shares currently on issue are available to be converted to ordinary shares and remain subject to ASX escrow until 20 July 2018.

In accordance with ASX Listing Rule 6.1 confirmation previously given to the Company, Syntonic provides the following disclosure for the March 2018 quarter:

- As above, there are 166,666,666 Performance Shares on issue that, whilst vested, have not been converted at this point in time and will be converted at a later date at the election of the holder (Milestone 2); 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 versions of the product sold by partners) with 50 businesses within a period of 24 months from 8 July 2016 (Milestone 3).

The performance shares will lapse if the milestones are not achieved nor converted to ordinary shares prior to 8 July 2018.

<sup>4</sup> eMarketer, Digital Travel Sales Worldwide, July 2017





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## Outlook

The Company expects continued installed base and new activation growth in 2018, spurred by an increased number of Syntonic technology licenses to additional operators and Tata Communications' worldwide deployment of its Sponsored Data Exchange.

It is anticipated that several of the Company's Mobile World Congress meetings will translate into new business opportunities, with existing prospects in the customer pipeline converting to active business engagements.

## 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

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### **Catherine Strong**

Investor and Media Enquiries

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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**

Syntonic Limited

**ABN**

68 123 867 765

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

31 March 2018

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	315	1,077
1.2 Payments for		
(a) research and development <sup>(1)</sup>	(326)	(804)
(b) product manufacturing and operating costs	(233)	(544)
(c) advertising and marketing <sup>(2)</sup>	(59)	(604)
(d) leased assets	-	-
(e) staff costs	(825)	(2,054)
(f) administration and corporate costs	(240)	(692)
1.3 Dividends received	-	-
1.4 Interest received	7	30
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 (employee related)	(135)	(135)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,496)</b>	<b>(3,727)</b>

(1) \$161,000 in YTD research and development cash payments have been reallocated between staff costs, other operating costs & administration and corporate costs in order to better reflect the substance of these payments.

(2) \$349,000 in YTD advertising and marketing cash payments have been reallocated between staff costs, other operating costs & administration and corporate costs in order to better reflect the substance of these payments.

These reallocations have not affected the YTD net cash flow movement or cash flow movement for the period or any cash balances previously reported.

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</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	-	-
(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	60	60
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	(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 Net cash from / (used in) investing activities</b>	<b>60</b>	<b>(68)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	-	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)
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>-</b>	<b>4,701</b>

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</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	7,247	4,910
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,496)	(3,728)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	60	(68)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	4,701
4.5	Effect of movement in exchange rates on cash held	47	42
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>5,858</b>	<b>5,858</b>

<b>5.</b>	<b>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	5,793	7,183
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (AmEx deposit)	65	64
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>5,858</b>	<b>7,247</b>

<b>6.</b>	<b>Payments to directors of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1	Aggregate amount of payments to these parties included in item 1.2	680
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	

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

7. <b>Payments to related entities of the entity and their associates</b>	Current quarter \$A'000
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	

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	(325)
9.2 Product manufacturing and operating costs	(240)
9.3 Advertising and marketing	(40)
9.4 Leased assets	-
9.5 Staff costs	(959)
9.6 Administration and corporate costs	(300)
9.7 Other (detail if material)	-
<b>9.8 Total estimated cash outflows</b>	<b>(1,864)</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: 27 April 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.