

ASX ANNOUNCEMENT

# Syntonic September 2018 Quarterly Review

22 October 2018



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## Syntonic September 2018 Quarterly Review and Appendix 4C

### Highlights:

- Record quarterly revenue advancing to A\$988,861 (unaudited), up 105% on last year's corresponding period and 147% over last quarter
- Quarterly cash receipts of A\$.6m were due to payment terms related to new carrier deployments and activations, along with initial partial contribution from the Company's recently established Brazilian subsidiary
- Mobile billing services, acquired from Zenvia Mobile Servicos Digitais S.A, to complement Freeway's acquisition and engagement platform, providing a complete mobile advertising solution for carriers
- New license agreement with Vodacom Group Limited ("Vodacom") to enhance Vodacom's mobile advertising business with Freeway's sponsored data and data rewards services
- Syntonic's Quarterly Active Users (QAU), a leading indicator of revenue growth, reached 4,149,269 active users during the quarter, up 104% from previous quarter
- Cash balance of A\$2.88 million following one-time acquisition and investment costs of A\$1.22m

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**Seattle, Washington – Syntonic Limited** ("Syntonic" or "Company") (ASX:SYT), a leading US-based mobile platform and services provider, is pleased to provide its Appendix 4C – Quarterly Cash Flow report for the three months ending 30 September 2018, along with a summary of its business progress during the quarter.

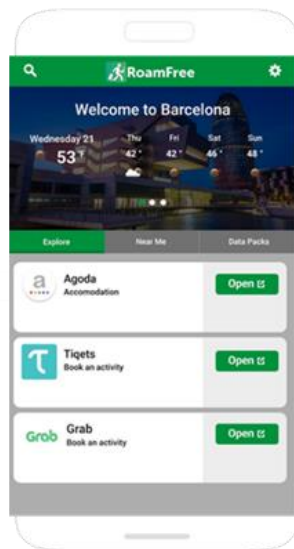
### Syntonic CEO and Managing Director, Gary Greenbaum said:

"Syntonic continues to build its global commercial reach and is pleased with the progress reported in the first quarter of FY19. Our new agreement with the Vodacom Group, one of the world's largest telecommunications companies, will enable Vodacom to enhance its mobile advertising business with sponsored data and data rewards for apps and web sites.

“Building diversity in our revenue sources has been a key focus for the management team. During the quarter we expanded our revenue streams with new carrier deployments and were able to recognise early Freeway revenue from our recently acquired, Brazilian mobile commerce business. With the acceleration of tier-1 carrier deployments and the full operationalisation of Syntonic Brazil, we remain confident about the Company’s short-term and long-term outlook.”



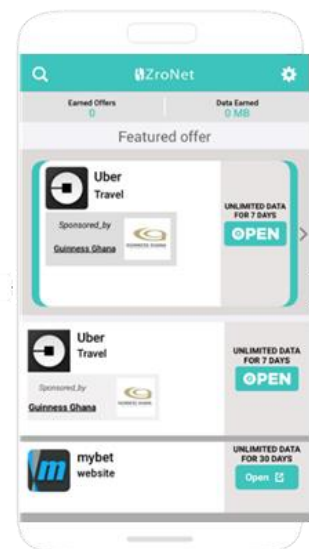
Vodacom, South Africa



Smart, Philippines



Cross-carrier, Vietnam



Cross-carrier, Ghana

## Operational Results

### Carrier Deployments

In August 2018 Syntonic signed a service agreement with Vodacom Group Limited (JSE: VOD), granting the company a license to deploy a white-labelled version of the Syntonic Connected Services Platform (“CSP”) to enhance Vodacom’s mobile advertising business with Freeway’s sponsored data and data rewards services. Syntonic will generate revenue based on data usage generated by advertisers and brands, commissions for data-free downloads of apps, and fees for accessing platform services.

With a staged launch expected to commence during the December 2018 quarter, the technology will initially be deployed to Vodacom subscribers in South Africa, where Vodacom has a 40% market share and supports 20.3 million mobile data subscribers<sup>1</sup>. Proposed future expansion plans include all of Vodacom’s sub-saharan carrier network that services 103 million customers.

Subsequent to the quarter end, Smart Communications’ (“Smart”) released an updated version of the *RoamFree* traveler app, powered by a white-labelled version of Syntonic’s Freeway

<sup>1</sup> Vodacom’s “Annual Results for year ended 31 March 2018” presentation

Roaming Service™. *RoamFree* is available to all Smart's 57.7m mobile subscribers<sup>2</sup> to provide sponsored data when travelling internationally. Syntonic generates revenue from travel service providers who pay Syntonic an affiliation fee, often a percentage of the transacted travel service, and from commissions paid by Smart for all international data plans purchased with the *RoamFree* app.

Tata Communications ("Tata"), a global telecommunications provider (NSE: TATACOMM) and the flagship telecom arm of the Tata Group, launched, subsequent to the quarter end, its digital commerce platform, *opari*, and powered by the Syntonic CSP for its sponsored data and data rewards services. The service has been initially launched on the Safaricom network, the leading mobile operator in Kenya with 70% market share and 28 million mobile customers<sup>3</sup>. Syntonic generates revenue based on sponsored data sales to *opari's* customers, which include content providers, app publishers and brands.



*Syntonic's announced mobile operator engagements*

## Active Users

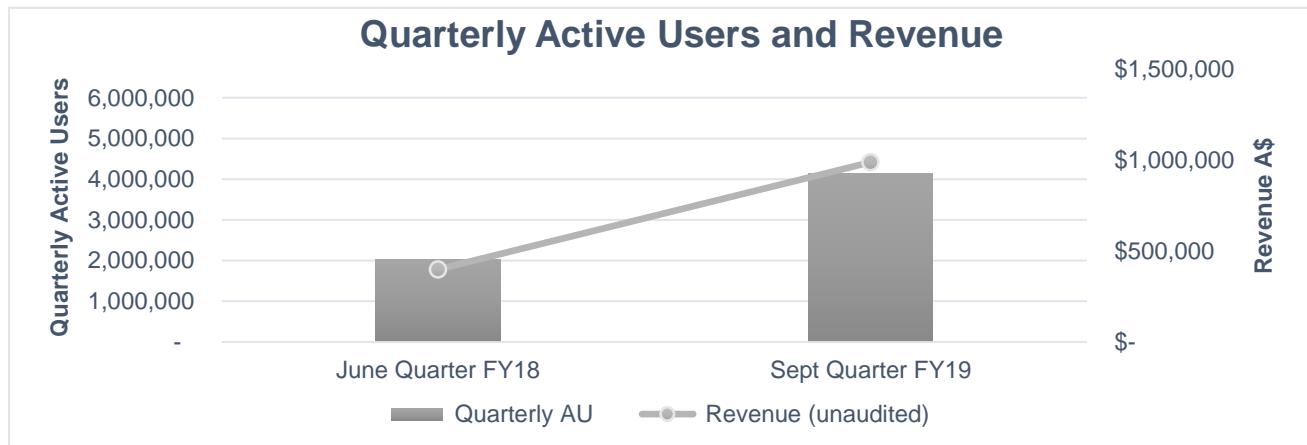
Syntonic is pleased to advise shareholders that it will regularly track and report on Quarterly Active Users, ("QAU"). The QAU measures the revenue bearing potential from active and/or activated Freeway products, i.e. actively used applications, activated SDK's, and deployed white-labelled applications, as well as consumers using Freeway' mobile monetisation services for mobile purchase. The QAU replaces the previously reported Freeway Global Installed Base metric, to provide a measure more directly correlated to quarterly revenue and a single metric

<sup>2</sup> [http://www.pldt.com/docs/default-source/presentations/2018/1q2018-presentation\\_final\\_.pdf?sfvrsn=0](http://www.pldt.com/docs/default-source/presentations/2018/1q2018-presentation_final_.pdf?sfvrsn=0)

<sup>3</sup> Safaricom 2017 Annual Report

for evaluating business growth across the entirety of the Company's multiple products, services, and revenue models.

The Company reports that the QAU grew steadily throughout the quarter, led by new carrier deployments and the commencement of Syntonic Brazil operations. The QAU during the Q1 FY19 was 4,149,269, representing an increase of 104% over the previous quarter of 2,032,157.



## Financial Highlights

Syntonic's quarterly (unaudited) revenue grew significantly to reach A\$988,861. This was a 105% increase on last year's corresponding period and a 147% increase on the previous quarterly period. The Company's cash receipts in Q1 FY19 were A\$0.6m, a 90% increase on last year's corresponding period.

The advancing quarterly revenue resulted from Syntonic management's commitment to capture new and diversified revenue streams beyond the Company's largest customer Verizon Wireless, whose interests in Freeway's services wane due to a CEO led strategic shift from content services to 5G services to compete in the US market.

With the on-boarding of new carrier deployments, standard and customary carrier payment terms extend payment out several months after services are rendered. This delay in payments received account for the difference between the quarterly cash receipts and the recognized revenue.

Tracking with the QAU metric, the (unaudited) revenue growth is a result of new carrier deployments and the approximate one-month contribution from the Company's limited operational subsidiary, Syntonic Brazil, in the September 2018 quarter.

Total net cash outflows of A\$2.14 million for the quarter includes A\$0.26 million deemed one-time acquisition costs such as closing costs, legal representation, financial and tax advisory



services, and a US\$700,000 (A\$962,464) cash consideration payment for the acquisition of the assets of the mobile commerce business unit of Zenvia Mobile Servicos Digitais ("Zenvia").

Excluding these one-time acquisition costs, the Company's operating expenses during the September 2018 quarter were A\$1.51m, 15% lower than the June 2018 quarter.

Syntonic entered Q2 of FY19 with a cash balance of A\$2.88 million.

## Corporate Highlights

### Syntonic Brazil

Syntonic completed the asset acquisition of Zenvia's mobile commerce business on 17 August 2018. The assets were acquired for a cash consideration of US\$700,000 (A\$962,464) with a vendor earn-out of 20% of the first US\$21.5 million (A\$28.9 million) of the contribution margin generated by the acquired assets over 3.5 years.



The Company incorporated a new subsidiary, SYNTONIC BRASIL TECNOLOGIA LTDA, ("Syntonic Brazil"), to own and operate the acquired assets. Syntonic Brazil plans to transfer eleven operations and business support staff from Zenvia to company offices in São Paulo and Porto Alegre, Brazil during November 2018.

The Company is working with Zenvia to reassign the four main Brazilian carriers – Vivo, Oi, TIM, and Claro, and all active content provider contracts including the Abril Group, one of the biggest and most influential media and distribution groups in Latin America, to Syntonic Brazil. During this transition period when the agreements are in process of transfer, Zenvia will continue to support the existing business operations and account to Syntonic the revenues and cash receipts generated from the operational assets. The transition period is expected to be completed during H2 FY19.

Mr. Ricardo Cidale will be responsible for managing and leading Syntonic Brazil's business and operations and will report directly to Syntonic's CEO. Mr. Cidale is a veteran serial entrepreneur with a track-record of building and operating businesses in the Americas with focus on telecom, media, enterprise, and government. Additionally, Mr. Cidale was a highly successful executive at RealNetworks (NASDAQ: RNWK) where he led the international Media Systems sales team.

### Outlook

With a strong focus on diversifying Syntonic's revenue streams, the management team is positive about the Company's outlook for Q2 FY19 and beyond.

The Company anticipates growth in active users and revenue during the last quarter of the calendar year from Smart Communications' *RoamFree* traveler app, powered by Freeway;



Vodacom's Freeway-based mobile advertising business; and Tata Communications' digital commerce platform, *opari*, powered by Syntonic sponsored data and data rewards services.

The Company also anticipates complete transfer of the mobile commerce operations to Syntonic Brazil during H2 FY19. This will enable the Company to begin full operations of the new company subsidiary and to capture the full potential of its investment.

### **About Syntonic**

Syntonic Limited (SYT.ASX) is a Seattle based software company which has developed two technology services: Freeway by Syntonic®, which allows consumers sponsored and subscription mobile access to content and applications; and Syntonic DataFlex®, which enables businesses to manage split billing expenses for employees when using 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 our new website at [www.syntonic.com](http://www.syntonic.com)

### **For further enquiries, please contact:**

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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")**

30 September 2018

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>			
1.1 Receipts from customers		594	594
1.2 Payments for			
(a) research and development <sup>(1)</sup>		(317)	(317)
(b) product manufacturing and operating costs		(262)	(262)
(c) advertising and marketing <sup>(2)</sup>		(35)	(35)
(d) leased assets		-	-
(e) staff costs		(615)	(615)
(f) administration and corporate costs		(286)	(286)
1.3 Dividends received		-	-
1.4 Interest received		5	5
1.5 Interest and other costs of finance paid		-	-
1.6 Income taxes paid		-	-
1.7 Government grants and tax incentives		-	-
1.8 Other (acquisition related)		(256)	(256)
<b>1.9 Net cash from / (used in) operating activities</b>		<b>(1,172)</b>	<b>(1,172)</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 (3 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	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material):	-	-
	- Payment to acquire Brazilian mobile commerce business unit	(962)	(962)
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(962)</b>	<b>(962)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	-	-
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	-	-
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>-</b>	<b>-</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>5,015</b>	<b>5,015</b>
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,172)	(1,172)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(962)	(962)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	(5)	(5)
4.6	<b>Cash and cash equivalents at end of quarter</b>	<b>2,876</b>	<b>2,876</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	2,809	4,947
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (AmEx deposit)	67	68
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>2,876</b>	<b>5,015</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**

171

-

Payments include executive directors' wages and associated payroll expenses

**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**

242

-

Software engineering services provided by Adroit Business Solutions Inc., a company associated with Mr Agarwal.

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	(530)
9.2 Product manufacturing and operating costs	(100)
9.3 Advertising and marketing	(300)
9.4 Leased assets	-
9.5 Staff costs	(830)
9.6 Administration and corporate costs	(235)
9.7 Other (detail if material)	-
<b>9.8 Total estimated cash outflows</b>	<b>(1,995)</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: 22 October 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.