

ASX RELEASE

8 July 2019

Mid-Year Shareholder Update

Home security provider Scout Security Limited **((ASX: SCT), “Scout” or “the Company”)** is pleased to provide the following letter to shareholders from Co-Founder and CEO, Dan Roberts.

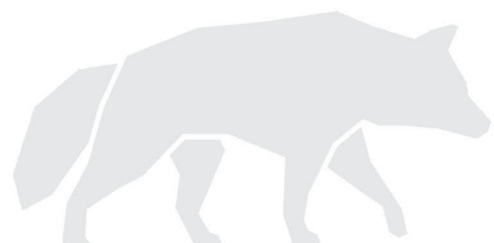
Dear Shareholder,

I'd like to take this opportunity to thank you for being a supporter of Scout. The company will be sending CEO update letters, such as this one, on a more regular basis moving forward. Our intent with these letters is not to recap recent newsflow, but to use them as an opportunity to discuss the Scout business model and decision making in a way that augments the Company's ASX releases.

Our Near-Term Focus

As Scout's market capitalisation has declined in recent months, we understand that our shareholders have had to place a lot of faith in the Company and its mission. We are incredibly appreciative of that faith and support. Having invested over six years into building the business and being two of the largest shareholders, both my co-founder Dave Shapiro and myself deeply understand the disappointment around share price. Improving the price trend is top of mind for us all, and each decision is being made to deliver shareholder value.

In 2017 and 2018, Scout added devices and capabilities at a rapid pace to round out our platform and product suite. We did this, not only to stay on the cutting edge of the market, but also set the basis for our unique-to-Scout, white label program. Those additions, and the resulting newsflow, were a natural by-product of the stage of business. Now, as Scout has developed a more mature product suite and platform, adding non-core products and capabilities for the sake of newsflow would be counterproductive for a small team. We understand that focusing on, and delivering on, revenue growth is what will bring long term shareholder value. As such, that is where we have placed the team's efforts.



Multi-Billion Dollar Partners Validating Our Model

Scout's business model has evolved as the product offering has matured. We learned early that the direct-to-consumer (D2C) business would grow in proportion to the marketing spend available to deploy and the amount of capital available to sustain customer acquisition cost payback periods.

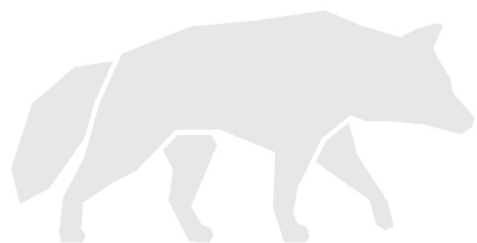
The white label program, on the other hand, allows Scout to leverage everything the team has built with more immediate impact on scale. By partnering with iconic brands with unique distribution channels, the white label program positions Scout to achieve scale independent of available capital.

Scout is one of the few independent DIY security companies left in the market and, more importantly, the only direct-to-consumer brand offering a white label platform to enterprise partners. It is on that basis, combined with the linear growth afforded by D2C marketing dollars available, that we feel we can be successful at bringing global scale to the business.

In the second half of 2018, Scout was able to sign on two multi-billion dollar partners to our white label program. While these two deals were perceived to materialise quickly, both took up to 12 months of effort leading up to each announcement, independent of the research and development to make the white label platform a salable product. Enterprise sales – especially with multi-billion dollar partners – is a time-intensive sales process, which we accept because the potential value creation is so attractive. Our internal goals are to secure at least one to two of these partnerships per year. We intend to scale that target up in coming years, but the reality is that securing one to two enterprise deals of this size through a ten-person team is remarkable.

Securing Stanley Black & Decker and Prosegur will serve to grow the scale of the business, but these deals have also served as proof points for other large security and connected home industry players considering partnerships with Scout. Our conversations with potential partners in the pipeline now focus mainly on go-to-market strategy and timing instead of questions around scalability. That's the good news. The challenge is that these deals, once secured, still take a considerable amount of time to launch. Unless a partner takes existing industrial design and off-the-shelf packaging, a six to twelve-month launch timeline is not unreasonable. Custom plastics, custom packaging, app customisations and other tweaks befitting multi-billion dollar brands are to be expected. Again, there is a piece of good news in there. Switching costs are high.

Finally, we continue to see the value of our strategic partnership with Prosegur extending far beyond commercial offerings. When we began discussions with Prosegur, it was understood by all parties that achieving global scale would require capitalising the business to reflect those



ambitions. With that in mind, we struck the corporate side of our partnership to facilitate a multi-tranche investment from Prosegur in Scout.

We have deployed the first of those tranches to aggressively grow the business in the USA. We have set the stage for the second tranche, which is expected to fuel international expansion. With that development looming on the horizon, Scout has intensified its efforts that drive revenue and other key performance indicators in the first half of 2019.

As we enter the second half of 2019, I pledge that we'll be ramping up communications with the market to ensure investors remain informed. The impact of efforts with existing white label partners will start to become clearer during that time. We expect to be able to show shareholders, through revenue, that the decisions made in the front half of 2019 had merit.

With all of that said, I would like to share with you several additional developments for Scout Security. Collectively these achievements reiterate the value of our two-pronged go-to-market strategy – white label and direct-to-consumer.

Direct-to-Consumer

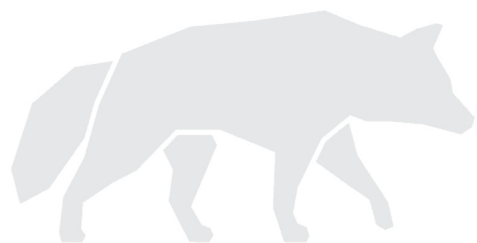
I am pleased to report that firing up our direct-to-consumer marketing efforts in early 2019 has driven stronger sales in the year to date. The Company is experimenting with a variety of new marketing channels and finding new pockets of users that fit with the Scout solution. This excludes the thousands of systems we have out in the market via Zego, on which we have recently secured agreements which provide recurring revenue.

White Label

We have recently completed a comprehensive series of meetings with several white label partners to define our go-to-market strategy. This has been a critical step towards releasing multiple new lines of DIY security hardware and software, planned with our partners for several months and powered by Scout.

The white label program is a key plank in Scout's growth strategy. It is inherently scalable on an international basis.

Our white label partners offer trusted branding, global distribution, operational momentum and a loyal customer base. Our partners unanimously view Scout's DIY security offering as complementary



to their existing lines. We look forward to introducing several large groups of potential customers to the new products we have in our pipeline.

The Path Ahead

We now look eagerly toward FY20 with an expanding base of Scout Alarm systems deployed, key partnerships secured and monthly recurring revenue consistently growing. The more users we gain, the more feedback we receive and the more we can improve our value proposition to customers and partners.

We plan to bolster our home security product suite by selectively unveiling new devices, integrations and system capabilities in the near future. We expect this to provide a steady flow of positive news, and more importantly, ensure users receive a curated home security experience from end to end.

I thank you for your support and look forward to sharing the Company's success with you as we empower more customers to take charge of their home security.

Dan Roberts
Co-Founder and CEO

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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. Scout was named "Best App-Based Security System" in 2019 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, Google's Assistant and Samsung SmartThings. Scout is also an Amazon Alexa Fund portfolio company.

