

ASX RELEASE
31 July 2019

Scout Security

June 2019 Quarter Update and Appendix 4C

Highlights:

- **Scout grew cash receipts by 96% in FY19, delivering June quarter cash receipts of \$0.75M**
- **Launch of the Scout Keypad and Video Doorbell products post-quarter-end have rounded out Scout's DIY smart security suite**
- **Recurring revenue stream introduced into updated agreement with key resale partner Zego prior to majority stake in Zego being acquired by Paylease**
- **The Company is currently in late stage negotiations to put a working capital facility in place in the first half of August 2019, and has applied for a live invoice funding facility**

Home security provider Scout Security Limited ((ASX: SCT), "Scout" or "the Company") is pleased to present its Appendix 4C – Quarterly Cash Flow Report for the period ending 30 June 2019 and an update on business progress.

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

"Scout invested substantially in the June quarter in ensuring the Company is well positioned to take advantage of the opportunities we see in the new financial year. We have rounded out the hardware product suite and updated our mobile app with new features and greater flexibility for our customers. The Company has updated and renewed its agreement with resale partner Zego, and invested considerably in preparing to go-to-market with resale partners Prosegur and Stanley Black & Decker."

Operational Highlights

Post quarter-end, Scout rounded out its home security offering with the launch of its Scout Keypad and Scout Video Doorbell.

The Scout keypad allows users to physically arm and disarm their security system and works in tandem with the Scout mobile app when the user is remote. According to Parks Associates, sales of smart door locks in the US are expected to increase rapidly, with the category expected to sell nearly 4 million units in 2019, rising to more than 5 million by 2023. Scout sees a large and rapidly growing addressable market for the Scout Keypad.

The Video Doorbell is easy to install and records in clear 1080p HD in all lighting conditions through a wide, 180° field of view. The addition of the Video Doorbell to the security suite brings a layer of proactive



protection to the home security equation. The Scout doorbell has been reviewed favourably in the press during the short time it has been available in market.

The Company expects the Video Doorbell to act as a gateway device which encourages and motivates consumers to purchase Scout's complete home security system, with the software capable of integrating with all other meaningful smart-home IoT platforms. According to Parks Associates, across the US 35% of smart homeowners operate their devices as part of an ecosystem, underscoring the importance of integration as a selling proposition.

Coinciding with the launch of these products, Scout updated and improved its mobile app so that users can purchase the Camera, the high definition 1080p Scout Camera or complete security system and the app allows each product to be operated independently or jointly.

Scout boosted its online presence ahead of the Keypad launch and this is helping to drive early sales through its website, with a broader release to additional sales channels such as Amazon.com to follow. Scout is also progressing discussions with additional potential resellers and distribution partners across the US retail and consumer sectors to further extend its reach in the market.

Scout also featured in Amazon's international Prime Day sales event, with its DIY home security kits selected as a "Deal of the Day" on 17 July.

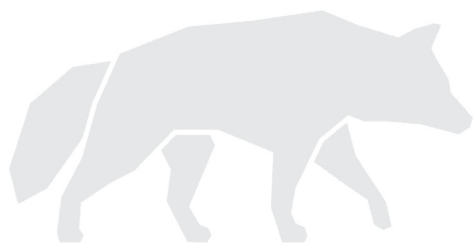
In May, Scout announced it had signed an updated partnership agreement with its key resale partner Zego, a leading US provider of smart home device and service packages to apartment residents and managers.

Under the terms of the parties' existing sales partnership announced in October 2017, Zego ordered more than 7,000 systems from Scout. The rate of order flow and deployment exceeded both parties' expectations, and the partnership continued to operate under the agreed terms, beyond its 12-month initial duration until it was renegotiated.

With Zego now having reached a critical mass of installed systems, the parties updated their agreement to align with the future of the partnership. The updated agreement includes the addition of monthly recurring revenue on active systems due to Scout for interactive services. Further to this, Scout has agreed not to work with select Zego competitors in exchange for Scout becoming the exclusive provider of home security services offered by Zego. The companies continue to work towards making additional security subscription service offerings available under the partnership.

To enable the Zego smart home solution, powered by Scout, to gain scale and drive recurring revenue as rapidly as possible within the 20 million-unit US apartment market, the parties agreed to a revised Hardware Purchase, Software Licence and SaaS Agreement, effective on 1 May 2019, which more formally defines exclusivity and service fees payable to Scout. The key terms of the agreement were disclosed to the ASX on 1 May 2019 and 23 May 2019.

The Company has identified potential for the revised partnership to provide increased opportunity for Scout following Zego's recent acquisition by PayLease, the leading payments company in the US property management industry, based in San Diego, California. PayLease offers online payments, resident billing and utility expense management tools to property management companies. According to PayLease, the company serves more than 4,500 property management companies and 12.5 million units nationwide. PayLease was recently named to Deloitte's 2018 Technology Fast 500™ list.



The acquisition will see Zego's technology integrated with PayLease's existing best-of-breed payments, resident billing and utility management platform.

Scout intends to work with Zego and PayLease to provide additional value to management companies by offering a fully-featured, best-in-class engagement platform that will seek to boost resident satisfaction and retention, improve resident communications, automate inefficient processes and reduce vacant unit costs. Scout believes Zego's acquisition provides a broader opportunity set for Scout, as PayLease is expected to deploy Zego's services to innovate the resident living experience across its nationwide network of property management companies and units.

Cash receipts for the quarter were \$754,000, in line with the Company's expectations following the revision of the partnership with Zego to streamline recurring revenue.

US Tariffs

In June, Scout provided an update on its position regarding the trade negotiations between the United States and China, which resulted in tariffs being imposed on Chinese produced goods in the first half of 2019. As all Scout's future production will be completed in Taiwan, the Company expects to remain unaffected by trade negotiations between the USA and China. If Taiwan becomes affected by future tariffs, Scout has the flexibility of porting its software platform to a wide variety of hardware being produced in numerous locations globally.

Corporate

CONNECTIONS Conference

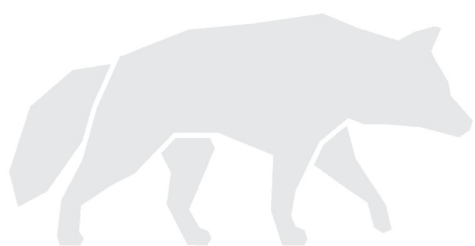
Scout's co-founder, Dave Shapiro, participated in a panel discussion entitled "DIY Disrupting Home Security" at the 23rd Annual CONNECTIONS conference in San Francisco, California in May. Dan Roberts and Noah Ney also attended the conference.

CONNECTIONS is the premier connected home conference in the US and is focused on identifying and promoting the use cases and emerging business models that successfully engage consumers and grow revenues in the converging IoT industries. More than 650 executives from the connected entertainment, IoT, and smart home industries participated.

Working Capital

The Company is currently in late stage negotiations to finalise a working capital facility in the first half of August 2019. The working capital facility is expected to provide Scout cash to fuel its growth efforts in the second half of the calendar year. Scout will update the market as soon as terms are finalised. Ahead of this, the Company is actively pursuing and applied for an invoice funding facility.

Outlook



The Company expects to see meaningful growth in delivery from the Scout white label program in the second half of CY19. In addition to existing white label partnerships, the pipeline of potential new partners continues to build to an exciting scope.

At the same time, the Company will continue to invest in direct-to-consumer (D2C) brand and marketing exercises to fuel new customer growth through the holiday season. Scout has been successful in lowering its customer acquisition cost over the first half of CY19, and through a combination of continued customer acquisition cost reduction and reducing churn, the Company expects to deliver D2C sales in the second half of CY19 that are both meaningful and scalable.

The Company's cash balance at 30 June was \$0.37M. The Company will update the market on its financing arrangements as soon as they are finalised.

An Appendix 4C follows.

For more information, please contact:

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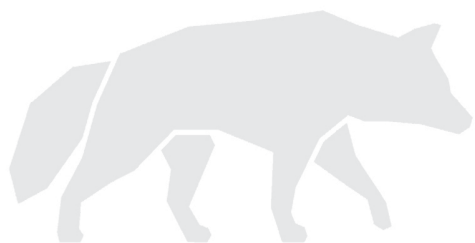
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About Scout Security Limited

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.



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")

30 June 2019

Consolidated statement of cash flows	Current quarter \$A'000s	Year to date \$A'000s
1. Cash flows from operating activities		
1.1 Receipts from customers	754	3,691
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(518)	(2,402)
(c) advertising and marketing	(189)	(388)
(d) leased assets	-	-
(e) staff costs	(372)	(1,424)
(f) administration and corporate costs	(423)	(2,351)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	3
1.5 Interest and other costs of finance paid	(1)	(24)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other	-	-
1.9 Net cash from / (used in) operating activities	(748)	(2,895)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(1)	(1)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000s	Year to date \$A'000s
	(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 (Cash acquired on acquisition))	-	-
2.6	Net cash from / (used in) investing activities	(1)	(1)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	3,055
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	-	(59)
3.5	Proceeds from borrowings	-	500
3.6	Repayment of borrowings	-	(500)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	2,996

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	1,126	270
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(748)	(2,895)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1)	(1)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	2,996

Appendix 4C
Quarterly report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000s	Year to date \$A'000s
4.5	Effect of movement in exchange rates on cash held	(6)	1
4.6	Cash and cash equivalents at end of quarter	371	371

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	371	1,126
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	371	1,126

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
123
-

Director Salaries – 97k
Director fees – 26k

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
-
-

-

Appendix 4C
Quarterly report for entities subject to Listing Rule 4.7B

8. Financing facilities available	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Add notes as necessary for an understanding of the position</i>		
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.		


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9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	-
9.2 Product manufacturing and operating costs	(357)
9.3 Advertising and marketing	(106)
9.4 Leased assets	-
9.5 Staff costs	(278)
9.6 Administration and corporate costs	(250)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(991)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	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.



Sign here:

Date: 31 July 2019

(Company Secretary)

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.