



ASX RELEASE

30 August 2019

APPENDIX 4E **Preliminary final report for the year ended 30 June 2019**

Details of the reporting period and the previous corresponding period

Reporting Period: 30 June 2019
Previous Corresponding Period: 30 June 2018

Results for announcement to the market

(All comparisons to year ended 30 June 2018)

	\$A'000	Up/Down	% Movement
Revenue from ordinary activities	2,908	up	53.6%
Revenue from ordinary activities excluding interest income	2,908	up	53.6%
Loss from ordinary activities after tax	(3,634)	down	9.9%
Loss attributable to members	(3,634)	down	9.9%

Dividends	Amount per share	Franked amount per share
Interim dividend	N/A	N/A
Final dividend	N/A	N/A
Record date for determining entitlements to dividends		N/A

Brief explanation of any figures reported above necessary to enable the figures to be understood
Refer to ASX Announcement and attached Review and Results of Operations



Net tangible assets backing	30 June 2019	30 June 2018
Net tangible assets/(liability) per security	0.14 cents	0.39 cents
Net asset backing per security	0.14 cents	0.65 cents

Material interest in entities which are not controlled entities

Nil

Compliance Statement

The preliminary final report has been prepared based on the 30 June 2019 accounts which are in the process of being audited by an independent Audit Firm in accordance with the requirements of s302 of the *Corporations Act 2001*.

Attachments forming part of Appendix 4E:

1. Financial Report

Signed: _____

Danial Roberts
Executive Director and CEO

Date: 30 August 2019



**PRELIMINARY FINAL FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019**

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CORPORATE DIRECTORY

Directors

Mr Daniel Roberts – Chief Executive Director
 Mr David Shapiro – Executive Director
 Mr Anthony Brown – Non-Executive Director
 Mr Sol Majteles – Non-Executive Director

Home Stock Exchange

Australian Securities Exchange Limited
 Level 40
 Central Park
 152-158 St George's Terrace
 PERTH WA 6000
 ASX Code:
 SCT (Ordinary Shares)

Company Secretary

Mr Stuart Usher

Auditor

Nexia Perth Audit Services Pty Ltd
 Level 3
 88 William Street
 Perth WA 6000

Registered Office – Australia

Suite 1, GF, 437 Roberts Road
 SUBIACO WA 6008

Bankers

Westpac Banking Corporation
 130 Rokeby Road
 SUBIACO WA 6008

Registered Office – United States

210 North Racine Avenue
 Unit 3S, Chicago, IL 60607
 United States of America

Share Registry

Advanced Share Registry Ltd
 110 Stirling Highway
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 Telephone: 08 9389 8033
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Solicitors

Steinepreis Paganin
 Level 4, The Read Buildings
 16 Milligan Street
 Perth WA 6000

PRINCIPAL ACTIVITIES

SUMMARY OF OPERATIONS

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's design-centric offering gives users complete flexibility around connected home security, allowing the system to integrate with other best-in-class connected home devices and offering flexible monitoring options. The system forms part of the "Internet of Things" (IoT), and its success to date in the large US market validates that the Company is providing a solution to an unmet need: flexible home security.

Results

Scout is progressing on its path to generating positive cash flow from operating activities, having reduced its net operational cash outflow by more than AUD\$2.5 million in FY19 compared to FY18.

For the year ended 30 June 2019, the Company incurred a net loss from continuing operations of AUD\$3,653,288, and a net cash outflow from operating activities of AUD\$2,933,939. The Company may need to raise additional capital and/or negotiate extended terms with key creditors in order to meet working capital requirements and execute its expansion plans in the event that sufficient revenue is not generated in the normal course of business. The recent Working Capital Facility announced to the market, along with the expected cash inflows published recently are anticipated to reduce the chance of the above being necessary.

Sales

Scout's sales continued to gain momentum during the year as the Company maintained full stock levels, actively advertised through digital marketing channels and began to gain traction with white label partnerships. The Company achieved revenue of AUD\$2,908,067 in FY19, representing growth of more than 53% compared to FY18.

The Company's cash receipts significantly rebounded in FY19, with AUD\$3,529,124 in receipts representing growth of 87% compared to the prior year.

Partnerships with industry giants to access global markets

Across the year Scout secured three well-known multi-billion-dollar partners: Stanley Black & Decker, Walmart and Prosegur.

In December, Scout secured a strategic partnership with multinational security company Prosegur Compania de Seguridad S.A (BMAD: PSG "Prosegur") who has agreed to invest up to USD\$5.3 million in the Company (AUD\$7.4 million, based on an agreed exchange rate of USD\$1: AUD\$0.71) across two tranches. The investment from Prosegur has empowered Scout to ramp up its paid marketing efforts and execute against growth plans.

The investment was structured by way of a placement of 10,837,368 shares at an issue price of AUD\$0.275 per share to raise approximately AUD\$2.9 million and a contemporaneous issue of 16,005,508 options to acquire shares (exercisable at AUD\$0.28 on or before 31 December 2019).

Under the strategic partnership, Prosegur is looking to distribute Scout's full suite of security products into Prosegur's key security markets in Europe and South America.

Scout and Prosegur also entered into a commercial agreement under which they agreed to negotiate a formal arrangement over the subsequent 18 months to grant Prosegur exclusive rights to distribute Scout's full suite of branded security products into Prosegur's key monitoring business markets of Spain, Portugal, Argentina, Peru and Chile. It is anticipated that Prosegur will provide Scout access to a range of opportunities and strategic services that will benefit the Company.

Prosegur is a global leader in security services with more than 175,000 employees and active in the manned guarding and technology, cash-in-transit, and alarms business through Prosegur Security, Prosegur Cash, and Prosegur Alarms.

Scout also signed a partnership deal with Stanley Black & Decker, Inc. (NYSE: SWK) to license Scout's home security platform and hardware suite.

Stanley Black & Decker is the second largest provider of security services in the world and as a trusted leader in electronic security, the company protects over 500,000 buildings around the world. Stanley Black & Decker's portfolio of companies spans Stanley, Stanley Security, Black & Decker, Dewalt, Craftsman, Mac Tools, Lenox, Sonitrol and several other well-known household brands.

The two parties have identified numerous short-term and long-term potential applications of the Scout platform to augment Stanley Black & Decker's existing and planned customer solutions. The partnership started contributing to Scout's revenue in the March 2019 quarter, with STANLEY Security placing an initial purchase order for Scout equipment during the December quarter.

The Company has also added US retail giant Walmart to its growing retail presence, with Scout's security systems to be sold through Walmart's online store. The Scout offering complements Walmart's existing security and smart home offerings.

Walmart is an internationally recognised brand, with more than 11,000 stores under 55 banners in 27 countries. Walmart operates eCommerce website in 10 countries.

The Scout Alarm is now being sold through Walmart's US online store, with the possibility for expansion to additional country portals and potentially Walmart in-store sales in the future.

Updated partnership agreement with key resale partner Zego

Scout signed an updated partnership agreement with Zego, its key resale partner, in May 2019. Zego is a leading US provider of smart home device and service packages to apartment residents and managers.

Zego and Scout entered a sales partnership on 11 October 2017 for an initial 12-month period with Zego ordering more than 7,000 systems from Scout. Under the partnership, Zego and Scout have worked together toward a rollout of Scout's full product and service suite, including home sensors and security monitoring.

With the rate of order flow and deployment exceeding both parties' expectations, the parties updated the terms of their partnership agreement to see Zego continue to purchase Scout hardware (Scout hubs) through purchase orders, with Zego to pay Scout a monthly fee based on the number of Zego customers with hubs connected to Scout interactive services during the prior month. The revised agreement has the potential to deliver ongoing subscription revenue to Scout.

Product development

Scout has recently bolstered its security suite with the addition of a keypad, video doorbell and select new devices and integrations which enrich Scout's DIY smart security suite.

In July 2019, Scout launched and achieved first sales of the Scout Video Doorbell. The Video Doorbell records in clear 1080 HD in all lighting conditions through a wide, 180° field of view, and allows customers to monitor their home from their front door through a live feed and recorded clips via the Scout app.

Customers are also able to trigger their security system's siren, request police dispatch and engage with two-way audio and pre-recorded messages while viewing the live feed.

The new product caters to the fast-growing market of US consumers who want a network-connected security video doorbell as part of their smart home security service.

First sales of the Video Doorbell were generated through marketing to Scout's existing user base and through the Company's recently upgraded online store, with Amazon sales and white-labelling options expected to follow.

Post year-end, Scout launched a new highly-request home security product, the Scout Keypad, designed to empower consumers with more flexible control of their home security systems.

The Company's upgrading of the existing door panel to the keypad has brought familiarity to arming and disarming and has lowered the Company's cost of goods sold and helped to streamline the supply chain by not owning the hardware design.

Following the launch of the Scout Keypad in July 2019, the Company's app was updated to allow users to purchase the Scout Keypad, the high definition 1080p Scout Camera or complete security system, with each product able to be operated independently or jointly.

Marketing campaign push and expansion of online presence

In January, Scout launched a revamped and improved website in anticipation of significantly ramping direct-to-consumer marketing spend and strong sales growth. The all new website www.scoutalarm.com has been modernised to be more flexible for marketing purposes and is also integrated with the Shopify e-commerce platform. The site provides optimisations that the Company believes will save on development costs.

Scout also revamped its profile listings on Amazon, which is expected to boost sales throughout the Amazon platform as the year progresses. Scout has achieved and maintained a customer rating of more than 4 stars.

Streamlining of the supply chain

In the second half of FY19, Scout took action to streamline its supply chain and extract a competitive advantage by avoiding newly imposed tariffs levied on goods for the USA manufactured in China.

The Company has moved branded and white label production to Taiwan with the last batch of Scout hardware produced in China in January 2019. All future productions will now be completed in Taiwan and be unaffected and avoid the ongoing trade negotiations between the USA and China.

Outlook

Scout is well positioned to take advantage of significant opportunities and expects to see continued strong growth from the Company's white label program. The combination of increased direct-to-consumer marketing, white label partner sales, pipeline of potential new partners and international expansion opportunities underpin the Company's positive growth outlook.

Scout is looking to secure an additional one or two top-tier partners each year, which should open attractive new paths to market for the Company and ideally strategic partnerships whose benefits extend far beyond the immediate commercial offerings.

Global DIY home security systems revenue is expected to grow at 31% a year to USD\$42.3 billion by 2025 according to Research and Markets (Feb. 2019). The Company expects the DIY market to continue to grow, fueled by developments in, and widespread adoption of, wireless communications and the Internet of Things (IoT), and the Company expects to gain share and grow revenue in this expanding market.

Working capital facility

In September 2018, Scout gained access to a working capital facility to improve inventory turnover and grow the Company's white label platform.

The AUD\$500,000 working capital facility supported Scout's general operational expenditures to allow the Company to boost inventory orders, increase turnover and drive expansion in its white label connected security platform. The working capital facility has been repaid and this was enabled by Prosegur's equity investment.

In August 2019, Scout secured a new working capital facility of up to \$1 million to facilitate business growth. The working capital facility is available in two separate tranches, providing access to \$500,000 immediately and the ability to draw down another \$500,000 during the term of the facility.

The working capital will give Scout flexibility to continue to pursue growth opportunities in both the direct-to-consumer and white label markets, while supporting the Company's operational expenditures in the first half of FY20.

SCOUT SECURITY LIMITED

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**
FOR THE YEAR ENDED 30 JUNE 2019

	Note	30 June 2019 AUD \$	30 June 2018 AUD \$
Revenue		2,908,067	1,893,009
Cost of sales		(2,307,431)	(1,522,843)
Gross profit		600,636	370,166
Other income		2,749	622,752
Consulting and professional fees		(1,191,467)	(1,062,855)
Depreciation and amortisation expense		(1,592)	(6,552)
Employee expenses		(1,408,543)	(1,547,471)
Listing fee expense		-	(696,000)
Rental costs		(93,976)	(76,848)
Share-based payments		(335,493)	(277,726)
Interest costs		(25,639)	-
Information technology costs		(192,222)	(162,499)
Sales and marketing		(515,320)	(440,425)
Impairment of goodwill		-	(270,599)
Shipping and postage		(19,379)	(28,961)
Travel and entertainment		(92,104)	(86,600)
Other expenses		(361,820)	(286,921)
Loss before income tax expense		(3,634,170)	(3,950,539)
Income tax expense		-	-
Loss for the year		(3,634,170)	(3,950,539)
<i>Items that may be reclassified subsequently to profit and loss</i>			
Foreign currency translation (net of tax)		(19,118)	(44,539)
Total comprehensive loss for the year net of tax		(3,653,288)	(3,995,078)
Basic and diluted loss per share (cents)		(3.18)	(4.32)

The Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the notes to the financial statements.

SCOUT SECURITY LIMITED

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	30 June 2019 AUD \$	30 June 2018 AUD \$
CURRENT ASSETS		
Cash and cash equivalents	365,314	269,616
Inventory	935,519	878,441
Prepayments – Inventory orders	415,043	687,499
Trade receivables	13,076	7,996
Other current assets	38,779	31,724
TOTAL CURRENT ASSETS	1,767,731	1,875,276
NON-CURRENT ASSETS		
Plant and equipment	26,466	59,519
TOTAL NON-CURRENT ASSETS	26,466	59,519
TOTAL ASSETS	1,794,197	1,934,795
CURRENT LIABILITIES		
Trade and other payables	1,628,986	1,507,065
TOTAL CURRENT LIABILITIES	1,628,986	1,507,065
TOTAL LIABILITIES	1,628,986	1,507,065
NET ASSETS	165,211	427,730
EQUITY		
Issued capital	12,179,075	9,123,799
Reserves	3,281,596	2,965,221
Accumulated losses	(15,295,460)	(11,661,290)
TOTAL EQUITY	165,211	427,730

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the notes to the financial statements.

SCOUT SECURITY LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

	30 June 2019	30 June 2018
	AUD \$	AUD \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	3,529,124	1,885,013
Payments to suppliers and employees	(6,465,812)	(7,367,807)
Interest received	2,749	3,312
Net cash used in operating activities	(2,933,939)	(5,479,482)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	3,055,276	6,610,500
Share issue costs	-	(812,273)
Interest paid	(25,639)	-
Proceeds of borrowings	500,000	-
Repayment of borrowings	(500,000)	(84,638)
Net cash provided by financing activities	3,029,637	5,713,589
Net increase/(decrease) in cash and cash equivalents held	95,698	234,107
Cash and cash equivalents at the beginning of period	269,616	35,509
Exchange rate changes on the balance of cash held in foreign currencies	-	-
Cash and cash equivalents at the end of period	365,314	269,616

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

SCOUT SECURITY LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

	Share Capital	Accumulated Losses	Share Based Payment Reserve	Foreign Exchange Reserve	Total
	AUD \$	AUD \$	AUD \$	AUD \$	AUD \$
Balance as at 1 July 2018	9,123,799	(11,661,290)	2,914,323	50,898	427,730
<i>Total Comprehensive Income</i>					
Loss for the year	-	(3,634,170)	-	-	(3,634,170)
Foreign currency translation differences	-	-	-	(19,118)	(19,118)
Total comprehensive loss for the year	-	(3,634,170)	-	(19,118)	(3,653,288)
Transactions with owners in their capacity as owners:					
Issue of shares net of costs	3,055,276	-	-	-	3,055,276
Share-based payments	-	-	335,493	-	335,493
Balance as at 30 June 2019	12,179,075	(15,295,460)	3,249,816	31,780	165,211
	Issued capital	Accumulated Losses	Share Based Payment Reserve	Foreign Exchange Reserve	Total
	AUD \$	AUD \$	AUD \$	AUD \$	AUD \$
Balance as at 1 July 2017	5,199,001	(7,710,751)	-	95,437	(2,416,313)
<i>Total Comprehensive Income</i>					
Loss for the year	-	(3,950,539)	-	-	(3,950,539)
Foreign currency translation differences	-	-	-	(44,539)	(44,539)
Total comprehensive loss for the year	-	(3,950,539)	-	(44,539)	(3,995,078)
Transactions with owners in their capacity as owners:					
Issue of shares net of costs	3,924,798	-	-	-	3,924,798
Share based payments	-	-	2,914,323	-	2,914,323
Balance as at 30 June 2018	9,123,799	(11,661,290)	2,914,323	50,898	427,730

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

SCOUT SECURITY LIMITED
CONDENSED NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

1. ACCOUNTING POLICIES

Basis of Preparation

This general purpose condensed financial report for the year ended 30 June 2019 has been prepared in accordance with Corporations Act 2001 and Australian Accounting Standards (including Australian Accounting Interpretations) and authoritative pronouncements of the Australian Accounting Standards Board.

Scout Security Limited (the "Company") is a company domiciled in Australia. The consolidated preliminary final financial report of the Company as at 30 June 2019 comprises the Company and its subsidiaries (collectively referred to as the "Group").

The financial information in this report does not include all the notes of the type normally included within the annual financial reports and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full annual financial reports.

Therefore it is recommended that this report be read in conjunction with the annual financial reports for the year ended 30 June 2019, when it becomes available, and be considered together with any public announcements made by Scout Security Limited during the year ended 30 June 2019 in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

Comparative figures

The comparative financial information includes the results of Scout Security Inc for the period 1 July 2017 to 22 August 2017 and the Group from 22 August 2017 to 30 June 2018.

SCOUT SECURITY LIMITED
CONDENSED NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 2. EVENTS OCCURRING AFTER REPORTING DATE

On 26 August 2019, the company entered into an agreement providing access to a working capital facility of up to AUD\$1million, available in two tranches. The key terms of the agreement will see Scout receive a first tranche of AUD\$500,000 upfront, with each tranche of the facility having a term of 180 days, and a minimum term of 90 days. In the event Scout draws down on the second AUD\$500,000 tranche (available 150 days after the first tranche is drawn down), bringing the total to AUD\$1 million, the term of the second tranche will be a further 180 days, and a minimum of 90 days. The interest rate will be fixed on each advance at 11.25% per annum, calculated and payable every 30 days after the relevant advance is drawn.

On completion of the first tranche, the lender may, unless an event of default has occurred, elect to receive partial payment (calculated as the difference between interest of 11.25% per annum payable in respect of an advance and the interest that would have been paid in respect of that advance if interest accrued at 6.25% per annum) in the form of 1,000,000 Scout Security Limited (SCT) options, exercisable two years after the date of issue with a strike price of AUD\$0.15. Should the Company elect to draw down the second tranche, and the lender has made the election referred to above, the lender will be issued an additional 2,000,000 SCT options, exercisable two years after the date of issue with a strike price of AUD\$0.15, upon repayment of that advance with no reduction in the interest rate.

In the event of default by the Company, an additional 5% interest per annum will apply and the Company will be required to issue an additional 5,000,000 SCT shares for each advance that the Company has defaulted in respect of. Further, the Company will be required to issue the 1,000,000 SCT options in respect of the first advance with no corresponding reduction in interest rate.

In the event the Company does not receive shareholder approval for any tranche of shares or options contemplated above, the Company will be required to make a cash payment equal to the greater of the value of the securities that would have been issued to the lender and \$50,000 in respect of each tranche of securities that are not issued. In this regard, all issues of shares and options contemplated by the agreement are subject to the prior receipt of shareholder approval, provided that the Company may elect to issue securities using its placement capacity should it have sufficient capacity available at the time.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group, in subsequent financial years.

NOTE 3. AUDIT STATUS

This report is based on accounts that are in the process of being audited.

NOTE 4 INDEPENDENT AUDIT REPORT LIKELY TO INCLUDE A PARAGRAPH REFERRING TO MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

The financial statements have been prepared on the going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

The Group reported a net loss for the year of \$3,653,288, and a cash outflow from operating activities of \$2,933,939. The Group had a net working capital surplus of \$138,745 including cash of \$365,314 at 30 June 2019.

Management believes that there are sufficient funds available to continue to meet the Group's working capital requirements for a period of at least 12 months from the date of this report. The December 2018 capital investment of \$2,980,276 into the business has provided the capital needed to execute against near-term growth plans. As part of the investment, the Company also issued 16,005,508 unlisted options exercisable at \$0.28 per option on or before 31 December 2019. If all of these options are converted the Company will raise approximately \$4.5m.

SCOUT SECURITY LIMITED
CONDENSED NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

The company has also secured a working capital facility of up to \$1M, as detailed in Note 2 and in the summary of operations report.

The financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business for the following reasons:

- (a) Recent investment activity has provided near-term capital to expand marketing efforts, supporting continued sales through the Scout website, Amazon.com and other online retailers.
- (b) The Company's track record of securing additional funding when required for working capital or expansion purposes.
- (c) Forecasted sales growth from existing and recently announced white label partners expanding commercialisation efforts both in the United States and Internationally.
- (d) Scout's track record to date of selling home security systems and related system over the past five years in the US market.
- (e) The addition of planned new products within the year that should provide additional hardware and recurring revenue streams.

The directors plan to continue the Group's operations on the basis disclosed above and believe that there will be sufficient funds for the Group to meet its obligations and liabilities for at least 12 months from the date of this report. In the event that the Group is unable to generate sufficient revenue in the normal course of business, the Group may need to reduce costs or negotiate extended terms with key creditors in order to meet working capital requirements. Should the Group be unable to successfully execute one or more of the aforementioned matters, there exists a material uncertainty that may cause significant doubt on the Group's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.