

ASX RELEASE

30 April 2020

Scout Security

March 2020 Quarter Update and Appendix 4C

Highlights:

- **Scout earned AU\$1.1 million in cash receipts in the March quarter, substantially driven by white label program partnerships**
- **Scout received US\$250,000 (AU\$400,000) post-quarter-end as a prepayment of monthly service fees in an updated partnership agreement with Zego**
- **Scout received US\$141,000 (AU\$225,000) post-quarter-end in forgivable loan funds under the US CARES Act**
- **Scout paid off all secured debt during the March quarter, repaying the full AU\$500,000 first tranche of working capital facility**
- **Scout bolstered and reorganised the Scout team during the quarter to accelerate white label development and sales**
- **31 March 2020 cash balance excludes the AU\$400k prepayment from Zego and AU\$223k in forgivable loans, both received in April**

Home security provider Scout Security Limited ((ASX: SCT), "Scout" or "the Company") is pleased to present its Appendix 4C - Quarterly Cash Flow Report for period ending 31 March 2020 and an update on business progress.

Scout Security co-founder and CEO Dan Roberts said:

"As the current global health crisis continues to sow uncertainty around the globe, our thoughts are focused primarily on the safety and security of those around us and our customers, partners and investors that make our business possible.

"Although the pandemic has slowed the rate at which some partner deals have progressed, Scout has been aided by the core value proposition of DIY security being 'hands off'. Systems are purchased online, drop-shipped to a customer's home and self-installed. Put simply, a Scout system



requires no physical interactions with our customer base. This value proposition has resonated with individual consumers, as well as potential new white label partners looking to diversify away from in-person, service-based models.

"History has shown us that in uncertain times, home security fares better as a category than most industries. Customer activity over the past few weeks has reiterated the peace of mind that Scout products can bring to our users, and we note that organic (ie. inbound) sales in our direct-to-consumer business have risen over the past quarter beyond what we would typically expect.

"Our existing and potential white label partnerships continue to move forward. We routinely meet with our white label partners via video link in lieu of face-to-face so, in practical terms, our path to white label commercialisation remains unchanged.

"The March quarter highlighted the fruits of the sustained development of our white label program. This has started to generate material cash flow for the Company by way of partner development and licensing fees at a level which exceeded our expectations for the March quarter. We are in this position thanks to the significant commitment we have made to research and developing this aspect of our business over the past two years.

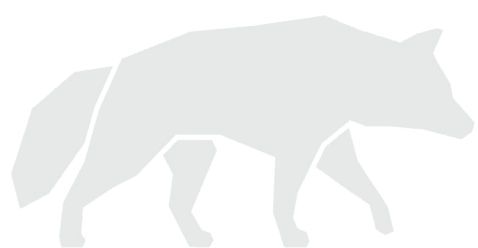
"Scout is now moving into a new phase of marketing our platform to attract new enterprise customers and partners. Earlier this quarter, management made several key changes to our team to ensure that we are positioning resources to reflect our focus on accelerating white label sales. In doing so, we believe the current team has the potential to significantly grow our revenue and cash flow.

"At the quarter's end, we updated our resale partnership with Zego, which included a cash prepayment of US\$250,000 (AU\$400,000). This deal highlights our partners' commitment to the future of smart home security, but also demonstrates Scout's continued ability to secure non-dilutive funding to strengthen our balance sheet at critical times and ensure that we come out the other side of the COVID-19 pandemic a more resilient company all around."

Operational Highlights

During the quarter, Scout's white label development continued to accelerate, with the Company reporting in February that the program would exceed its initial expectations for the quarter, generating a minimum of A\$700,000 from partner development and licensing fees as it completed several contractual milestones.

The white label program sees Scout partner with well-resourced players in the security and connected home industries, with Scout gaining access to their iconic branding, global distribution networks and unique product development capabilities to accelerate growth in the Company's business. It leverages everything the Company has built to gain scale independent of available capital.



Development and licensing fees received by Scout during the quarter related in part to work already completed and will fund the next six months of development for an ongoing program, expanding on the initial work already in progress.

The Company's achievement of positive net operating cashflow in the December quarter highlights that even a small number of white label partners can dramatically boost Scout's trajectory. Scout plans to maximise the positive impact of developing multiple concurrent white label partnerships, maintaining an optimal team structure to capitalise on opportunities.

Scout has spent seven years of research and development to create its robust platform which has attracted several multibillion-dollar partners. As a result, the Company's most immediate needs are now shifting from platform development to platform marketing. To meet these needs, Scout bolstered its white label development team, with appointments detailed in the Corporate section of this report.

Multiple white label partners are expected to announce commercialisation plans in 2020, and Scout will provide details of these as they come to hand.

In addition to white label cash flow, Scout continues to generate approximately AU\$200,000 per quarter in cash receipts from its existing recurring subscriber base.

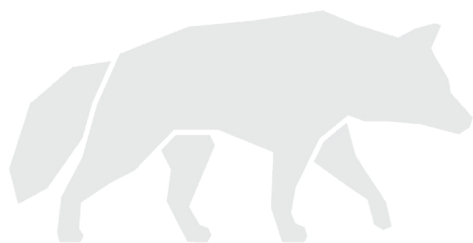
Zego Upfront Payment for Scout Services

Scout signed an updated partnership agreement with key resale partner Zego Powered by PayLease ("Zego") during the quarter.

Zego drives efficiency across residential real estate communities with its mobile platform which empowers apartment owners, managers and developers to manage their resident-facing tasks within a single app, facilitating payments, utilities, and tenant engagement. Zego processes more than US\$15 billion (AU\$24 billion) in payments each year for more than 12 million residential units across the USA.

Scout's platform and select products have been integrated into the Zego app since the companies partnered in October 2017, and since then, order flow and deployment of Scout systems across Zego's apartment network has continued to develop.

Zego and Scout agreed to update their partnership to allow Zego to prepay for the monthly platform fees which Scout receives as monthly recurring revenue from each active system, in exchange for a small discount on monthly fees and updated licensing considerations.



Scout and Zego agreed to a revised Hardware Purchase, Software Licence and SaaS Agreement with the following key updates:

- Scout will receive a fee of US\$250,000 (AU\$400,000). This will be considered a pre-payment of the fees for interactive services provided to Scout hubs active within Zego's network during the term of this agreement.
- The 'grandfather period' referenced in Scout's ASX announcement of 23 May 2019 will be extended by six months to 1 May 2021. For services to hubs which were activated after the commencement of the grandfather period, Zego will pay a slightly reduced monthly fee to Scout.
- After the pre-payment amount set forth above has been fully applied towards the payment of service fees, Zego will pay such monthly fees within 30 days of the end of each month.
- Zego will assign the agreement to PayLease upon execution of the amendment deed. As such, Scout will reference PayLease as its customer moving forward.

The Company considers that the revised partnership provides for increased opportunity for Scout as its hardware and software become entrenched more deeply within the Zego mobile platform.

Corporate Highlights

Key Management Appointments

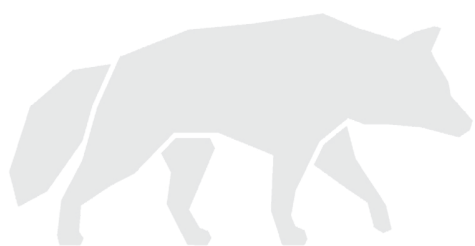
As Scout continued to grow its white label development capacity, the Company made several key changes to bolster its team. These included:

Marek Dzik – Senior Technical Product Manager

Marek most recently oversaw a B2B software platform that contributed US\$16m in annual sales to his prior employer. He was responsible for hiring and managing a mobile development team and developing a strategy which delivered annual revenue growth of 250%. He previously worked at Braintree, Redbox and was one of the first 30 employees at Groupon, bringing extensive technical experience in client-facing roles. He graduated with a Bachelor of Science (Computer Science) from DePaul University in Chicago, IL in 2002.

Chad Smith – Vice President of Platform and Peter Stedman – Vice President of Embedded Engineering

Chad and Peter are integral members of the Scout team, both with more than five years of service and they move to the roles of Vice President of Platform and Vice President of Embedded Engineering, respectively. They will take on additional strategic responsibilities to eliminate redundancies within the engineering team structure and reduce costs over time, while aligning long-time employees with the success of Scout's white label program.



Chad and Peter's experience, seniority and familiarity with the business and its drivers make additional direction redundant at the CTO level. In combination with Mr. Dzik, these promotions will give each department head the opportunity to directly interface with each other and CEO, Dan Roberts, to drive white label strategy.

Dave Shapiro – Non-Executive Director

Scout co-founder Dave Shapiro is stepping back from the day-to-day engineering effort, transitioning his duties between Marek, Chad and Peter. The Company views dividing these responsibilities as a positive key person risk mitigation strategy. Dave will continue to provide input into the Company's strategy and contribute to the long-term success of the business, serving in an advisory capacity for the remainder of FY20 as well as being a Non-Executive Director on the Board. He has agreed to enter a 24-month voluntary escrow of his shares in the Company, until 12 March 2022, to demonstrate his commitment to Scout's success. Dave will be paid US\$1,000 per month during the term of his advisory appointment.

Kevin Brennan – Sales Strategist

Scout engaged Kevin Brennan, contracting on a three-month basis to critically evaluate the Company's sales strategy with a view to completing agreements with key partners in the white label program and to accelerating pipeline conversion.

Kevin has more than 20 years of sales experience, most recently at Ninety7, developing and launching a lifestyle product brand that became the #1 selling accessory to Amazon's Echo Dot, forming partnerships with key retailers Amazon, Best Buy and Walmart in the North American market. Across his career, he has held the roles of Vice President of Sales and Operations, Vice President of Sales and Vice President of Strategic Accounts.

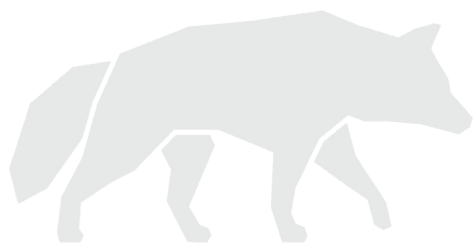
Forgivable Loan Under US CARES ACT

In April, Scout was approved by the US Small Business Administration (SBA) to access non-dilutive, forgivable funding as part of the Paycheck Protection Program ("PPP"), pursuant to the recently adopted Coronavirus Aid, Relief and Economic Security Act (the "CARES Act").

Under the PPP, the US government authorised up to US\$349 billion in forgivable loans to small businesses to help pay their employees. The program provides eligible companies with 2.5x their expected monthly payroll costs to support them through the COVID-19 crisis.

Scout has been approved for an unsecured loan of \$141,790 USD (~\$223k AUD), which is due in two years, attracts a fixed annual interest rate of 1% and all payments are deferred for 6 months; however, interest will continue to accrue over this period.

The loan will be forgiven as long as:



- The loan proceeds are used to cover payroll costs, mortgage interest, rent and utility costs over the 8 week period after the loan is made; and
- Scout maintains its employee and compensation levels.

Repayment of Working Capital Facility

Scout repaid the A\$500,000 first tranche of the working capital facility with DDM Holdings Pty Ltd in February. The facility, first announced to the ASX on 26 August 2019, supported Scout's operational expenditures and allowed the Company to pursue growth opportunities across its lines of business, including driving expansion in its white label connected security platform.

The Company has now paid off all secured debt.

Issue of Unquoted Options

In accordance with shareholder approval received at its Annual General Meeting on 29 November 2019, Scout allotted 333,334 "2018 Loan Options" during the quarter. The 2018 Loan Options were approved to be issued in consideration for a reduced interest rate under the 2018 Loan Deed announced to the ASX on 28 September 2018.

The options are unquoted and exercisable at \$0.30 with an expiry of 7 December 2020.

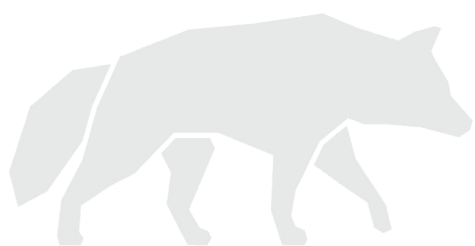
Change of Auditor

In February, Scout advised Nexia Perth Audit Services Pty Ltd ("Nexia") had resigned as auditor of the Company, due to the untimely death of Mr. TJ Spooner, who served as the audit partner and main point of contact at Nexia for Scout. Nexia received ASIC consent to resign as auditor of Scout.

Scout completed a review and tender process and appointed Bentleys Audit and Corporate (WA) Pty Ltd ("Bentleys") as auditor of Scout Security Limited to replace Nexia.

Outlook

The coronavirus pandemic has affected each of Scout's existing and potential partners in different ways. For some, the pandemic has slowed the pace of operations as respective management teams focus, rightly, on the safety and security of their workforce. For others, the pandemic has underscored the need to diversify their core business and emboldened management teams to accelerate efforts to do just that. The net impact has seen Scout's pipeline expand during this time.



As a result of bolstering and reorganising its team during the quarter, Scout has positioned itself well to capitalise on the uptick in interest in contactless business models (DIY). The sales team has overhauled its sales collateral and approach to make it easier for white label partners to get started selling with Scout. The Company sees several potential new partners likely to sign during the June quarter, as Scout continues to push through development milestones with current partners.

Scout does not anticipate any major changes or investments over the coming quarter outside of the normal course of business. We believe the team is sized appropriately, running lean, and well positioned with the influx of cash in April to seize on the opportunities ahead.

The Company's cash balance as at 31 March 2020 of AU\$112k excludes the AU\$400k prepayment from Zego and AU\$223k in forgivable loan funds accessible under the US CARES Act, both of which the Company received in April 2020.

An Appendix 4C follows.

This ASX release has been authorised by the Board of Directors of Scout Security Ltd.

For more information, please contact:

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Tim Dohrmann

Investor and Media Enquiries

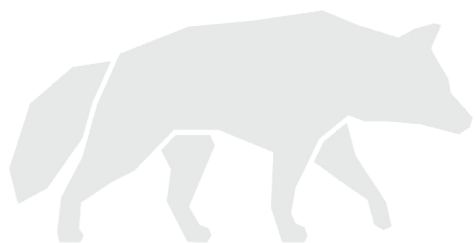
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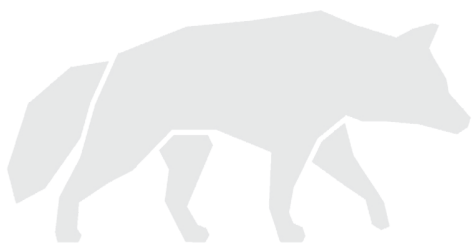
About Scout Security Limited

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 cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Scout Security Limited

ABN

13 615 321 1189

Quarter ended ("current quarter")

31 March 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,107	2,951
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(339)	(636)
(c) advertising and marketing	(143)	(339)
(d) leased assets	-	-
(e) staff costs	(410)	(1,145)
(f) administration and corporate costs	(189)	(1,036)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(14)	(33)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	12	(238)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities		
(b) businesses		
(c) property, plant and equipment		
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment		
	(d) investments		
	(e) intellectual property		
	(f) 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)		
2.6	Net cash from / (used in) investing activities	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	500
3.6	Repayment of borrowings	(500)	(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	(500)	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	618	365
4.2	Net cash from / (used in) operating activities (item 1.9 above)	12	(238)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(500)	-
4.5	Effect of movement in exchange rates on cash held	(18)	(15)
4.6	Cash and cash equivalents at end of period	112	112

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	112	618
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)	112	618

**6. Payments to related parties of the entity and their
associates**

6.1 Aggregate amount of payments to related parties and their
associates included in item 1

6.2 Aggregate amount of payments to related parties and their
associates included in item 2

Current quarter \$A'000
112

Director Salaries – 112k

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

7.1 Loan facilities

7.2 Credit standby arrangements

7.3 Other (please specify)

7.4 **Total financing facilities**

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
-	-
-	-
-	-
-	-

7.5 **Unused financing facilities available at quarter end**

-

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

8. Estimated cash available for future operating activities

\$A'000

8.1 Net cash from / (used in) operating activities (Item 1.9)

12

8.2 Cash and cash equivalents at quarter end (Item 4.6)

112

8.3 Unused finance facilities available at quarter end (Item 7.5)

-

8.4 Total available funding (Item 8.2 + Item 8.3)

114

8.5 **Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**

9.5

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

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.

Date:30 April 2020.....

Authorised by:
(By the Board)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.