

ASX RELEASE

31 JULY 2020

JUNE 2020 QUARTERLY ACTIVITIES REPORT

Key Highlights

- All sales channels gaining momentum
- Continued strong growth in subscribers to TrafficGuard's Freemium product (fraud detection-only)
- Strong initial conversions of Freemium subscribers to paying "land and expand" customers
- Growing revenues and pipeline in TrafficGuard's Google Pay-Per-Click anti-fraud product
- Growing customer diversification, with over 40+ revenue-generating clients
- Trialling new strategic partnerships for sales leverage for the September quarter
- Record balance sheet strength
- Positive outlook from the accelerating global shift to digital business models, high sales leverage from agencies, strong Enterprise-level and Google PPC pipelines

Adveritas Limited (**Company** or **Adveritas**) (ASX: AV1) is pleased to provide its June 2020 Quarterly Report.

1. All sales channels gaining momentum

Halfway through the June quarter, new sales appointments were made in both North America and EMEA, to grow and nurture the sales pipelines in those regions. All new employees have added to that pipeline and potential Enterprise-level customers continue to progress through the sales funnel.

The Company is pleased to advise that it is gaining strong traction across all marketing channels and pricing models.

On 31 January 2020, Adveritas announced its intention to launch its Three by Three Sales model in the second quarter of the 2020 calendar year. Since the launch of its Freemium offering in the June quarter, there has been a high level of interest in TrafficGuard's Google Pay-Per-Click (PPC) digital marketing anti-fraud offering.

Enterprise-level sales pipelines continue to build, driven by both the direct sales team and referral partner introductions. Enterprise-level prospective customers currently running trials are from high spending verticals, including:

- Insurance,
- Money Transfer apps,
- On demand services,

- Retail,
- Automotive and
- Betting agencies.

2. New Revenues

The Company is pleased to advise that it has received first revenues from Freemium subscriber conversions and successfully acquired customers under “land and expand” contracts in the high-growth gaming and betting verticals, including Australian Securities Exchange-listed customers.

Key June quarter milestones include the following:

- Freemium subscribers have reached ~580.
- Strong initial conversions of Freemium subscribers to paying “land and expand” customers.
- First revenues received from “land and expand” Google PPC digital marketing anti-fraud customers, creating a new revenue line for the Company.

Subsequent to quarter end, multiple online betting and gambling clients have signed monthly “land and expand” contracts. The Company is now working closely with those clients to introduce them to our wider offerings, with a view to providing a broader service and capturing a larger share of their digital advertising spending on a longer dated contract basis.

3. Strategic partnerships

Strategic partnerships can provide the Company with significant sales leverage, introducing TrafficGuard to multiple new potential customer relationships. Strategic partners can be advertising agencies or any other third party with large numbers of potential customers.

The Company is pleased to advise that there has been strong interest by ad agencies in the Company’s Referral Partner Program. Multiple agencies have observed TrafficGuard’s powerful results for their clients and have been motivated to introduce TrafficGuard to their wider client base.

Other potential strategic partners include domain name registries, who typically have tens of thousands of digital clients and who are actively looking for new product cross-sell opportunities, which may include TrafficGuard.

The Company will trial new strategic partnerships with digital agencies and domain name registries in the second half of the 2020 calendar year.

Due to the growing popularity among major brands for TrafficGuard’s unique multi-channel offering, the Company is now working with the industry’s top publishers including Google, Bing, Verizon, the Trade Desk and Headway.

4. Financial highlights

Key June quarter highlights are:

- Cash receipts from customers of \$267k, 76% higher than June 2019
- Operating cash outflow reduced to \$1.417m, down 26% from June 2019
- Record balance sheet strength with \$8.351m in cash at quarter end. The Company expects to receive an additional \$2m from Mark McConnell (NED) in August 2020 (subject to shareholder approval) and, based on prior claims, \$1.2m in research and development grant funds (by January 2021).

Refer to section 7 below for a detailed analysis of the Company's financial performance in the June quarter.

5. Diversified customer base and product offering

The Company is pleased to advise that it is diversifying its revenues away from its early focus on mobile phone app install anti-fraud for a relatively small number of Enterprise-level clients.

As at the date of this report, the Company has over 40 paying clients, across all three pricing categories: Freemium, Land and Expand and Long-Dated Contracts, for both Google PPC and mobile phone app install anti-fraud services.

The Company's Three by Three Sales Model and broader product offering allows a wider range of cross-sell and up-sell opportunities across a larger customer base. The Company has a strong track record of upgrading customer contracts (see ASX Release, "*Significant Upgrade to Rappi's Contract*", dated 10 October 2019), and will look to further develop all client relationships over time.

6. Strong momentum and outlook

The Company is gaining momentum in Freemium subscriber conversions. Since launching the Freemium offering in the June quarter, key metrics are:

- 580 freemium clients
- ~4% converted to "land and expand" where the company charges ~2% of the customer's reported Google Ad spend. **It is too early to quantify the potential revenue from these conversions.**

In the second half of the 2020 calendar year, the Company will remain focused on driving revenue in multiple ways:

- **Freemium pipeline expansion** through increased digital marketing across multiple platforms and from strategic partnerships.

- **Freemium subscriber conversion expansion** through content marketing, bundled offerings and the introduction of direct sales contact for the purpose of driving the conversion ratio higher.
- **Upgrades** of land and expand customers to larger and longer-dated contracts.
- **Enterprise-level pipeline conversion.**

CEO Mathew Ratty said:

“Many customers have confirmed that we have the world’s leading digital marketing anti-fraud product, TrafficGuard, backed by a strong team of data scientists, software engineers and proprietary big data.

Whilst COVID-19 impacted the June quarter revenue ramp-up, the leading indicators are very strong, with a growing Freemium subscriber base and strong momentum in Freemium subscriber conversions.

We look forward to executing the multiple strategies which we have in place to drive revenues, particularly through our Google PPC product, Freemium subscriptions and our multi-channel product aimed at Enterprise level clients. “

7. Detailed financial analysis

Summary of revenue and receipts

The global COVID-19 pandemic impacted the Company’s revenue during the June quarter as follows:

- temporary suspension of services to customers at their request;
- temporary reduction of monthly licence fees to assist struggling customers;
- potential customers requesting to defer final contract negotiations until they have a better understanding of the impacts of COVID-19 on their businesses; and
- opportunities to market TrafficGuard were curtailed due to the cancellation of trade shows and events, the imposition of domestic and international travel restrictions and the ceasing of face to face meetings.

The Company’s revenue for the year amounted to \$1.23m whilst receipts from customers totalled \$877k. Customer invoices are generally settled on 30-60 day terms and if they have been outstanding for longer than the Company’s accepted payment period, an expected credit loss allowance is recognised in the Company’s accounts and recovery actions are instigated.

Revenue for the first half of the year included invoices issued to ClearPier Performance Inc (formerly Mpire Network Inc) which was sold by the Company to ClearPier Inc on 31 July 2018. As part of the disposal process, the Company agreed to licence its nxus and TrafficGuard products to ClearPier Performance for a minimum term of 1 year, commencing on 1 August 2018. The annual fees associated with these licencing agreements is US\$420,000, the majority of which relates to nxus, the Company’s non-core campaign management tool.

The initial term of the licencing agreements came to an end on 31 July 2019, and under the terms of the agreements, they are automatically renewed for a further 12-months unless terminated 30 days before the end of the initial term. ClearPier Performance did not provide a termination notice to the Company. However, after the second term commenced, ClearPier Performance disputed the renewal mechanism. The Company instructed its legal counsel to take the required action prescribed by the underlying agreements to resolve the dispute, suspended its services to ClearPier performance and held off issuing further invoices to ClearPier Performance in the second half of the financial year.

Summary of expenditure payments

| | Quarter | | | | Year to date \$'000 |
|-----------------------------------|----------------|----------------|----------------|----------------|------------------------|
| | Jun \$'000 | Mar \$'000 | Dec \$'000 | Sep \$'000 | |
| Research and development | (727) | (986) | (958) | (990) | (3,661) |
| Product manufacturing & operating | (170) | (223) | (246) | (243) | (882) |
| Advertising and marketing | (116) | (307) | (197) | (199) | (819) |
| Staff costs | (616) | (878) | (879) | (752) | (3,125) |
| Administration and corporate | (230) | (401) | (222) | (308) | (1,161) |
| Total expenditure payments | (1,859) | (2,795) | (2,502) | (2,492) | (9,648) |

In response to the global COVID-19 pandemic, employees across the Company's global operations voluntarily agreed to a temporary reduction in their salaries from 1 April. In addition, towards the end of March, Board fees were reduced to nil, the CEO salary was reduced by 50% and the salaries of other members of senior management were reduced by 30%. These reductions were made without there being any obligation on the Company to repay the forgone amounts.

The salary reductions resulted in staff costs for the June quarter being significantly lower than in prior quarters. In addition, given that the largest component of the Company's research and development expenditure is salaries paid to employees working on the Company's research and development initiatives, research and development expenditure in the June quarter was markedly lower than in prior quarters.

Product manufacturing and operating costs represents the amounts paid by the Company for server hosting and software used in the ongoing development and maintenance of TrafficGuard. As part of the Company's COVID cost-cutting measures, it delayed (where possible) and curtailed expenditure in these areas which resulted in lower expenditure than in prior quarters.

In the June quarter, the largest components of the Company's advertising and marketing spend were public relations, advertising and marketing materials. Throughout the June quarter the Company actively reduced expenditure in this area as part of its COVID cost-cutting initiatives which resulted in the spend being lower than prior quarters.

COVID cost-cutting measures, such as temporary rent reductions, combined with the curtailing of non-essential expenditure, resulted in the June quarter's administration and corporate expenditure being lower than prior quarters. The largest component of the June quarter's spend was legal fees which relate to the Company's ongoing pursuit of amounts owing by ClearPier Inc. As previously announced,



the Company has instructed its legal counsel to resolve the dispute surrounding balances owed to it by taking the actions prescribed in the agreements entered into on 31 July 2018 on sale of the performance marketing business. The Company remains confident in its legal position and will keep the market updated.

Payments to directors during the quarter amounted to \$54k and comprised salaries and fees of \$38k (included in staff costs) and consultancy fees of \$15k included in administration and corporate costs).

This announcement has been approved by the Board of Adveritas Limited.

- ENDS -



About Adveritas

Adveritas Ltd (ASX:AV1) creates innovative software solutions that leverage big data to drive business performance. Adveritas' ad fraud prevention software, TrafficGuard, is its first available software as a service. Early adopters of TrafficGuard include LATAM super-app, Rappi and APAC super-app, GO-JEK. Both businesses are well funded with \$2 billion and \$12 billion valuations respectively, and conducting aggressive user acquisition advertising for fast growth. In both cases, TrafficGuard was chosen after a rigorous procurement process that saw the effectiveness of our solution evaluated against a range of competing solutions. For more information, see <https://www.adveritas.com.au/>



About TrafficGuard

TrafficGuard detects, mitigates and reports on ad fraud before it impacts digital advertising budgets. Three formidable layers of protection block both general invalid traffic (GIVT) and sophisticated invalid traffic (SIVT) to ensure that digital advertising results in legitimate advertising engagement. TrafficGuard uses patent-pending technology and proprietary big data accumulated by the performance advertising business previously operated by the Company.

For more information about TrafficGuard's comprehensive fraud mitigation, see <https://www.trafficguard.ai>

For more information, please contact:

Investor Enquiries

Mathew Ratty
Chief Executive Officer
Adveritas Limited
08 9473 2500
investor.enquiry@adveritas.com.au

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Adveritas Limited

ABN

88 156 377 141

Quarter ended ("current quarter")

June 2020

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (12 months) \$A'000 |
|---|------------------------------------|---|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | 267 | 877 |
| 1.2 Payments for | | |
| (a) research and development | (727) | (3,661) |
| (b) product manufacturing and operating costs | (170) | (882) |
| (c) advertising and marketing | (116) | (819) |
| (d) leased assets | - | - |
| (e) staff costs | (616) | (3,125) |
| (f) administration and corporate costs | (230) | (1,161) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 3 | 16 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Government grants and tax incentives | - | 1,287 |
| 1.8 Other (provide details if material) | 172 | 177 |
| 1.9 Net cash from / (used in) operating activities | (1,417) | (7,291) |
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) entities | - | - |
| (b) businesses | - | - |
| (c) property, plant and equipment | (3) | (15) |
| (d) investments | - | - |
| (e) intellectual property | - | - |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (12 months) \$A'000 |
|---|---|------------------------------------|---|
| | (f) other non-current assets | - | - |
| 2.2 | Proceeds from disposal of: | | |
| | (a) entities | - | - |
| | (b) businesses | - | 29 |
| | (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) | 14 |

| | | | |
|-------------|---|--------------|---------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | 5,799 | 13,909 |
| 3.2 | Proceeds from issue of convertible debt securities | - | - |
| 3.3 | Proceeds from exercise of options | - | 145 |
| 3.4 | Transaction costs related to issues of equity securities or convertible debt securities | (97) | (466) |
| 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) | - | - |
| 3.10 | Net cash from / (used in) financing activities | 5,702 | 13,588 |

| | | | |
|-----------|--|---------|---------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 4,126 | 2,047 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (1,417) | (7,291) |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (12 months) \$A'000 |
|---|--|------------------------------------|---|
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (3) | 14 |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | 5,702 | 13,588 |
| 4.5 | Effect of movement in exchange rates on cash held | (57) | (7) |
| 4.6 | Cash and cash equivalents at end of period | 8,351 | 8,351 |

| 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 | 8,351 | 4,126 |
| 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) | 8,351 | 4,126 |

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

- | | Current quarter
\$A'000 |
|---|------------------------------------|
| 6.1 Aggregate amount of payments to related parties and their associates included in item 1 (see explanation below) | 54 |
| 6.2 Aggregate amount of payments to related parties and their associates included in item 2 | - |

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Explanation of payments shown at 6.1

The amount at item 6.1 comprises the following payments to directors:

- salaries and fees of \$38,537; and
- consultancy fees of \$15,000

Quarterly cash flow report for entities subject to Listing Rule 4.7B

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.

| | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|---------------------------------------|---|--|
| 7.1 Loan facilities | - | - |
| 7.2 Credit standby arrangements | - | - |
| 7.3 Other (please specify) | - | - |
| 7.4 Total financing facilities | - | - |

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) | (1,417) |
| 8.2 Cash and cash equivalents at quarter end (Item 4.6) | 8,351 |
| 8.3 Unused finance facilities available at quarter end (Item 7.5) | - |
| 8.4 Total available funding (Item 8.2 + Item 8.3) | 8,351 |
| 8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1) | 6 |

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:

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:

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:

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: 31 July 2020

Authorised by: The Board of Directors

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.