

ASX RELEASE

31 July 2020

Scout Security June 2020 Quarter Update and Appendix 4C

Home security provider Scout Security Ltd ((ASX: SCT), "Scout" or "the Company") is pleased to present its Appendix 4C - Quarterly Cash Flow Report for the period ending 30 June 2020 and an update on business progress.

During the quarter, Scout:

- **Updated its partnership agreement with key resale partner Zego Powered by PayLease ("Zego")**
- **Generated ~A\$915k (US\$601k) in cash receipts**
- **Continued toward meeting its CY20 cashflow goal of generating positive net operational cashflow**

Reflecting managements' efforts during the quarter, in July Scout announced:

- **Signing a commercial agreement with Prosegur Global Alarmas ROW, S.L ("Prosegur"):**
 - Prosegur will purchase a licence from Scout for ~A\$728k (US\$500k)
 - Prosegur and Scout plan to launch in their first target market in 2020
 - Prosegur will have exclusivity in certain key markets and ability to earn exclusivity in others
- **Securing a \$2.0 million Convertible Note Facility**
- **Martin Pretty appointed a Non-Executive Director of Scout Security**

Operational Highlights

Scout generated cash receipts of ~A\$915k (US\$601k) in the June quarter, an increase of 21% on the prior comparable period. The quarter's cash flow included:

- A\$350k (\$250k USD) prepayment of services from Zego
- A\$216k (US\$141k) forgivable loan under the US CARES Act (announced to ASX on 21 April) and
- A\$200k (US\$142k) in hardware sales, and recurring revenue (monitoring and licence fees).

On 3 April 2020, Scout announced an updated partnership agreement with key resale partner Zego. The agreement included a A\$350,000 (US\$250,000) pre-payment of recurring monthly platform fees in return for a small discount. Zego has deployed over 8,000 Scout systems to date and continues to be a supportive Scout partner.

Post quarter-end, in July, Scout made a series of announcements reflecting the efforts of management in the June quarter, including a five-year Commercial Deal with Prosegur, a \$2m convertible note (both released to ASX on 16 July) and the appointment of a new director, Martin Pretty.



Significance of the Commercial Agreement with Prosegur and the White Label Business

On 16 July 2020, Scout announced it had entered into a five-year commercial agreement with strategic partner Prosegur, a subsidiary of multinational security company Prosegur Compañía de Seguridad, S.A. (BMAD: PSG, “Prosegur”).

Scout’s partnership with Prosegur forms part of the Company’s white label program which sees Scout partner with well-resourced players in the security and connected home industries. This model allows Scout to leverage iconic brands, global distribution networks and unique product development capabilities to accelerate scalable growth of our Company’s business.

Prosegur and Scout have agreed their first target territory and plan to launch in that market this calendar year. A further 26 countries have been identified as potential targets for the future. As such, the agreement with Prosegur gives effect to Scout’s ambition to become a global home security platform supplier.

Financial Outlook

Scout has generated over A\$1.5 million (unaudited) in development fees since the December year end, excluding the US\$500,000 Prosegur licence fee announced in July. Scout’s monthly recurring revenue continues to grow and has now reached an annualised run rate of A\$720k (US\$516k) and is expected to accelerate with the Prosegur territory launch and in the US with other white label partners.

Scout’s annual overhead is approximately US\$1.9 million, and it is management’s goal that recurring revenue grows to match this overhead by the close of FY22. In the interim, management will continue to focus on securing white label partner development fees, generating margin from hardware sales and platform licensing to cover the business’ cash burn, in addition to the current base of recurring revenue. Our goal is to have a positive net operational cashflow this calendar year.

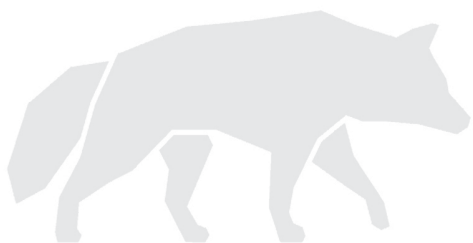
To achieve this the Company has developed a robust pipeline of potential development revenue from previously announced and new customers. This pipeline spans all stages from inquiry to advanced contract negotiation. Management’s goal is to secure multiple additional white label partners and announce their respective commercialisation plans in FY21. Scout will provide details as partnerships are secured.

Strategic Outlook

Fear and uncertainty, which the Company believes are defining trends of 2020, drive sales of home security systems as consumers look to hedge against the unknown. The Company notes that monthly US firearm-related background checks for gun purchases soared by 136% year-on-year to 3.9 million in June, the most since this metric was established by the FBI in 1999¹. Americans are increasingly concerned for their personal safety.

Scout, as a business, therefore, has a positive outlook for growth in 2020 and beyond. Further, the Company’s DIY system removes the need for in-person installers of traditional home security systems, meeting consumer demand for contact-free sales in the COVID-19 environment.

¹ https://www.fbi.gov/file-repository/nics_firearm_checks_-_month_year.pdf/view



Having invested heavily in developing its white label business, Scout is now beginning to capitalise on its strategic position as an independent, DIY platform which can provide enterprise partners a fast, capital-light path to scale.

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

“The past quarter has seen Scout achieve a great step in corporate development activity, culminating in the Company agreeing international rollout terms with key partner Prosegur. This is a critical milestone on Scout’s journey towards becoming a global company operating on a global scale. With international rollout plans for our products now agreed, we expect to reach a much larger market, and over time this will reflect in growth of development and recurring revenue.

“We have now secured several multi-billion-dollar partners through which we are generating meaningful recurring monthly revenue and we are well-resourced to execute our immediate goals. The \$2 million facility allows us to accelerate our work programs with Prosegur as well as other white label partners.

“In addition to the business development activity, we are excited to have bolstered the skillset of our Board with the appointment of experienced investment manager, Martin Pretty, as a Non-Executive Director. Martin brings more than 20 years of experience in the investment and finance industry, with extensive involvement in supporting and investing in growing Australian-listed technology businesses, and we look forward to working with him as we strengthen Scout’s position as a global technology company.”

Payments to related parties and their associates

Payments for salary as CEO were made to Dan Roberts for the quarter totalling \$66k, and payments for non-executive director fees totalled \$11k.

An Appendix 4C follows.

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

For more information, please contact:

Dan Roberts

Chief Executive Officer

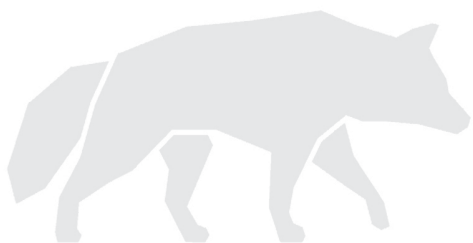
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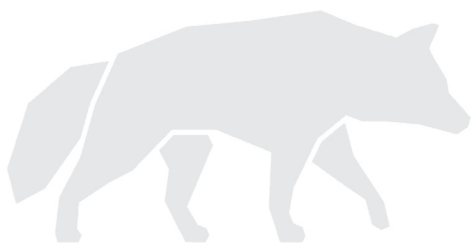


About Scout Security Limited

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")

30 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	699	3,650
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(292)	(928)
(c) advertising and marketing	(2)	(341)
(d) leased assets	-	-
(e) staff costs	(394)	(1539)
(f) administration and corporate costs	(239)	(1,275)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(1)	(34)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	216	216
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(13)	(251)
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 (12 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)
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	-	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	112	365
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(13)	(251)
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 (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	(5)	(20)
4.6	Cash and cash equivalents at end of period	94	94

=

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	94	=
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)	94	112

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**

77

Director Salaries – 66k

Director fees – 11k

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.

Refer to ASX Announcement dated 16 July 2020, titled 'Scout secures \$2M Convertible Note Facility'. An initial drawdown of \$750,000 has now been completed and will be reflected in the Sep-20 Qtr Appendix 4C.

The term of the facility is 2 years, Interest of 5% p.a. is payable on drawn funds, accruing daily and payable quarterly.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(13)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	94
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	94
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	7.2

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:31 July 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.