

Q1 FY23 – APPENDIX 4C SEPTEMBER QUARTERLY REPORT AND OPERATIONAL UPDATE

TESSERENT DELIVERS RECORD FIRST QUARTER TURNOVER AND EBITDA

Tesseract Limited (ASX:TNT) (Tesseract, the Group or Company) is pleased to provide its quarterly cash report and business update of its activities and achievements for the quarter ended 30 September 2022.

	Turnover	% change (vs. PCP)	EBITDA	% change (vs. PCP)
Q1 FY23	\$39.7m	+40%	\$2.5m	+26%
Other activities and KPIs				
	ARR (annual recurring revenue) now 48% of turnover up from 44% in prior year	Phase 2 reorganisation underway to complete integration of FY22 acquisitions	Launch of new Incident Response service offering into the market	\$5.6m of deferred consideration liabilities settled in Q1 FY23

* Turnover includes gross (billed) revenue from consulting and advisory services, plus turnover from product sales

* Q1 earnings results are unaudited. Operating EBITDA (excludes one-off acquisition costs and statutory AASB16 adjustments)

HIGHLIGHTS

Tesseract is pleased to announce another strong start to its FY23 financial year, with continued revenue and earnings growth in Q1 versus the prior year comparative period.

- Successful delivery of Q1 growth against prior year quarter results
- Turnover and earning continuing to exhibit the regular seasonality profile
- Continued recruitment of key cyber talent with a further 14 employees joining the Group during the quarter – taking total current Tesseract workforce to 473
- Strengthening of the balance sheet from issuing \$2.7m of equity through conversion of share options at current market pricing
- The Group's cash position of \$9.5m at 30 September 2022 reflects payment of \$5.6m in deferred consideration liabilities settled in the quarter and a build in WIP, funded from operating cash and conversion of options
- Annual Recurring Revenue (ARR) has continued to sustainably grow and now represents 48% of annual Group turnover
- Significant increase in client engagement and pipeline opportunities has been recorded in the last month following recent high-profile cybersecurity breaches
- Tesseract increased its investment in leading sovereign biometric security company Daltrey Pty Ltd. The unique product and biometric authentication capability developed by this strategic partner has been validated by strong growth and customer uptake in the private and public sectors.

MARKET UPDATE

The last few months has seen a number of high-profile cybersecurity breaches reported in the Australian market and covered in mainstream media.

The nature and scale of these breaches and the public reporting and media surrounding them has significantly increased awareness of both the risks and implications of a material cybersecurity breach, not only on businesses operations, but also and as importantly, implications for businesses reputations (where customers and suppliers may also be significantly impacted).

Leaders across the cybersecurity market in both the government and private sectors all agree that the incidence and sophistication of cyber-attacks in Australia will only increase and that many organisations have a pressing requirement to step up their efforts in protecting their proprietary and customer data.

The Australian cybersecurity Minister has also foreshadowed new laws in the cybersecurity space that will increase both the responsibilities of organisations and their Boards, and the level of penalties for non-compliance.

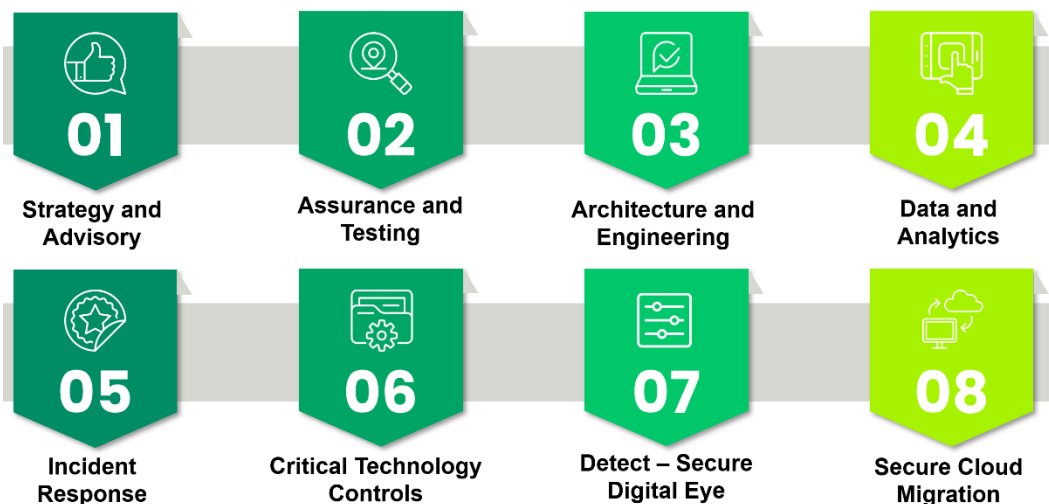
Following recent events, we note that the number of enquiries from both existing and prospective clients and our pipeline of new opportunities have increased significantly – across the full range of Tesseract's service offerings.

Furthermore, the cyber insurance market continues to be challenging, with increasing demand for coverage driving significant increases in insurance premiums (and many companies unable to secure cyber insurance at all). These dynamics are also compelling organisations to improve their cyber security postures.

Whilst the recent cybersecurity breaches are highly regrettable, they do represent an increasing market need for 360° Cybersecurity capabilities and services spanning risk assessment, mitigation, incident response, remediation and comprehensive monitoring, services that Tesseract has built over the last three years and thus validates the growth proposition for the TNT business.

Tesseract is reticent to engage in proffering opinions or market commentary on breaches in third party organisations. We believe that outside parties commenting publicly on an organisation's situation (whether in possession of relevant breach information or not), is rarely in the best interests of that organisation as at the time they need to be intently focussed on further detection, recovery and remediation. There are always lessons to be learned and shares after a thorough review of each situation.

Tesseract's core service offerings

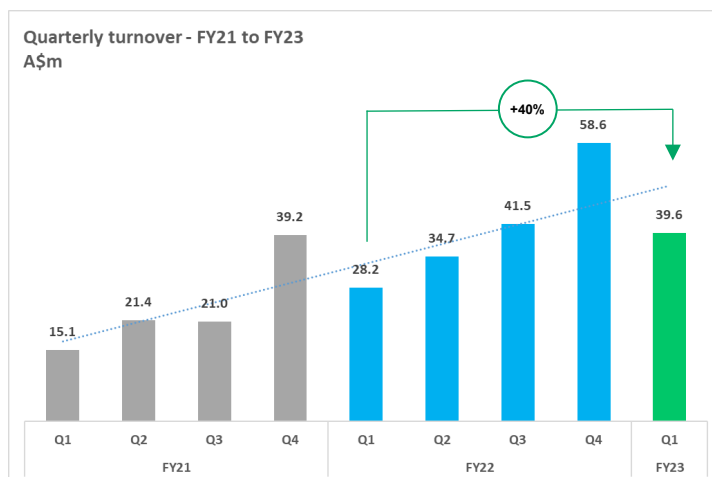


FINANCIAL UPDATE – FIRST QUARTER FY23

Continued growth in turnover and earnings

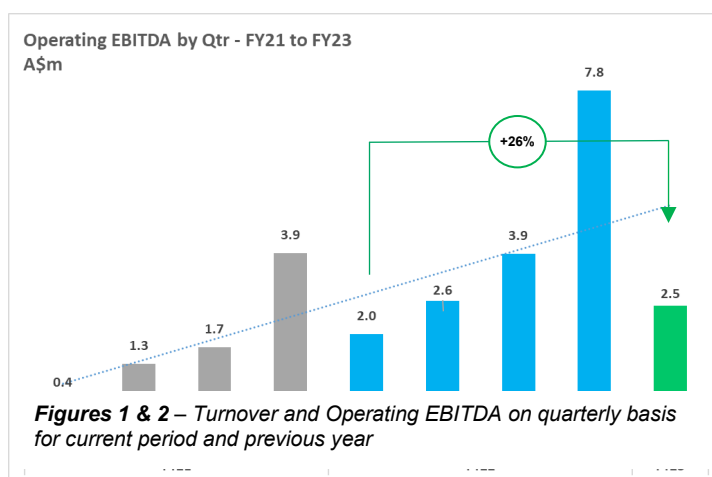
The Group reported continued growth in the underlying business for the first quarter of FY23, with year-on-year growth of 40% against the first quarter of last year.

The Q1 turnover result of **\$39.6m** is down from the last quarter of FY22, but as discussed in previous releases, is expected and reflects the normal annual seasonality profile of the business as shown in the adjacent chart.



Operating EBITDA also reported growth against the first quarter of last year – at 25% on PCP.

The Operating EBITDA result of **\$2.5m** for the first quarter came through slightly lower than forecast at 6.4%, reflecting some delays in contract start times in the Advisory business (now initiated), against continued investment/growth in resourcing and operational structure.



Operating and overall cashflow

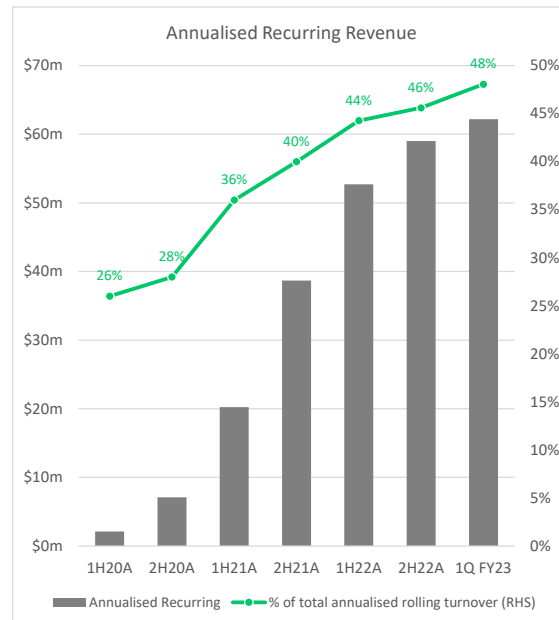
The Group recorded an operating cash outflow of \$2.1m in the first quarter FY23, as a result of movement in net working capital – including a net pay down of creditors of \$9.6m from the fourth quarter FY22.

As noted in previous quarterly releases, seasonality in WIP and working capital movements over the year have a material impact on the quarterly operating cash flow results. Looking at the full year performance however, the cash conversion and operating cash remains strong and the Group has facilities in place to manage working capital fluctuations.

Further to operating cash flows, the first quarter of FY23 saw pay down of \$5.6m of deferred consideration and earnout liabilities relating to acquisitions made in FY21 and FY22. The business also invested \$1.2m in software / IP development projects during the quarter. These payments were partially funded by conversion of \$2.7m of existing share options at current market pricing, and partially funded from operating cash.

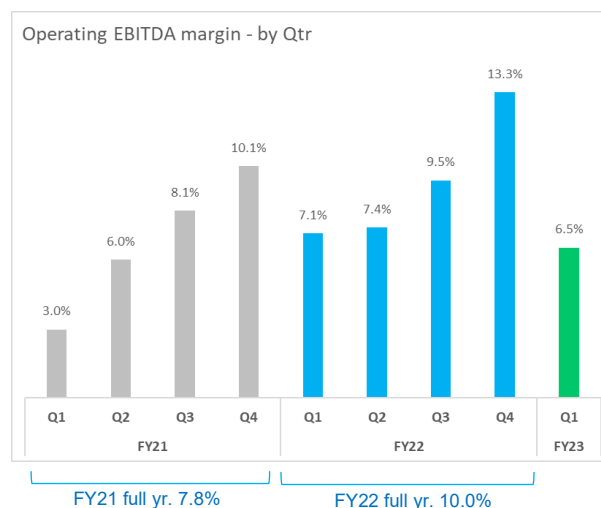
Continued Annual Recurring Revenue (ARR) Growth

Consistent with previous reports, the Group's recurring revenue as a proportion of total annual sales continues to grow and is tracked as a key performance measure within the business (alongside total contracted revenue)



Margin progression

Tesseract has reported growth in EBITDA margin over the last two years through improved pricing and margin recovery. The EBITDA margin exhibits seasonality, broadly consistent with the revenue seasonality of the business – primarily as a result of the impact of operating leverage. Tesseract is continuing to invest in key cyber resources to take advantage of the growing market.



RECRUITMENT OF KEY TALENT AND HEADCOUNT GROWTH

As at the date of this report, the group has grown to a headcount of 473, having recruited an additional 14 employees (net) in the quarter.

The business remains focused on recruiting and retaining key talent to continue to provide an outstanding level of customer service to our clients, whilst continuing to grow our coverage in all aspects of the Cyber 360 delivery to the market.

Our senior leadership team continue to be a key differentiator in attracting talent to Tesseract with several recent senior hires joining from key industry players.

INCIDENT RESPONSE

As part of the Group's 360° strategy, Tesseract has established an Incident Response team and recently launched this service offering to our clients. This Incident Response team draws on subject matter experts recruited from the market as well as leveraging internal experience, skills and data from the assurance/offensive capabilities and security operations centre. This is a completely organic growth initiative for Tesseract with collaboration across the group.

The IR service was launched in late FY22 and has already signed 3 clients with dozens more in the pipeline – providing a Cyber Incident Response Team and procedures covering incident response planning, incident analysis and data protection measures, containment, incident data collection and remediation steps.

FURTHER INNOVATION INVESTMENT IN DALTREY

In mid-October 2022, the Group increased its investment in Daltrey Pty Ltd, a leading sovereign biometric security company. Tesseract's initial investment into Daltrey of \$1.7m was announced in July 2021, and since that date, the Daltrey business has continued the development of its technology to reach production stage and has commenced sales and rollout of the technology into a number of government and enterprise clients.

With the majority of cyber-attacks initiated through stolen credentials and compromised MFA, being able to strongly tie identity to user authentication minimises risk while simplifying the user experience and reducing administrative overhead for application and system owners.

Daltrey's biometric authentication capability materially increases an organisation's security posture by getting rid of the most attacked vulnerability – passwords. It has been implemented by Federal Government, critical national infrastructure providers and publicly listed companies to help protect their teams critical assets.

Tesseract has invested a further \$1m into the Daltrey business, alongside other third party investors to drive Daltrey's continued growth. This investment was supported by a valuation which saw an uplift in the valuation of Tesseract's initial investment in TNT's FY22 audited accounts.



ABOUT TESSERENT

Our mission is to be the sovereign cybersecurity provider of choice for the protection of Australia and New Zealand's digital assets.

Tesseract provides full service, enterprise-grade cybersecurity and networking solutions targeted at midmarket, enterprise and government customers across Australia and New Zealand. The Company's Cyber 360 strategy delivers integrated solutions covering identification, protection and 24/7 monitoring against cybersecurity threats. With more than 440 security engineers, Tesseract has the capability to support organisations to defend their digital assets against increasing risks and cyber-attacks.

Tesseract has been transformed via the integration of several high-quality cybersecurity businesses making it Australia's largest listed dedicated cybersecurity firm.

Learn more at www.tesseract.com

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Authorised by the Disclosure Team under Tesseract's Continuous Disclosure policy



Appendix 4C

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

Name of entity

Tesserent Limited

ABN

13 605 672 928

Quarter ended ("current quarter")

30 September 2022

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	51,836	51,836
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(33,774)	(33,774)
(c) advertising and marketing	(220)	(220)
(d) leased assets		
(e) staff costs	(18,478)	(18,478)
(f) administration and corporate costs	(884)	(884)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(460)	(460)
1.6 Income taxes paid	(147)	(147)
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)	(11)	(11)
1.9 Net cash from / (used in) operating activities	(2,138)	(2,138)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(842)	(842)
(d) investments		
(e) intellectual property		
(f) other non-current assets	(398)	(398)

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 – deferred settlement payments M&A	(5,601)	(5,601)
2.6	Net cash from / (used in) investing activities	(6,841)	(6,841)

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 and warrant shares	2,684	2,684
3.4	Transaction costs related to issues of equity securities or convertible debt securities		
3.5	Proceeds from borrowings	2,000	2,000
3.6	Repayment of borrowings	(563)	(563)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9 a	Other – Interest paid		
3.9 b	Other – (provide details if material)		
3.10	Net cash from / (used in) financing activities	4,121	4,121

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	14,339	14,339
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,138)	(2,138)

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)	(6,841)	(6,841)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4,121	4,121
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	9,481	9,481

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	9,481	14,339
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)	9,481	14,339

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	-
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>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.</i>		

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	59,000	37,000
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	Total financing facilities	59,000	37,000
7.5	Unused financing facilities available at quarter end		22,000
7.6	<p>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.</p> <p><i>Market Rate Loan and ancillary facilities provided by the Commonwealth Bank of Australia (CBA)</i></p> <ul style="list-style-type: none"> - <i>Market Rate Loan Facility of up to \$55m to be used to fund cash consideration payments on existing and future acquisitions; and</i> - <i>Ancillary facilities of \$4m – to cover Bank Guarantees, FX and corporate cards for the Group.</i> 		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(2,138)
8.2	Cash and cash equivalents at quarter end (item 4.6)	9,481
8.3	Unused finance facilities available at quarter end (item 7.5)	22,000
8.4	Total available funding (item 8.2 + item 8.3)	31,481
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	15
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	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	
8.6.2	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	

8.6.3 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

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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: 28 October 2022

Authorised by: The Disclosure Team

(Name of body or officer authorising release – see note 4)

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.