

Scout Security (ASX: SCT) is a white label security-as-a-service platform and product suite powering recurring revenue for some of the largest security, internet service and telco providers in the world.



ASX RELEASE

31 October 2022

Scout Security Quarterly 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 September 2022 and update on business progress. All figures below are reported in Australian dollars unless otherwise stated.

Highlights of the September Quarter

- **Monthly recurring revenue (MRR) increased by 75% year-on-year, bringing annualised recurring revenue (ARR) to \$1.1 million at September 2022**
- **Cash inflows of \$378k in Q3 CY22**
- **Largest expansion executed to date in Scout's white label partner group with the signing of a Statement of Work with Lumen Technologies, Inc ((NYSE: LUMN) "Lumen"), a US\$7bn market cap, full-service US telco with 5 million broadband subscribers and US\$20bn in annual revenue**
- **Telco rollout continues to gather momentum with additional sales channels activating imminently**
- **Successful placement and rights issue to raise up to \$2.3 million**
- **Secured a working capital facility of ~\$250k from an investor group including CEO Ryan McCall, Chairman Martin Pretty and Executive Director Dan Roberts**
- **Cash at bank of \$484k as at 30 September 2022, with cash on hand increasing by approximately \$250k over the prior quarter**

Financial Highlights

As at 30 September 2022, the Company's annualised recurring revenue (ARR) stood at \$1.1 million, representing an increase in ARR of 75% year-on-year. The slight quarter-on-quarter decrease reflects the long-anticipated sunsetting of Scout's sales partnership with smart home device and service provider Zego. The Company is now executing a plan to acquire former Zego customers who retain familiarity with Scout's products and services.



Scout generated quarterly cash inflows from operations of \$378k through monthly service fees and hardware sales. Inflows across the quarter were skewed towards recurring revenue of \$253k, which increased by 102% compared to Q1 FY22's MRR.

Growth in Scout's MRR reflects sell-through and activation of Scout-powered security systems, through both the Company's own sales channels as well as its white label partners. Over time, growth in MRR also decreases the significance of hardware purchase orders to the Company's cash flows. Although Scout generated \$650k of cash receipts from customers in Q1 FY22, \$464k of this related to hardware purchase orders, of which there were \$43k in the most recent quarter.

Operational Achievements

During the quarter, US sales of the Scout-powered white labelled telco home security solution continued to develop. Scout significantly exceeded net average revenue per user (ARPU) forecasts during the quarter, projecting \$7.60 average per month in 2022, having initially targeted \$4.70.

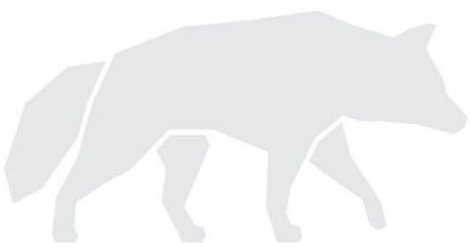
Meanwhile, the Company's first US ISP white label partner, Windstream, continues to add hundreds of net new customers monthly, and has eclipsed more than A\$0.6m in ARR as of the end of Q1 FY223.

During the quarter, Scout executed the largest expansion in its white label partner group to date with the signing of a Statement of Work with Lumen Technologies, Inc ((NYSE: LUMN) "Lumen"). Lumen is a US\$7bn market cap, full-service US telco with 5 million broadband subscribers, adding 20,000 new broadband subscribers monthly, and US\$20bn in annual revenue. It offers bundled services including high-speed broadband and fibre internet, entertainment, digital TV, voice and cybersecurity to residential subscribers and multi-tenant buildings. Lumen also provides data, cloud solutions, unified communications and managed services to small, medium and large business, enterprise clients and government agencies.

The contract will see Scout build out a motion sense home security app for Lumen, as part of a smart security platform buildout encompassing all functionality necessary for Lumen to provide home security services, video cloud storage and smart home controls to Lumen subscribers. The solution will leverage existing whole-home WiFi equipment from Lumen, fibre internet, Scout video products and Lumen technology licenses.

Per the Statement of Work, Lumen will pay US\$246k (A\$357k) for design, development, and integration fees to Scout across engineering and testing milestones specified in the SOW, envisioned to span roughly 3 months. The first payment of US\$37.5k was received in the September quarter. Scout expects to launch the smart security and control platform under Lumen's brand in the first half of CY2023, with recurring revenues to follow.

Lumen represents the largest addressable subscriber base of any Scout channel partner to-date in its growing US telco partner group. Scout's medium-term goal is to penetrate 10% of Lumen's 5 million subscriber base and 10% of new monthly subscribers.



After the end of the quarter, Scout announced plans to launch its home security platform into Australia via Amazon.com.au. Amazon is a Scout shareholder and long-time partner of the Company.

The launch commenced in late October with Scout's indoor and outdoor HD cameras. The launch price of \$59.99 per camera includes 1 month of free video cloud storage. Pricing for 14-day cloud storage has been set at \$5 per month, with all storage revenue flowing to Scout.

Scout's Amazon.com.au launch is only the first step towards the Company entering the Australian market. Discussions are ongoing with Australian internet service providers (ISPs) and value-added resellers (VARs) to bring Scout's Security-as-a-Service platform to Australia.

Financing Exciting Growth Ahead

In August, Scout entered into an agreement with an investor group which includes key Scout management personnel and directors of the Company, providing immediate access to a working capital facility of \$175k USD (~\$250k AUD) available in a single tranche. The key terms of the agreement saw Scout receive the entire facility of USD\$175k upfront, with the facility having a term of two years and an interest rate fixed at 10% per annum, calculated and payable quarterly following drawdown.

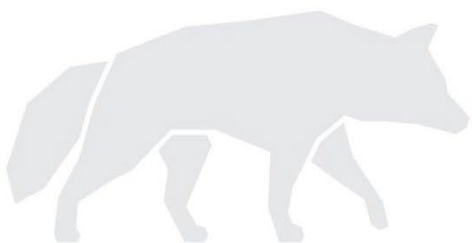
The working capital investor group includes CEO Ryan McCall, Chairman Martin Pretty and Executive Director Dan Roberts. This group waived all financing fees and origination fees, which would typically amount to approximately 1.5% of the principal provided. The Board assessed this transaction as being at arm's length as the terms are better for the Company than the prevailing market rate.

In September, Scout successfully completed a \$0.93 million placement and launched a partially underwritten \$1.38 million rights issue. The placement of 31.0m new shares at \$0.03/share was made to professional and sophisticated investor clients of Sequoia Corporate Finance Pty Ltd.

Subject to shareholder approval, one free attaching option will be issued for every two shares issued under the placement. Each option will have a \$0.07 exercise price and an expiry date of 16 July 2024.

The placement was followed by a non-renounceable rights issue on a 1-for-4 basis on the expanded capital base at the same terms as the placement to raise up to a further \$1.38 million through the issue of 46.1 million shares and 23.05 million free attaching options. The price of the placement and rights issue represented a 21.05% discount to the last traded price and a 23.12% discount to the 15-day VWAP.

The Company received commitments for \$1.278 million under the Rights Issue via entitlements acceptances from existing investors and shortfall applications from professional investors and existing shareholders leaving approximately \$21.5k available



under the Rights Issue shortfall. The shortfall offer will remain open until 6 January 2023 (being 3 months from the closing date of the rights issue).

Funds raised are being principally applied towards working capital as the Company continues to scale up its home security platform rollout via white label partners. The Company held cash at bank of \$484k as at 30 September 20, with cash on hand increasing by approximately \$250k over the prior quarter. This excludes funds raised under the right issue.

Corporate

During the quarter, the Company announced the appointment of Kim Clark as Company Secretary, replacing Stuart Usher in the role, effective 4 July 2022.

Ms Clark is an experienced business professional with more than 20 years in banking and finance, and nearly 17 years as a Company Secretary to other ASX-listed entities. Her experience includes debt and capital raising, risk management, mergers and acquisitions, compliance, and governance.

Mr Usher stepped down due to Scout's strategic decision to move operations to the East coast. The Company thanks Mr Usher for his 5 years of dedicated support and service.

Outlook

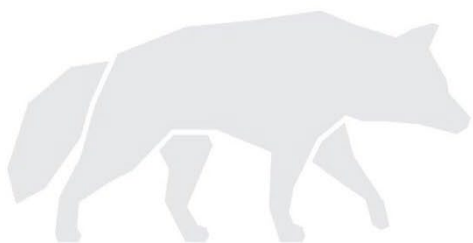
Scout is now scaling and poised for significant growth in FY23. The Company has ambitious goals for the year ahead, expecting further growth in sales through Scout's US telecommunications partner and progress on its pipeline of potential white label partners. The Company's existing telco white label partner intends to launch its eCommerce sales program in Q4 CY22, adding 1.4 million existing customer households to Scout's potential customer base.

It is a goal of the Company for MRR alone to balance monthly cash burn and, based on the current rate of monthly telco adds, the Company is well on its way to achieving that goal. The Company currently has enough orders for cameras and kits from its white label partners, that if all those units were sold into the market, the resulting boost to recurring revenue would allow Scout to achieve cash flow breakeven on an RMR-only basis.

The market for app-based security systems remains robust, with greater than 50% of all home security systems being self-installed, supporting the growth outlook for Scout.

Scout Security CEO Ryan McCall, said:

"It has been a busy and productive quarter for Scout, in which bringing on new partners has remained a key driver of growth for the Company, both operationally and through increased recurring revenue. Lumen, the latest white label partner to join our Scout-powered family, adds 5



million households across the USA to our potential customer base and the clout of a Fortune 500 designation.

"The solution for Lumen represents the next generation in home security with no upfront hardware purchase required. Lumen's brand comes with inherent trust and a large, loyal customer base that we believe will drive healthy adoption of our smart home services over time.

"We continue to see industry validation that smart security is one of the most compelling extensions of the telco core, and based on the successes we're seeing with our first US partners, we have good reasons to hold a positive outlook for growth in the year ahead. To deliver this growth, our recent capital raising activities have provided us with solid foundations to gain scale and grasp the exciting opportunities in front of us."

Statements pursuant to ASX Listing Rule 4.7C.1

Payments to related parties and their associates during the quarter totalled \$186k, all of which relates to executive remuneration

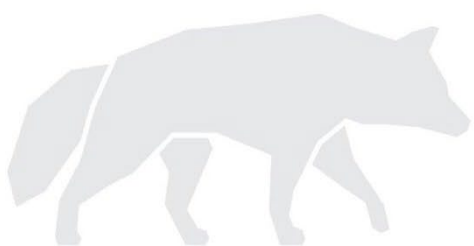
Quarterly expenditure was in line with internal budgets and was focused on these areas:

- In reference to item 1.2(f) of the Appendix 4C, administration and corporate costs totaling AU\$323k were in line with the previous quarter.
- In reference to item 1.2(e) of the Appendix 4C, staff costs totaling AU\$499k were lower than the previously quarter due to unpaid payroll liability withholdings.
- In reference to item 1.2(b) of the Appendix 4C, product manufacturing and operating costs totaling AU\$351k were in line to slightly below the prior quarter.

The Company retains sufficient funding to carry out its activities over the coming quarters based on current cashflow funding initiatives as described elsewhere in this report.

An Appendix 4C report follows.

This ASX release has been authorised by CEO Ryan McCall and Executive Director Dan Roberts of Scout Security Ltd.



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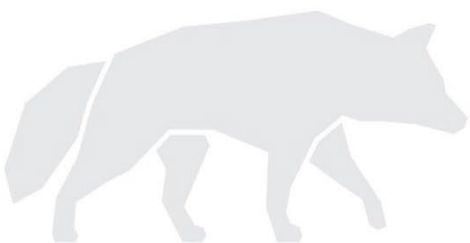
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About Scout Security Limited

Scout Security Limited (ASX: SCT) is a white label security-as-a-service platform and product suite powering recurring revenue for some of the largest security, internet service and telecommunications providers in the world. Scout's simple and affordable DIY approach puts security within reach for millions of residential homes, small-to-medium businesses and multi-tenant buildings.

Scout was recognised as one of Forbes' "Best Home Security Companies of 2022" and was named "Best for Custom Notifications and Alarms" in 2021 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 and Google's Assistant. 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 (ASX: SCT)

ABN

13 615 321 189

Quarter ended ("current quarter")

30 SEPTEMBER 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 Months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	378	378
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(351)	(351)
(c) advertising and marketing	(35)	(35)
(d) leased assets	-	-
(e) staff costs	(499)	(499)
(f) administration and corporate costs	(323)	(323)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(20)	(20)
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	(850)	(850)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(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 (3 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)	930	930
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	(56)	(56)
3.5	Proceeds from borrowings	274	274
3.6	Repayment of borrowings	(63)	(63)
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	1,085	1,085

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	237	237
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(850)	(850)
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 (3 Months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,085	1,085
4.5	Effect of movement in exchange rates on cash held	12	12
4.6	Cash and cash equivalents at end of period	484	484

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	484	237
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)	484	237

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	186
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	867	867
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	2,450	1,612
7.5	Unused financing facilities available at quarter end		838
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>On 16 July 2020, the company entered into a convertible note deed to raise up to \$2M (Refer ASX announcement dated 16 July 2020). During the March 2021 quarter, the Company secured a new Convertible Note Facility to raise \$450k on the same terms as the existing facility.</p> <p>A total drawdown of \$1,612,500 has been completed. The term matures on 31 December 2023, interest of 5% p.a. is payable on drawn funds, accruing daily and paid quarterly. As of September 30, 2022, there have been conversions to ordinary fully paid shares totally \$112,500.</p> <p>In the June quarter, the company entered into a \$400,000 USD secured debt loan deed. The loan matures 730 days after Commencement date; interest of 7% p.a accrues daily and is paid quarterly.</p> <p>Also, in the June quarter, A short-term loan on future recurring revenue was entered into the amount of \$43,200 USD. 20% of future recurring revenue is applied against the principal of the loan. At the end of September quarter, balance on loan was \$24,028 USD.</p> <p>In the September quarter, the company entered into a \$274,406 AUS secured debt loan deed with the Founder, CEO, and Chairman of the Board. The loan term is 2 years with an interest rate fixed at 10% p.a calculated and paid quarterly.</p>		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(850)
8.2	Cash and cash equivalents at quarter end (item 4.6)	485
8.3	Unused finance facilities available at quarter end (item 7.5)	838
8.4	Total available funding (item 8.2 + item 8.3)	473
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	0.6
	<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: Yes

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: Yes; refer to ASX announcement dated 7 October 2022 detailing a Rights Issue raising 1.27 mil.

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: Yes.

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.

31 October 2022

Date:

Board of Directors

Authorised by:
(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.