

Q3 FY23 – APPENDIX 4C

MARCH QUARTERLY REPORT AND OPERATIONAL UPDATE

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 31 March 2023.

	Turnover	% change (vs. PCP)	EBITDA	% change (vs. PCP)
YTD Q3 FY23	\$132.6m	+27%	\$8.9m	+5%
Q3 FY23	\$47.5m	+14%	\$3.9m	0%
Other activities and KPIs				
	32% increase in number of customers buying 3 or more TNT service lines	ARR (annual recurring revenue) maintained at 50% of turnover up from 44% in prior year	Acquisition of ALC training completed during Q3	EBITDA margin improvement from 5.9% to 8.2% from the last quarter (Q2)

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

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

HIGHLIGHTS

- Delivery of Q3 and YTD turnover growth against prior year comparative results. Turnover and earnings are continuing to exhibit the regular seasonality profile
- Tesseract Academy completed its acquisition of the ALC Training business in February and has already developed and deployed a new certified CyberSec First Responder training course for its clients
- Further growth in Incident Response division – with four new retainers signed during Q3
- The Group's security operations centre (SOC) is returning to scale as the Group continues to sign six net new enterprise clients to the managed service. The refreshed SOC offering and transformation of the SOC is still ongoing however
- Continued recruitment of key cyber talent with a further 18 employees joining the Group during Q3 – taking total Tesseract workforce to 496 at the end of March
- Annual Recurring Revenue (ARR) is maintained at 50% of annual Group turnover – consistent with the last quarter

Earnings within the business continue to exhibit high levels of seasonality (with operating EBITDA in H1/H2 reported at c. 27% / 73% respectively for each of the last two years). This is expected to continue into the last quarter of FY23.

FINANCIAL UPDATE – THIRD QUARTER FY23

Continued growth in turnover

The Group reported continued top line growth for the third quarter of FY23, with year-on-year growth for the quarter of 14% against the third quarter of last year.

The Q3 turnover result of **\$47.5m** as expected, continues to exhibit growth in line with the normal annual seasonality profile of the business as shown in the adjacent chart.

Operating EBITDA for the third quarter remained flat against the comparative third quarter last year.

This Operating EBITDA result of **\$3.9m** for the third quarter reflected the margin impact of some continued underperformance in the SOC, which is currently being addressed plus some investment/growth in resourcing and operational structure.

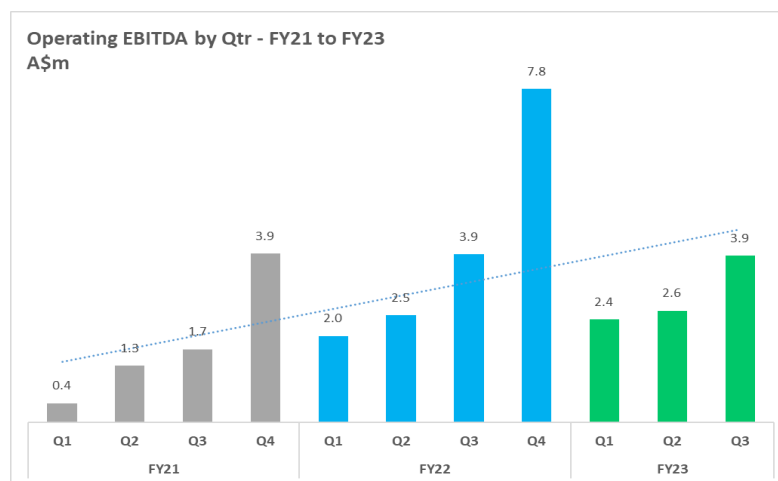
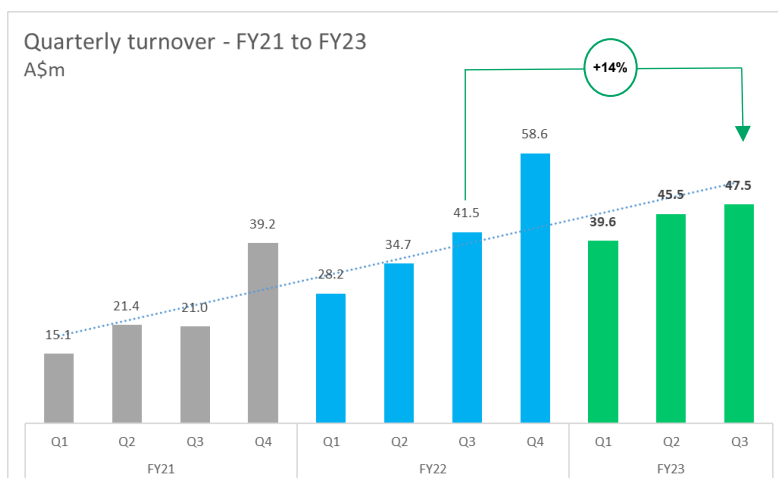
Note that the EBITDA margin has improved from previous quarter as the utilisation rates across the business have increased and with improved leverage through the P&L.

Tesseract is continuing to invest in, and expand, its service offering to its clients through its new Incident Response service offering and its Security Operations Centre (SOC) business. The SOC division is currently performing below the Group's target Operating EBITDA metric as it focuses on refreshing the offering in this area.

Operating and overall cashflow

The Group recorded an operating cash outflow of \$2.0m in the third quarter FY23 (\$1.6m YTD), primarily as a result of growth in the group's unbilled WIP during the quarter – see the chart below. This increase in unbilled WIP was expected and reflects an increase in activity in the consulting business (particularly in the government advisory business), and will unwind towards the end of Q4, as billing/project milestones are met. Q4 is also expected to report strong operating cash inflows in respect of product sales.

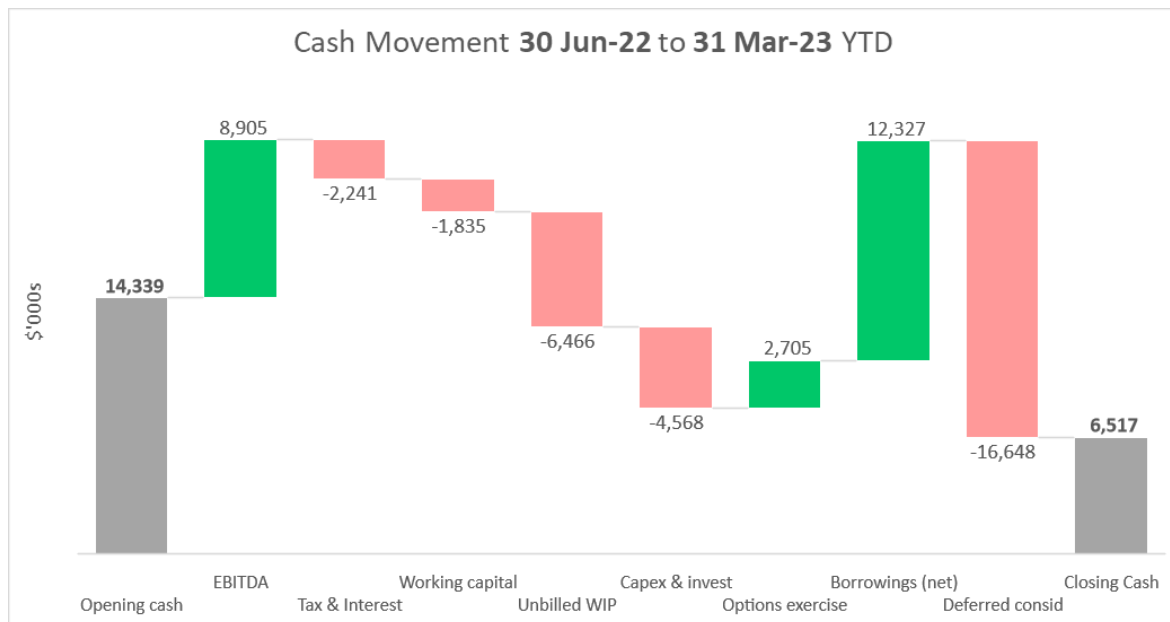
As shown in the cashflow chart over the page, WIP and working capital movements over the year have a material impact on the quarterly operating cash flow results.



Figures 1 & 2 – Turnover and Operating EBITDA on quarterly basis for current period and previous year

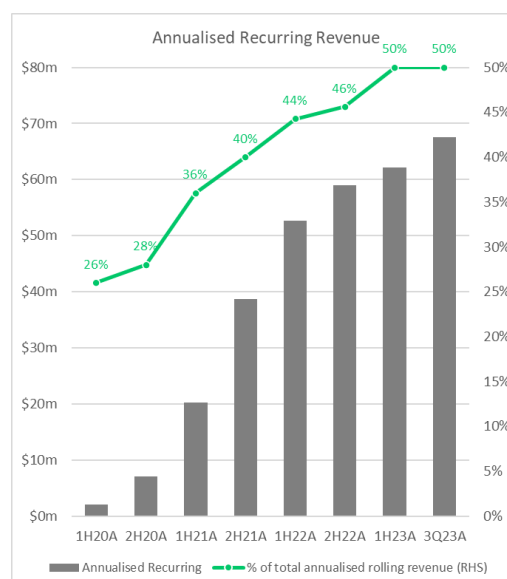
The group continues to focus on maintaining a strong cash collection profile and has very low debtor delinquencies with bad debt expense of less than 0.1% of turnover for the current and prior years.

Outside of operating cash flows, YTD FY23 has seen significant payments of \$16.6m of deferred consideration and earnout liabilities relating to acquisitions made in FY21 and FY22. The business also paid \$1.7m in relation to the first instalment for the ALC acquisition and \$1.8m in software / IP development projects during the year to date. These payments were partially funded by conversion of \$2.7m of existing share options at current market pricing, partially funded by drawing down on the CBA facility, and partially funded from operating cash.



Continued Annual Recurring Revenue (ARR)

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).

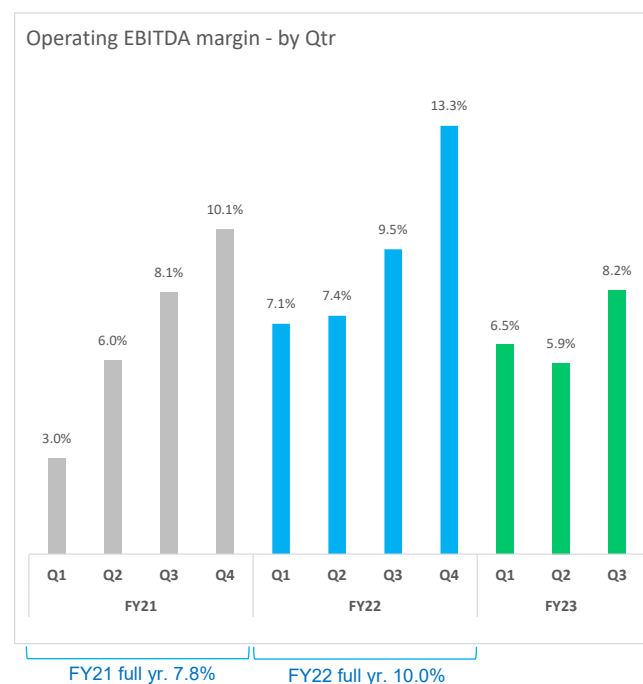


Margin progression

The EBITDA margin exhibits seasonality, broadly consistent with the revenue seasonality of the business, but the Operating EBITDA margins in the current financial year have reduced from the prior comparative periods.

This margin reduction also reflects the Group's investment in building and growing a new Incident Response service offering plus one-off costs associated with some under scale network and infrastructure management services in the Group's Security Operations Centre (SOC) offering. This refreshed offering has recently been successful in signing a number of new key enterprise and mid-market clients as a result of the increase in Cyber threats occurring in the second half of 2022. The Group's SOC signed an additional six net new enterprise clients to the managed services in Q3 FY2023.

Management expects the Security Operations Centre (SOC) to be back to delivering on its financial targets by Q4 FY23.



RECRUITMENT OF KEY TALENT AND HEADCOUNT GROWTH

As at the end of March 2023, the Group has grown to a headcount of 496, having recruited an additional 18 employees (net) in the third quarter of FY23 (and 37 employees during the YTD FY23).

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 across multiple service lines in delivery to the market.

The Tesseract Academy has launched a new cyber training programme ("100 students in 100 days"), providing a further pipeline recruit and develop high quality talent into the business and the Cyber security industry overall.



ALC ACQUISITION

Tesseract Academy completed the acquisition of prominent Australian Cybersecurity training business, ALC Training in March 2023. In its first full month since acquisition, ALC delivered a profit of \$0.2m to the Group.

ALC provides certified training courses and administers the associated exams across 10 accreditation bodies which will form a core part of Tesseract Academy's offering going forward.

Since the completion of the acquisition, Tesseract has already referred numerous client training requirements into the existing ALC training programmes and has also developed and deployed a new certified CyberSec First Responder training course into the market.

INVESTMENT IN DALTREY

On 3 March 2023, the directors of Daltrey Pty Ltd appointed Stuart Free of Jirsh Sutherland as a Joint and Several Administrator of the Group.

Pursuant to the Administrators investigations, the catalyst for the appointment was the company's cash flow projections, which indicated that the Daltrey Group would not have sufficient funds in order to pay its debts as and when they fell due.

We understand that Daltrey Group was in the midst of a capital raise and expected to have sufficient funds to continue trading in the ordinary course. However, at the final stages of that capital raise significant issues arose with a proposed amendment to the funding deal, rendering it infeasible.

The Administrators promptly determined that there may be the prospect of a sale of the business and/or a Deed of Company Arrangement. The Administrators have continued to trade the business in a limited capacity during the administration period while the prospect of a sale and/or DOCA is explored. This has enabled the goodwill in the business' to be maintained.

The current valuation and recovery of Tesseract's carrying investment in the Daltrey business (of \$3.2m) is uncertain – dependant on the outcome of the sales process being run by the Administrators. Tesseract will provide a further update to the market once the likely outcome becomes known.

Tesseract is looking at restructuring options in order to preserve the value of the investment and the commercial opportunities within the Biometric security market.

Tesseract Innovation continues to work on other (internal) research and intellectual property development opportunities – including software and AI projects as part of its broader organic growth strategy

ABOUT TESSERENT

Our mission to be the cybersecurity provider of choice for the protection of digital assets.

Tesseract provides multiples service lines, enterprise-grade cybersecurity and cloud-based 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 450 cybersecurity practitioners, Tesseract has the capability to support organisations to defend their digital assets against increasing risks and cyber-attacks.

Tesseract has been transformed over the last 3 years via the integration of more than a dozen high-quality cybersecurity businesses making it Australia's largest listed dedicated cybersecurity firm.

Learn more at www.tesseract.com

CONTACT

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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")

31 March 2023

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	43,178	137,936
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(21,212)	(77,210)
(c) advertising and marketing	(162)	(500)
(d) leased assets		
(e) staff costs	(21,966)	(57,413)
(f) administration and corporate costs	(998)	(2,211)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(852)	(1,983)
1.6 Income taxes paid	-	(238)
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)	(12)	(21)
1.9 Net cash from / (used in) operating activities	(2,024)	(1,640)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	(1,108)	(1,108)
(b) businesses		
(c) property, plant and equipment	(491)	(1,500)
(d) investments	-	(1,000)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
	(e) intellectual property		
	(f) other non-current assets	(271)	(979)
2.2	Proceeds from disposal of:		
	(a) entities	19	19
	(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	-	(16,648)
2.6	Net cash from / (used in) investing activities	(1,851)	(21,216)

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	-	2,705
3.4	Transaction costs related to issues of equity securities or convertible debt securities		
3.5	Proceeds from borrowings	4,000	14,000
3.6	Repayment of borrowings	(863)	(1,671)
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	3,137	15,034

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	7,255	14,339
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,024)	(1,640)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,851)	(21,216)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,137	15,034
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	6,517	6,517

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	6,517	7,255
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)	6,517	7,255

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	50,122
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	Total financing facilities	59,000	46,011
7.5	Unused financing facilities available at quarter end		8,878
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)	(2,026)
8.2	Cash and cash equivalents at quarter end (item 4.6)	6,517
8.3	Unused finance facilities available at quarter end (item 7.5)	8,878
8.4	Total available funding (item 8.2 + item 8.3)	15,394
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	8
	<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 April 2023

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.