



ASX RELEASE

30 January 2019

Scout Security December 2018 Quarter Update and Appendix 4C

Highlights:

- **Scout built on white label and direct sales in the December quarter seeing cash receipts of \$0.8M. Prior quarter receipts of \$962k included a one-time \$408k prepayment from Stanley Black & Decker. Direct and white label sales were up 40% quarter on quarter, normalising to exclude the one-time payment**
- **Prosegur makes strategic equity investment in Scout of up to US\$5.3M (AU\$7.4M) via two tranches with first tranche of AU\$2.9M received in December**
- **Scout's commercial relationship with Prosegur represents the second multi-billion dollar partner secured in 2018 after Stanley Black & Decker**
- **Strategic partnership will see Prosegur distribute Scout's full suite of branded security products into key security markets in Europe and South America, and presents the opportunity for the parties to co-develop new products**
- **Scout secures US-based retail giant Walmart as an online retailer, achieving first sales in December**
- **Initial purchase order received from STANLEY Security**
- **Cash balance of \$2.8M at 31 December 2018**

Home security provider Scout Security Limited ((ASX: SCT), "Scout" or "the Company") is pleased to present its Appendix 4C - Quarterly Cash Flow Report for the period ending 31 December 2018 and an update on business progress.

Scout Security co-founder and CEO Dan Roberts said:

"The second half of 2018 saw Scout secure a number of key relationships and an investment that will fuel the company in 2019. The Company secured a strategic commercial relationship with Prosegur in December – making it the second multi-billion dollar company to partner with Scout in 2018. The two tranches of investment that accompany the commercial deal ensure that we have the marketing dollars to grow our domestic business in the near term, while also giving us a path to long-term funding and growth internationally. With the addition of Walmart.com as an online retailer in the quarter, the right building blocks are in place heading into the new year.



“In addition to these new partnerships, we have also been building on existing relationships in the December quarter having received our inaugural purchase order from STANLEY Security and key reseller Zego continuing to boost sales in the multi-family channel.

“The operational momentum we have built over the past several quarters continue to gather pace, and we are well-funded to pursue what we view as an outstanding growth opportunity in 2019.”

Operational Highlights

The Company saw cash receipts of AU\$0.8M in the December quarter. While September quarterly cashflow receipts were \$962k, this included a one-time prepayment of \$408k from Stanley Black & Decker. Excluding the one-time prepayment for licenses, Scout’s white label and direct sales increased 40% quarter-on-quarter during the holiday season.

Although product sales represented the majority of the Company’s revenue in the December quarter, the contribution from higher-margin monitoring subscription revenue continues to drive the business. The Company continues to progress toward generating positive net operational cash flow, with product manufacturing and operating costs having risen quarter-on-quarter due to the timing of the receipt of the working capital facility announced at the end of the September quarter.

In December, Scout announced a strategic partnership with multinational security company Prosegur Compañía de Seguridad, S.A (BMAD: PSG, "Prosegur") and an investment of up to US\$5.3 million (A\$7.4 million, based on an agreed exchange rate of US\$1: A\$0.71).

Prosegur is a global leader in security services with more than 175,000 employees and active in the manned guarding and technology, cash-in-transit, and alarms businesses through Prosegur Security, Prosegur Cash, and Prosegur Alarms. The Prosegur Alarms segment generates more than €250 million (AU\$391 million¹) in annual revenue from over 500,000 alarm connections in 11 countries.

The investment was structured by way of a placement of 10,837,368 shares at an issue price of \$0.275 per share to raise approximately AU\$2.9 million and an issue of 16,005,508 options to acquire shares (exercisable at A\$0.28 on or before 31 December 2019). If all the options are exercised, the Company will receive further funding of approximately AU\$4.5 million.

The Company and Prosegur also entered into a commercial agreement under which they agreed to negotiate a formal arrangement over the next 18 months to grant Prosegur exclusive rights to distribute Scout’s full suite of branded security products into Prosegur’s key monitoring business markets of Spain, Portugal, Argentina, Peru and Chile. It is also anticipated that the Company will grant Prosegur exclusive rights in relation to Company products and technology in key international regions, and Prosegur will provide the Company access to a range of opportunities and strategic services.

¹ AU\$0.6412: EUR 1



Prosegur's investment in Scout is already being put to use to expand the Company's marketing activities in Scout's home market of the US with the aim of growing Scout's market share, and over time increasing sales by penetrating new international markets.

In November, Scout announced US retail giant Walmart would sell Scout's home security systems through Walmart's online store, achieving first sales in December. The Scout offering will complement Walmart's existing security and smart home offerings and provide Walmart customers with complete flexibility around their home security needs. More importantly, Walmart.com represents the first of a number of online resellers the company is targeting for expansion of direct-to-consumer sales to complement Amazon.com.

Initial purchase orders have stocked Walmart in time for the 2018 holiday season and kick off a larger push into retail in 2019.

An internationally recognised retail brand, Walmart operates more than 11,000 stores under 55 banners in 27 countries. In addition, Walmart operates eCommerce websites in 10 countries.

The Scout Alarm is being sold initially through Walmart's US online store, with the possibility for expansion to additional country portals and potentially Walmart in-store sales in the future.

During the quarter, STANLEY Security placed an initial purchase order for Scout equipment. This was an important step in the progression of the relationship with STANLEY Security, as Scout continues to expand its white label capabilities to be increasingly flexible, versatile and feature-rich.

Scout's key resale partner Zego ordered 1,000 smart home security hubs in each of the months of the September quarter and took immediate delivery of an additional 785 hubs to address demand above and beyond initial forecasts. Since the sales partnership commenced in late 2017, Zego has ordered nearly 7,000 units from Scout, meeting the communicated target of 5,000 to 10,000 Scout systems ordered in a 12-month period. Now that Zego has reached a critical mass of installed systems, Scout and Zego will be working jointly to roll out subscription service offerings in the new year.

During the quarter and at the CES trade show in early 2019, Scout held discussions with multiple potential partners that could boost growth of the Company's white label program in 2019.

Corporate

Director Changes

In January, Chairman and Non-Executive Director Mr John Strong provided a notice of resignation, having recovered from a severe illness that has resulted in substantial ongoing medical costs. He requested permission from the Company to sell a portion of his shares under a 'Severe Financial



Hardship circumstance' in accordance with the Company's Share Trading Policy.

CEO Dan Roberts reviewed the circumstances and agreed to allow the sale, following which Mr Strong sold 465,000 ordinary shares by off-market transfer, and 764,911 ordinary shares on market, as detailed in the Appendix 3Y issued on 15 January 2019.

The Company has retained Mr Strong as a special advisor to the Board to assist with strategic decision making and ongoing business development efforts. Remuneration will be US\$1,562 per month with retention of the 'Director Options' issued on 22 August 2017 which are exercisable at \$0.30, vest two years after issue and expire three years after issue. The options lapse by virtue of resignation and therefore their retention must be approved by shareholders at the next general meeting.

Outlook

The smart home security market and Internet of Things (IoT) markets continued to evolve in 2018. When the Company listed on the ASX in August 2017, online and direct-to-consumer sales comprised the bulk of revenue and the number of new entrants was expanding. The bulk of brands were focused on the US market as early adopters drove sales.

Flashing forward to the end of 2018, the market has consolidated through numerous acquisitions and brands exiting the space. Interest from international markets has increased. Scout is now one of the few remaining independent platforms in the market, and the Company is one of the few security providers to offer a white label platform.

These shifts in the marketplace has seen fewer new brands enter the market and many existing brands looking to acquire or partner with an established product suite and software platform. It's no surprise, then, that Scout has seen an increased interest in the white label platform and an expansion in both partnerships and white label sales. The company is well-positioned to continue to benefit from these trends in 2019 with additional white label partners and international expansion opportunities.

With limited resources in the second half of 2018, Scout was able to secure two multi-billion dollar partnerships, a multi-billion dollar online retailer and expand product sales. With the recent investment dollars received, Scout now has the flexibility to ramp direct-to-consumer at the same time that the business development team secures new partners.

The combination of increased direct-to-consumer marketing, white label partner sales and international expansion opportunities underpin the Company's positive growth outlook in 2019.

The Company's cash balance at 31 December 2018 was AU\$2.8M.

Appendix 4C follows.



For more information, please contact:

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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. In 2016, the Scout system was recognised by CNet as one of the Best Smart Home Devices of the year.

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 Works With Nest and Samsung SmartThings. Scout is also an Amazon Alexa Fund portfolio company.

www.scoutalarm.com

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Scout Security Limited

ABN

13 615 321 1189

Quarter ended ("current quarter")

31 December 2018

Consolidated statement of cash flows	Current quarter \$A'000s	Year to date \$A'000s
1. Cash flows from operating activities		
1.1 Receipts from customers	781	1,743
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(743)	(957)
(c) advertising and marketing	(21)	(93)
(d) leased assets	-	-
(e) staff costs	(385)	(734)
(f) administration and corporate costs	(459)	(961)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	3
1.5 Interest and other costs of finance paid	(6)	(14)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other	-	-
1.9 Net cash from / (used in) operating activities	(832)	(1,013)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment		
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000s	Year to date \$A'000s
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (Cash acquired on acquisition))	-	-
2.6 Net cash from / (used in) investing activities	-	-

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	2,980	3,055
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	(15)	(15)
3.5 Proceeds from borrowings	-	500
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	2,965	3,540

* The operations of Scout Security Inc are reflected from acquisition date of 22-Aug 2017

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	664	270
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(832)	(1,013)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4 Net cash from / (used in) financing activities (item 3.10 above)	2,965	3,540

Consolidated statement of cash flows		Current quarter \$A'000s	Year to date \$A'000s
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of quarter	2,797	2,797

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	2,797	664
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)	2,797	664

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
118
-

Director Salaries – 75k
Director fees – 43k

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000
-
-

-

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	-
9.2 Product manufacturing and operating costs	(382)
9.3 Advertising and marketing	(97)
9.4 Leased assets	-
9.5 Staff costs	(340)
9.6 Administration and corporate costs	(260)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(1,079)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

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.

Sign here:



(Company Secretary)

Date: 30 January 2019

Print name: Stuart Usher

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.