

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

11 June 2024

# Recapitalisation via Placement, Rights Issue and Note Conversion

## Highlights

- **Recapitalisation to position Scout for FY2025 growth path.**
- **\$4.376m package of equity commitments and debt conversion<sup>1</sup>.**
- **Scout has received firm commitments to raise \$0.375m before costs via two placement tranches:**
  - **\$0.12m Tranche 1 Placement to professional and sophisticated investors**
  - **\$0.26m Tranche 2 Placement led by a strategic investor.**
- **Scout intends to undertake a Non-renounceable Rights Issue to raise up to \$1.57m, underwritten for \$0.46m with \$0.17m in additional shortfall commitments.**
- **Investors holding all of the Company's outstanding convertible notes (worth \$1.48 million) and US\$1.34 million (A\$2.07 million at an agreed exchange rate of US\$0.65:A\$1) of secured loan notes have agreed to convert to equity on the same terms as the placement and rights issue.**
- **All new shares to be issued at \$0.004 a share with one free attaching option (exercisable at \$0.005 within 2 years of the issue of Tranche 1 Placement shares) for every share issued.**
- **Funds raised will primarily support the Company's rollout via white label partners, as well as for new product development and ongoing working capital.**
- **Further cost savings to underpin sustainability.**

## Background

Home security provider Scout Security Ltd (ASX: SCT), "Scout", "SCT" or "the Company") is pleased to announce a comprehensive recapitalisation following an intensive four months of cost reduction and business development, with the expansion of existing customer relationships (Windstream and Origin) and the addition of a new contracted customer, IMB, while we prepare for the commercial launch of our WiFi Sensing offerings with Lumen and other white-label partners.

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<sup>1</sup> Being the sum \$0.375m to be raised under the Placement, \$0.459m Rights Issue sub-underwriting, \$0.166m Rights issue shortfall commitment, \$1.475m conversion of convertible notes and \$2.07m conversion of loan notes.



Scout Security CEO, Ryan McCall, said:

*"We are grateful to have secured the support of new and existing investors through this recapitalisation. The funds raised will provide the time needed for already-secured enterprise partners to launch and scale Scout's white label security-as-a-service platform and product suite. As these rollouts take shape, those same partners will demonstrate the power of our next-generation, white label WiFi Sensing security offerings.*

*Our existing partner Lumen Technologies is poised to be first to market in the USA with a WiFi Sensing security solution powered by Scout. Even a modest attach rate to their 3.5 million subscriber base represents a substantial potential increase in new subscription revenue to Scout. The solution we have developed for Lumen is extensible to other ISPs and carriers globally, direct and through managed WiFi resellers.*

*Scout's newest partner, Intelligent Monitoring Group (ASX: IMB) demonstrates that global extensibility, as IMG is now set to bring Scout's DIY security solutions to Australia through their ADT, retail and inside sales channels.*

*We have achieved more than \$1 million in cost savings in CY24 to date, and following this recapitalisation, the Company will be positioned to sustain itself for at least 12 months on its current expected revenue base. We plan to deliver revenue growth in CY24 through the launch of Lumen, Windstream growth, and launching our new partnership in Australia with IMB.*

*With a significantly strengthened balance sheet, we remain focused on executing Scout's growth strategy and look forward to delivering value for the Company's customers, partners and investors."*

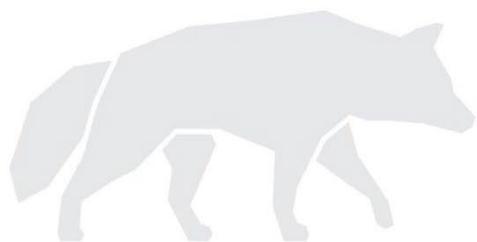
## **Placement**

SCT has successfully secured firm commitments for a two-tranche placement to professional and sophisticated investors at an issue price of \$0.004 to raise approximately \$375,420 (before costs) (**Placement**).

Tranche 1 – 29,604,957 Placement shares will be issued at an issue price of \$0.004 per share under SCT's existing Listing Rule 7.1 placement capacity, raising \$118,420 (before costs).

Tranche 2 – 64,250,000 Placement shares will be issued, including 56,750,000 Placement shares to a strategic Investor, Origin Wireless, Inc, at an issue price of \$0.004 per share to raise a further \$257,000 (before costs). The Tranche 2 Placement will be subject to shareholder approval under listing rule 7.1 at an upcoming Extraordinary General Meeting (**EGM**).

Subject to shareholder approval to be sought under listing rule 7.1 at an upcoming EGM, Placement participants will also be issued one free-attaching option to acquire a share in SCT (**Option**) for every Placement share issued.



Free-attaching Options will have an exercise price of \$0.005 and an expiry date that is 2 years from the date of issue of the Tranche 1 Placement shares.

The price of the Placement and Rights Issue represents a 42.9% discount to the last traded price of \$0.007 prior to the Company requesting a trading halt on 19 April 2024.

## Rights Issue

The Company also intends to conduct a non-renounceable rights issue of shares on a 3 for 2 basis to eligible shareholders, together with one free-attaching Option, to raise up to \$1.57 million (**Rights Issue**).

As the Company has been suspended from trading by ASX under Listing Rule 17.3, as a result of ASX's view that the Company is not in compliance with Listing Rule 12.2, the Company is not able to undertake a renounceable rights issue, which is required where a rights issue is proposed to be undertaken on a ratio greater than one for one.

As such, the Company has sought, and been granted, a waiver from ASX of Listing Rule 7.11.3 to permit the Rights Issue to be undertaken on a non-renounceable basis. The waiver is subject to a condition that the Rights Issue is made subject to shareholder approval and, accordingly, the Company will seek shareholder approval for the Rights Issue in due course. The votes of substantial shareholders, underwriters or sub-underwriters of the Rights Issue, any brokers or managers of the Rights Issue, and any of their respective associates will be excluded from voting on the relevant resolution.

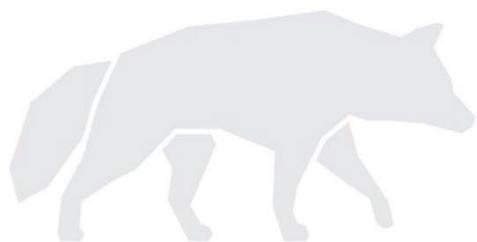
The Company has also been granted a waiver of ASX Listing Rule 7.15 to permit the Company to undertake the Rights Issue with a record date that is prior to the shareholders' meeting to approve the Rights Issue, conditional upon the Company's securities not being reinstated to trading prior to that general meeting.

Shares and free-attaching Options issued to eligible shareholders that participate in the Rights Issue will be issued on the same terms as those issued pursuant to the Placement.

PAC Partners Securities Pty Ltd (**PAC Partners**) acted as lead manager to the Placement and will act as lead manager and partial underwriter to the Rights Issue, to a value of \$458,580 (**Underwritten Amount**), and will receive up to 6% of the total capital raised as the fee for this service. PAC Partners will be responsible for paying any fees to approved introducing parties holding an AFSL and to sub-underwriters. In consideration for acting as underwriter and lead manager to the Rights Issue, PAC Partners will receive the following fees:

- a selling fee equal to 4% of the funds raised by PAC Partners under the Placement;
- a management fee equal to 2% of the funds raised under the Placement;
- an underwriting fee equal to 6% of the Underwritten Amount; and
- a management fee equal to 2% of the funds raised under the Rights Issue in excess of the Underwritten Amount.

The underwriting obligation is conditional upon the Company's shareholders approving the issue of securities under the Rights Issue (as contemplated above) and PAC Partners being



satisfied with the due diligence process undertaken by the Company in respect of the rights issue and consenting to be named in the prospectus. The underwriting agreement will otherwise be on terms considered customary for an agreement of its kind, further details of which will be set out in the prospectus for the Rights Issue.

The Company has also received commitments for placing shortfall pertaining to the Rights Issue of up to \$166,000, in addition to the underwriting commitment by PAC Partners, the result of which is that the Company will raise a minimum of \$1,000,000 (before costs) under the Placement and Rights Issue (subject to shareholders approving Tranche 2 of the Placement).

### Debt Conversion

The Company has also reached agreement with the holders of \$1.48 million in convertible notes and US\$1.34 million (A\$2.07M at an agreed exchange rate of US\$0.65 : A\$1) in secured debt to convert their notes into equity at the placement and rights issue price of \$0.004 per share (together with 1 free attaching Option for each Share issued) (**Conversion**). The Conversion is conditional upon the Company raising a minimum of \$1 million in aggregate pursuant to the Placement and Rights Issue and the Company receiving shareholder approval under listing rules 7.1 and 10.11 for the Conversion.

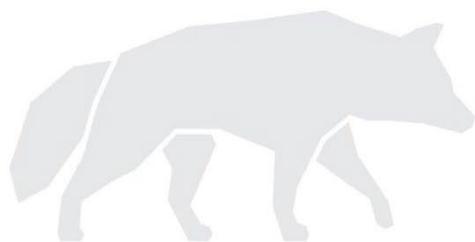
The Company has also agreed to issue 44 million shares and 94 million options (50 million exercisable at \$0.005 and 44 million exercisable at \$0.004, each on or before the date that is 2 years following the issue of Placement shares) to the holders of secured loan notes in consideration for their agreement to extend the maturity date of the loan notes to the date that is 4 years following completion of the Conversion (with first repayments to commence 12 months following completion of the Conversion), consenting to the proposed capital raising being completed by the Company and agreeing to the conversion of previously non-convertible debt into equity. This issuance is subject to the Company receiving shareholder approval under listing rules 7.1 and 10.11.

A summary of the holders of Convertible Notes and Secured Loan Notes is set out below:

Holder <sup>1</sup>	Convertible Notes	Secured Loan Notes	Secured Loan Notes Converting <sup>2</sup>
Daniel Roberts	-	US\$86,966	US\$43,483
Anthony Brown	\$56,250	US\$10,000	US\$10,000
Martin Pretty	\$92,500	US\$24,546	US\$24,546
Ryan McCall	-	US\$101,050	US\$50,525
Unrelated Investors	\$1,326,250	US\$2,055,610	US\$1,215,935
<b>TOTAL</b>	<b>\$1,475,000</b>	<b>US\$2,278,172.32</b>	<b>US\$1,344,489</b>

#### Notes:

1. Holders and their controlled entities.
2. Certain holders of Secured Loan Notes will also convert accrued but unpaid interest into equity on the same terms as their principal amounts are being converted, subject to Shareholder approval under listing rules 7.1 and 10.11.



## Use of Funds

Funds raised will support ongoing rollout and scale of its partnership with Lumen Technologies, its new partnership with Intelligent Monitoring Group (ASX: IMB), progressing potential growth opportunities with new WiFi Sensing security partners and working capital requirements in 2024.

## Capital Structure

Set out below is a pro forma capital structure setting out the securities to be issued by the Company under the recapitalisation contemplated in this announcement, assuming the maximum subscription is raised under the Rights Issue:

	Shares	Options/Warrants
Current	232,427,382	135,658,437
Placement (Tranche 1)	29,604,957	-
<b>Sub-total</b>	<b>262,032,339</b>	<b>135,658,437</b>
Rights Issue	393,048,509 <sup>1</sup>	393,048,509 <sup>1</sup>
Placement (Tranche 2 + Tranche 1 Options)	64,250,000	93,854,957
Convertible Note Conversion	368,750,000	368,750,000
Loan Note Conversion	517,111,279	517,111,279
Loan Note Fee Securities	44,000,000	94,000,000
<b>Total</b>	<b>1,649,192,127</b>	<b>1,602,423,182</b>

### Note:

1. Based on the maximum subscription under the Rights Issue, intended to be undertaken on a 3 for 2 basis, together with one free-attaching Option, to raise up to \$1.57 million.

## Notice of EGM

The Company will shortly release a Notice in relation to the EGM for the purpose of gaining shareholder approval for the proposed issue of securities and amendments to notes.

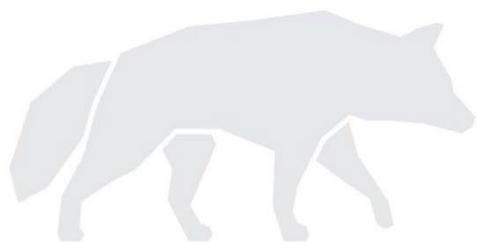
## Financial Information

Set out in the Annexure is a pro forma statement of financial position for the Company assuming completion of the recapitalisation contemplated by this announcement.

## Timetable

A summary of key dates associated with the capital raising follows.

Announcement of Placement and Rights Issue, Lodgement of Appendix 3B with ASX	Tuesday, 11 June 2024
Lodgement of Prospectus with the ASIC and ASX	Tuesday, 18 June 2024



Ex date	Friday, 21 June 2024
Settlement of Tranche 1 Placement Shares	Thursday, 13 June 2024
Record Date for determining Entitlements	Monday, 24 June 2024
Offer opening date, Prospectus sent out to Shareholders and Company announces this has been completed	Thursday, 27 June 2024
Last day to extend the Closing Date	Monday, 22 July 2024
Closing Date as at 5:00pm*	Thursday, 25 July 2024
General Meeting	Thursday, 25 July 2024
Shares quoted on a deferred settlement basis	Friday, 26 July 2024
Underwriter notified of under subscriptions	Friday, 26 July 2024
Underwriter subscribes for Shortfall under terms of Underwriting Agreement	Tuesday, 30 July 2024
Issue date and lodgement of Appendix 2A with ASX applying for quotation of the Shares under the Offer	Thursday, 1 August 2024
Conversion of Loan Notes and Convertible Notes	Thursday, 1 August 2024

\* The above timetable is indicative only and is subject to change. The Directors may extend the closing date of the Rights Issue by giving at least three business days' notice. Accordingly, the date that shares are expected to commence trading on ASX may vary.

### **Suspension from trading**

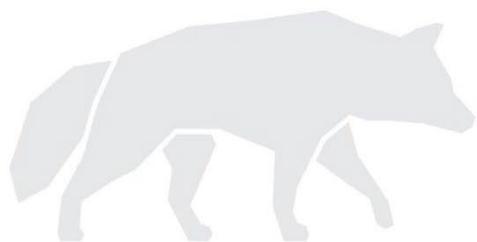
As the Company has been suspended from trading by ASX under Listing Rule 17.3, the Company anticipates that its securities will be suspended from trading until such time as the Company has completed the recapitalisation contemplated by this announcement and satisfied any reinstatement conditions imposed by ASX. In order for the Company's securities to be reinstated to trading, ASX needs to be satisfied that the Company's financial position is adequate to warrant the continued quotation of its securities and continued listing on ASX in compliance with Listing Rule 12.2.

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

### **For more information, please contact:**

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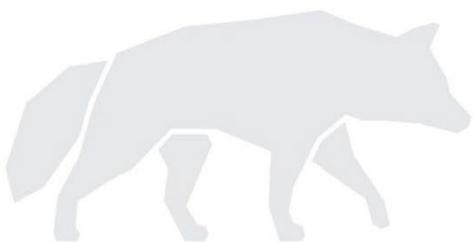


## About Scout Security Limited

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.

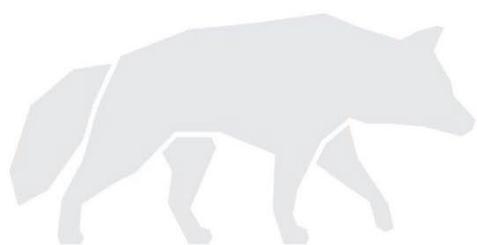
Scout was recognised as one of Forbes' "Best Home Security Companies of 2022" and was named the "Best DIY Security System Provider of 2023" by CBS Essentials. Scout's design-centric offering gives users complete flexibility around connected home security, allowing the system to integrate with other best-in-class 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.



**ANNEXURE A – PRO FORMA BALANCE SHEET**

	<b>UNAUDITED 31 March 2024</b>	<b>PROFORMA Minimum Raise</b>	<b>PROFORMA Maximum Raise</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>			
Cash	121,147	990,402	1,917,990
Trade and other receivables	78,111	78,111	78,111
Inventories	103,429	103,429	103,429
Other current assets	84,266	84,266	84,266
<b>TOTAL CURRENT ASSETS</b>	<b>386,952</b>	<b>1,256,207</b>	<b>2,183,795</b>
<b>NON-CURRENT ASSETS</b>			
<b>TOTAL NON-CURRENT ASSETS</b>	-	-	-
<b>TOTAL ASSETS</b>	<b>386,952</b>	<b>1,256,207</b>	<b>2,183,795</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	2,341,318	2,328,791	2,328,791
Unearned revenue	116,988	116,988	116,988
Borrowings	1,812,763	337,763	337,763
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,271,069</b>	<b>2,783,542</b>	<b>2,783,542</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	2,949,823	1,262,148	1,262,148
Long-term financial liabilities	384,375	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>3,334,198</b>	<b>1,262,148</b>	<b>1,262,148</b>
<b>TOTAL LIABILITIES</b>	<b>7,605,267</b>	<b>4,045,690</b>	<b>4,045,690</b>
<b>NET ASSETS (LIABILITIES)</b>	<b>(7,218,315)</b>	<b>(2,789,483)</b>	<b>(1,861,895)</b>
<b>EQUITY</b>			
Issued capital	18,254,256	23,227,331	24,154,919
Reserves	6,081,357	7,898,458	7,898,458
Accumulated losses	(31,553,928)	(33,915,272)	(33,915,272)
<b>TOTAL EQUITY</b>	<b>(7,218,315)</b>	<b>(2,789,483)</b>	<b>(1,861,895)</b>



**Notes:**

The Pro-forma balance sheet has been prepared assuming:

1. an offer of 368,750,000 shares and 368,750,000 options to holders of convertible notes to settle all outstanding convertible notes on issue (\$1,4750,000) and extinguish the related embedded derivative (\$384,375) associated with the convertible notes. This transaction includes financing costs associated with the issue of additional options of \$744,982.
2. an offer of 517,111,279 shares and 517,111,279 options to holders of loan notes on conversion of a portion of loan notes on issue, resulting in a net reduction of these loans by \$1,687,675 and additional financing costs associated with the issue of options of \$1,044,714.
3. an offer of 44,000,000 shares and 94,000,000 options to holders of loan notes in consideration for the extension of the maturity date for the loan notes and consent to completion of the Rights Issue, Placement and conversion of debt, resulting in additional financing costs associated with the issue of the shares and options of \$374,975.
4. a pro-rata renounceable entitlement issue at an issue price of \$0.004 per share together with one (1) free option for every share applied for and issued to raise minimum of \$624,580 and up to a maximum of \$1,572,194 (less costs).
5. an offer of 93,854,957 shares and 1 free new option for every share issued to the placement participants to raise \$375,420 (less costs).

