

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 2023

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 2023 and update on business progress.

Highlights of the September Quarter

- **Scout signs Master Service Agreement (MSA) with Lumen Technologies**
- **Cash receipts of AU\$359k in September quarter, with quarterly net cash flow similar to June quarter at (AU\$912k)**
- **Recurring monthly revenue streams now total AU\$1.133 million in annualised recurring revenue (ARR)**
- **Telco rollout through Windstream continues to gather pace, growing e-commerce sales to existing Windstream customers during the quarter**
- **Lumen has completed a pilot program for its Scout-powered Motion Sense Security solution, garnering strongly positive user feedback. Scout's Wi-Fi sensing-based solution is extendable to other ISPs and telco carriers globally**
- **Debt funding facility to support working capital currently being finalised**

Financial Highlights

Scout generated quarterly cash inflows from operations of AU\$359k, primarily through monthly recurring revenue and white label development fees. Administration and corporate costs, staff costs and product manufacturing and operating costs were all lower compared to the previous quarter, reflecting operational improvements across the business.

Monthly recurring revenue (MRR) totalled \$281k for the quarter.

The Company remains focused on growing subscriptions through its white label program, which continues to yield net new customer adds each month. Growth in Scout's MRR through its white label program reflects sell-through and activation of Scout-powered security systems, and over time, growth in MRR also decreases the significance of hardware purchase orders to the Company's cash flows.



The Company held cash at bank of AU\$195k as at 30 June 2023 and is currently finalising a debt funding facility to support the Company's working capital and growth initiatives.

Operational Achievements

At the conclusion of the quarter, Scout signed a Master Service Agreement with Lumen Technologies, Inc ((NYSE: LUMN), "Lumen"). This agreement will govern the overall relationship moving forward for the launch of the Motion Sense based security and home automation service.

Also during the quarter, Scout completed its pilot program with Lumen. A wider rollout with Lumen would represent the largest expansion in Scout's white label partner group to date. Lumen is a full-service US telco with 5 million broadband subscribers, adding 20,000 new broadband subscribers monthly, and US\$20bn in annual revenue.

The pilot program tested the Scout-powered motion sense home security app with Lumen customers, bringing cutting-edge Wi-Fi sensing capability to detect motion in homes through the disruption of Wi-Fi waves.

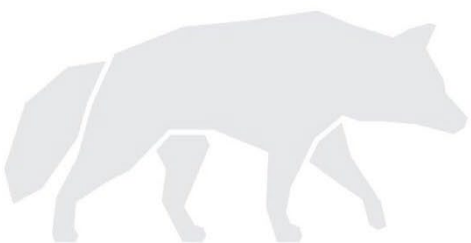
Scout was pleased to receive strongly positive user feedback through the pilot program, with as many as 65% of responders indicating that they would be willing to pay for the Scout-powered home security service after experiencing a free trial.

Commercial launch of Scout's motion sense home security product opens a new addressable market for Scout of users who could purchase a "light" home security system as a stepping stone that can be built up over time. Scout and Lumen are now working towards a commercial launch of the smart security and control platform under Lumen's brand expected now in CY24, with recurring revenues to follow.

During the quarter, US sales of the Scout-powered white labelled telco home security solution continued to develop. The Company's first US ISP white label partner, Windstream, continued to accelerate its addition of new customers following the launch in the June quarter of e-commerce sales to existing Windstream customers. Prior to this point, Windstream had only targeted new customers via phone sales with the Scout-powered Kinetic Secure Home offer.

Windstream e-commerce is proving to be a successful channel, providing consistent growth in revenue which is beginning to catch up to revenue from phone sales. Direct marketing communications emailed to nearly 600k Windstream customers are providing strong open and clickthrough rates, with both parties continuing to work on improving sales conversion rates.

The rate of sales prompted Windstream to order an additional 5,000 cameras from Scout during the quarter. With the value of this channel now proven, in the medium-term Scout plans to offer more products on the Windstream platform.



Scout's sales and business development activities in Australia increased during the quarter. The Company remains in discussions with Australian internet service providers (ISPs) and value-added resellers (VARs) to bring Scout's Security-as-a-Service platform to Australia, leveraging the beachhead established through the achievement of first sales of Scout products on Amazon.com.au.

Scout continues to evaluate opportunities to inorganically accelerate the growth of the Company through strategic potential acquisitions. Even as the market for DIY security has consolidated over the past 10 years, there remain a number of independent companies similar in scale to Scout. That along with those in the ageing in place, wellness, and general IoT industries could provide attractive opportunities for the Company to grow via acquisition and accelerate the path to profitability.

Outlook

Scout continues to gain scale and remains poised for significant growth. The Company has ambitious goals for the year ahead, expecting further growth in sales through Scout's US telecommunications partner and progress on its increasingly diverse pipeline of potential white label partners.

The Company is well-placed to benefit further in FY24 from gains in the operational efficiency and competency of the business achieved through key hires made in the prior year, including a new CEO, Chairman, COO, Chief Product Officer, Company Secretary and CFO.

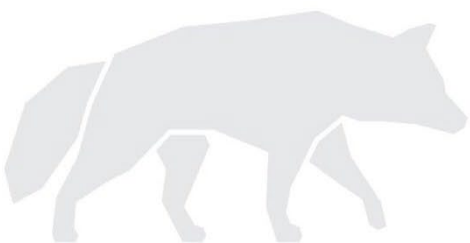
The market for app-based security systems remains robust, with greater than 50% of all home security systems being self-installed, supporting the growth outlook for Scout.

Scout Security CEO Ryan McCall, said:

"This first quarter of our new fiscal year we focused on delivering for our existing white label partners and building our future partner pipeline. After successfully launching, completing, and analysing the Lumen pilot, we are more confident than ever that WiFi Motion Sense security is the future of the DiY market and a core component in the Scout offering. With greater than 60% of participants willing to pay for the service, I am confident the mass market reception and adoption will be just as outstanding.

"Despite it requiring longer than expected to launch our service with Lumen, when it does go to market, we expect it to be received as a game changing solution for home security and value-added services in the ISP industry.

"With Windstream launching the first phase of its e-commerce sales, we continue to see net positive month over month customer additions and MRR growth. This is further being supported by monthly marketing campaigns to existing customers. Future campaigns, including push notifications, text notifications, and an expanded e-commerce rollout, will see even further accelerated customer adoption.



“Scout continues to court new white label partners globally. This is seen through our evolving conversations and product demonstrations with ISPs, traditional security companies, retailers, and telcos across Australia, Europe and the United States. Executing on a small handful of these opportunities, along with the continued growth of Windstream and launch of Lumen, will see Scout well positioned to reach our long-term goal of cash flow profitability via MRR alone.”

Statements pursuant to ASX Listing Rule 4.7C.1

Payments to related parties and their associates during the quarter totalled AU\$186k, relating to directors' salaries and convertible note interest accruing to directors.

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\$257k were lower than the previous quarter while within the average quarterly range for these costs.
- In reference to item 1.2(e) of the Appendix 4C, staff costs totaling AU\$684k were lower than the previous quarter while within the average quarterly range for employee expenses.
- In reference to item 1.2(b) of the Appendix 4C, product manufacturing and operating costs totaling AU\$213k were lower than the prior quarter while within the average quarterly range for these costs.

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.

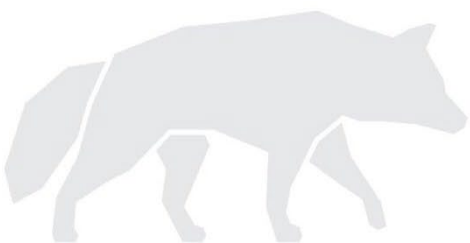
An Appendix 4C report follows.

This ASX release has been authorised by CEO Ryan McCall and the Board of Directors of Scout Security Ltd.

For more information, please contact:

Ryan McCall
Chief Executive Officer
investors@scoutalarm.com

Tim Dohrmann
Investor and Media Enquiries
+61 468 420 846
tim@nwrcommunications.com.au

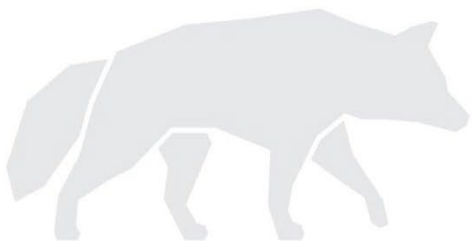


About Scout Security Limited

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.



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 2023

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	359	359
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(213)	(213)
(c) advertising and marketing	(4)	(4)
(d) leased assets	-	-
(e) staff costs	(684)	(684)
(f) administration and corporate costs	(257)	(257)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(113)	(113)
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	(912)	(912)
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)	-	-
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	-	-
3.5	Proceeds from borrowings	331	331
3.6	Repayment of borrowings	(304)	(304)
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	27	27

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,052	1,052
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(912)	(912)
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)	27	27
4.5	Effect of movement in exchange rates on cash held	28	28
4.6	Cash and cash equivalents at end of period	195	195

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	195	1,052
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)	195	1,052

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	-
<p><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></p> <p>Note to 6.1: Salaries to Directors and con note interest to Directors</p>		

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	3,108	3,108
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	1,475	1,475
7.4	Total financing facilities	4,583	4,583
7.5	Unused financing facilities available at quarter end 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>7.1 In the June 2023 Quarter, the company entered into a new finance facility with a syndicate of mostly US-based investors. (Refer to ASX announcement dated 28 April 2023). Facility includes rollover of previous debts and additional funds totalling \$3.07M AUD drawn at 30 September 2023. Interest rate is 12.0% per annum with a term of five (5) years.</p> <p>Remaining \$38k AUD includes short term lending from Stripe credit card processor for a loan being repaid from ARR receipts.</p> <p>7.3 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 \$1,475,000 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 December 31, 2022, there have been conversions to ordinary fully paid shares totally \$112,500.</p>		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(912)
8.2	Cash and cash equivalents at quarter end (item 4.6)	195
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	195
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	.21
	<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: The company has a debt facility currently being funded. Refer to ASX announcement dated 28 April 2023.

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, the company continues to fill the open debt facility and investigate all avenues of future funding, while also growing its monthly recurring revenues to offset cash expenditures.

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:31 October 2023.....

Authorised by: ..Board of Directors.....
(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.