

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

28 April 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 31 March 2023 and update on business progress.

Highlights of the March Quarter

- **Cash receipts of AU\$648k in Q1 CY23, Scout's strongest quarter since Q4 CY21**
- **Recurring monthly revenue streams total AU\$1.1 million in annualised recurring revenue (ARR)**
- **Revenue momentum driven by telco rollout through Windstream which is gathering pace, while the recent opening of sales to low bandwidth users has expanded Scout's TAM through this channel by 30%**
- **The alpha version of Lumen's Scout-powered Motion Sense Security solution is complete with pilot launch now pending on Lumen's approval. Scout's solution is extendable to other ISPs and telco carriers globally**
- **Joint marketing MoU signed with a major player in wireless motion sensing**
- **Further sales growth is expected through Scout's white label partner program, along with progress in converting the Company's pipeline of potential white label partners**
- **After 31 March, the Company successfully secured USD\$1.72m in funding from a syndicate of US investors. Conversations are ongoing with potential parties, with the aim of securing additional investment on the same terms.**

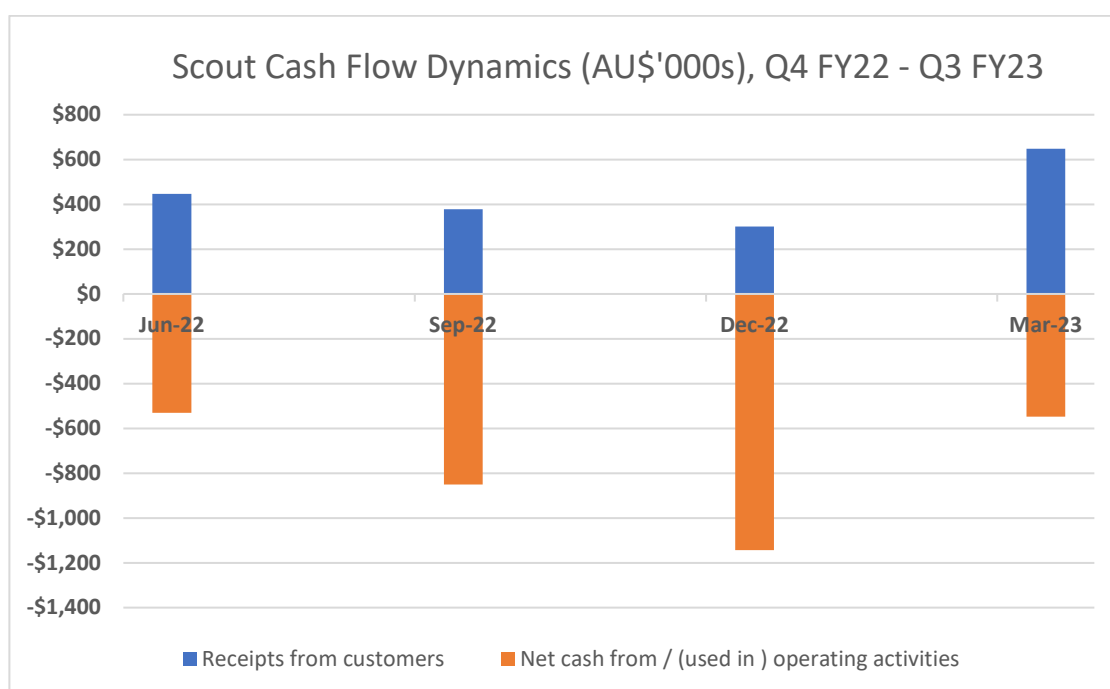
Financial Highlights

Scout generated quarterly cash inflows from operations of AU\$648k, and total revenue of \$509k, primarily through monthly recurring revenue and white label development fees. Revenues across the quarter were slightly skewed towards white label development fees which totalled \$276k. Monthly recurring revenue (MRR) totalled \$267k remaining flat compared to Q4 CY22.



Although headline recurring revenue growth was flat, this reflects a decrease in Scout direct-to-consumer subscriptions as the Company focuses 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.

As demonstrated in the following chart, the Company has significantly improved its net cash burn rate and expects expenditures quarterly costs moving forward to be roughly in line with the March quarter.

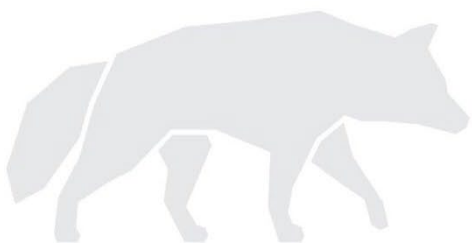


The Company held cash at bank of AU\$103k as at 31 March 2023 and has subsequently raised USD\$1.72m from a group of US investors (detailed in ASX announcement released separately today). The Company is continuing discussions regarding further debt capital, to fund its operations until such time that it achieves consistent positive operating cash flow.

Operational Achievements

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, continues to add positive net new customers monthly while it finalises its plans for e-commerce sales to existing Windstream customers, with a launch date set for May 2023.

Until now, Windstream has only targeted new customers via phone sales with the Scout-powered Kinetic Secure Home offer. As such, this imminent e-commerce launch represents a significant potential additional boost to Scout revenue.



Expected to commence in May, existing Windstream customers will be able to subscribe to the offer directly through the GoKinetic portal, with new hardware shipped straight to their service address. Marketing email campaigns will begin at launch, directly targeting over 600k subscribers at a time, including call to action links to purchase via the portal.

During the quarter, Windstream also commenced selling the Kinetic-branded home security solution to existing customers who have lower-bandwidth internet connections. As noted above, until now, Scout's Windstream sales activity has been restricted to Windstream's new onboarding customers with higher internet speeds.

Windstream's approval of Scout product sales to both new and existing customers with connection speeds as low as 10 Mbps provides access to an existing customer base which Scout has not previously been able to access and expands the Company's addressable market through this sales channel by approximately 30%. Initial sales to this new subset of customers have commenced and are now contributing to MRR.

With more than 1.1 million broadband customers over a footprint of 18 states, and more than 1.4 million premises with access to their fibre services, this step significantly increases the potential for revenue generation through this channel. To provide some context on the quality of this channel, Windstream has announced that it is achieving quarterly net new fibre customers additions of 24k as of Q4 CY22, and growing every quarter.

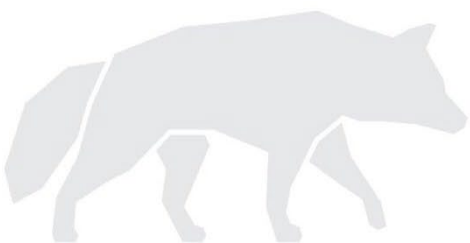
During the quarter, Scout also continued to execute its Statement of Work with Lumen Technologies, Inc ((NYSE: LUMN) "Lumen"), which constitutes the largest expansion in Scout's white label partner group to date. Lumen is a US\$2.3bn market cap, full-service US telco with 5 million broadband subscribers, adding 20,000 new broadband subscribers monthly, and US\$20bn in annual revenue.

The partnership 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.

This app will bring cutting-edge Wi-Fi sensing capability to detect motion in homes through the disruption of Wi-Fi waves. This will open 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. The Company is pleased by its progress so far with Lumen and expects to update investors regularly as this opportunity comes to fruition.

During the quarter, Scout delivered the alpha version of the app for Lumen, with features including location information, arming and disarming of the security system, occupancy information, and all UX/UI integration.

With the alpha version of Lumen's Scout-powered Motion Sense Security solution now largely complete, with full device compatibility and push notification functionality now being



resolved, Scout expects to launch the smart security and control platform under Lumen's brand within the coming two quarters, 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.

Also during the quarter, Scout announced its signing of a Memorandum of Understanding (MoU) with a major North American provider of WiFi motion sensing technology. This party, and others like it, partner with ISPs and hardware and software providers to enable WiFi-connected devices to see and interpret motion, bringing contextual awareness and user behaviour insights to the smart home.

This is one of several such partnerships in the WiFi motion sensing space that Scout is intending to sign. The Board does not consider the MoU financially material to the Company nor quantifiable in the short term, however it is viewed as strategically significant due to its enhancement of the utility of, and addressable market for, the Scout security platform.

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.

Corporate

In February, Scout announced the appointment of Chief Executive Officer Ryan McCall to the Company's board of directors, effective February 1, 2023.

Outlook

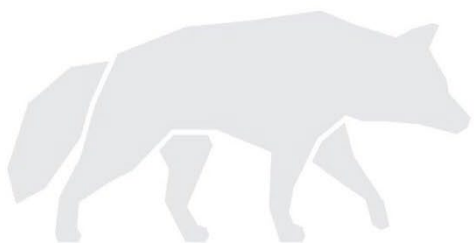
Scout continues to gain scale and remains poised for significant growth in 2023 and beyond. The Company has ambitious goals for the year ahead, expecting further growth in sales through Scout's US telecommunications partner and progress on its pipeline of potential white label partners.

It is a goal of the Company for MRR alone to balance monthly cash burn, and based on the 16 consecutive months of net positive customer adds through the white label channel, the Company is well positioned to achieving that goal.

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:

"Our pipeline of potential new white label customers is larger than ever. As we execute our growth strategy, our total addressable market through these partners will reach an order of magnitude larger than it is today with Lumen and Windstream."



"The Motion Sense Security offering we are developing is increasingly exciting. We expect this development to revolutionise home security, having identified thousands of potential ISP customers in the US alone which represent millions of households that are potential end users. Scout is uniquely placed as the only white label DIY security platform in the world that can also offer WiFi Motion Sense. We continue to press this advantage by building partnerships which offer potential to accelerate our revenue growth."

"Smart security remains 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."

Statements pursuant to ASX Listing Rule 4.7C.1

Payments to related parties and their associates during the quarter totalled AU\$179k, relating to directors' salaries and convertible note interest accruing to directors.

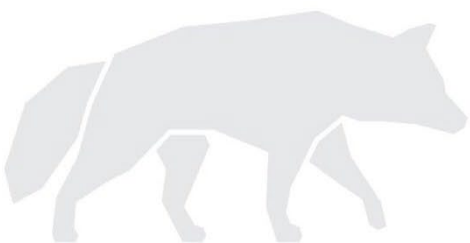
Quarterly expenditure was in line with internal budgets and was focused on these areas:

- In reference to item 1.2(f) of the Appendix 4C, administration and corporate costs totaling AU\$241k were lower than the previous quarter due to credit extensions from some service providers.
- In reference to item 1.2(e) of the Appendix 4C, staff costs totaling AU\$718k were higher 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\$204k were lower than the prior quarter due to the previous quarter having included AU\$300k in hardware costs which have not recurred.

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.



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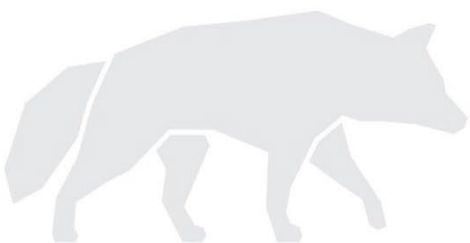
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About Scout Security Limited

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")

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	648	1,327
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(204)	(1,351)
(c) advertising and marketing	(3)	(53)
(d) leased assets	-	-
(e) staff costs	(718)	(1,818)
(f) administration and corporate costs	(241)	(971)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(29)	(67)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	393
1.9 Net cash from / (used in) operating activities	(547)	(2,540)

Note to 1.8: Received from US Government for employee retention credit.

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	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 Months) \$A'000
	(f) other non-current assets	-	-
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)	-	2,310
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	-	(121)
3.5	Proceeds from borrowings	-	274
3.6	Repayment of borrowings	-	(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	-	2,400

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	648	237
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(547)	(2,540)
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 (9 Months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	2,400
4.5	Effect of movement in exchange rates on cash held	2	6
4.6	Cash and cash equivalents at end of period	103	103

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	103	648
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)	103	648

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	179
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	1,038	1,038
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	1,475	1,475
7.4	Total financing facilities	2,513	2,513
7.5	Unused financing facilities available at quarter end		0
<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>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> <p>In the June 2022 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>In the September 2022 quarter, the company entered into a \$274,406 AUD 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.</p>			

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(547)
8.2	Cash and cash equivalents at quarter end (item 4.6)	103
8.3	Unused finance facilities available at quarter end (item 7.5)	0
8.4	Total available funding (item 8.2 + item 8.3)	103
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	.19
<p><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></p>		

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: The company anticipates the next quarter to have slightly increased net operating loss. This is due to increased costs from extended credit terms from suppliers resulting in an increase in payments made as well as a reduction in top line revenue due to a reduction in development fees received.

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, the Company has raised USD\$1.72 through US investors, and is currently engaged with with investors both in the US and Australia in relation to raise further capital at the same terms, to fund its operations until such time that it achieves consistent positive operating cash flow.

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. As set out in 8.6.2, the Company expects to fund the negative operating cash flow with capital raised and increasing monthly revenue

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: 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.