



ASX ANNOUNCEMENT | TESSERENT LIMITED

MELBOURNE – THURSDAY 25TH JANUARY 2018

APPENDIX 4C – QUARTERLY AND ACTIVITIES REPORT

Tesseract Limited (ASX:TNT) is pleased to update the market on key achievements during the December quarter.

FINANCIAL ACHIEVEMENTS:

- **Customer receipts increased 39%** quarter-on-quarter from \$1.32M to \$1.84M.
- On a prior year comparison basis, **customer receipts increased 19.4% on a quarterly basis and 12.0% on a half-year basis.**
- **Personnel costs and directors fees continue to be carefully managed**, ensuring service delivery and corporate governance remain at a consistently high level.
- The final deferred payment from Family Zone Cyber Safety Ltd (ASX:FZO) of \$199K (relating to the amended terms agreed in June 2017) was received in January 2018. **All proceeds from the Sonar/MyNet transaction have now been received.**
- Although receipt was anticipated during the December quarter, the 2017 **R&D grant of \$543K was received in January 2018.** While the grant is beneficial to cash flow, it also demonstrates the commitment Tesseract has to ongoing research and development with the view of commercialising these developments in the future.
- **December 2017 cash position - \$1.61M**
- Following the receipt in mid-January of funds from FZO and the R&D grant, the **cash position at quarter end would have been in excess of \$2.35M.** This compares to a balance of \$1.91m in 2016 December quarter.

BUSINESS GROWTH:

- Tesseract secured **\$725K total contract value (TCV)** during the December quarter, a 33% increase on the prior corresponding period. This contracted revenue will be realised over the next three years as services are billed and revenue recognised on a monthly basis.
- **Tesseract launched CyberBiz** with an above-the-line campaign utilising billboards, radio and online advertising. Advertising and marketing expenditure reflects the costs associated with the CyberBiz brand campaign.
- During the December quarter, **five channel partners joined the CyberBiz Channel Partner Program** and contributed to CyberBiz sales. Engagement and enablement of CyberBiz Channel Partners is a key focus for Tesseract moving forward. Tesseract expects a significant ramp-up of sales via the channel over the next 12 months.



Tesseract Limited (ASX:TNT) is pleased to deliver the December quarterly Financial and Activities Report, highlighted by a 39% increase in quarterly customer receipts, firm sales results, a healthy cash position and the campaign launch of CyberBiz. These achievements are in-line with the strategic direction of the company, which is to grow the core business whilst pursuing accelerated growth in the under-serviced SMB cyber security market.

Following the AGM, where shareholders approved the non-executive directors' equity compensation plan, a number of directors have agreed to transition their director fees from cash to equity. This adjustment benefits the company's cash flow and also underlines the Board's commitment to the company and their confidence that the company can deliver upon the business growth strategy.

OUR STRATEGY

As previously communicated, Tesseract has identified an opportunity to pursue significant growth in the under-serviced SMB cyber security market. Following the campaign launch of CyberBiz during the December quarter, Tesseract continues to pursue our CyberBiz strategy to align with like-minded channel partners who already have relationships with SMB end-customers. Based on data gathered since the CyberBiz launch at the end of 2017, we continue to refine our go-to-market strategy to gain leverage from the "trusted advisor" status that IT managed service providers (MSPs) and IT Integrators have with their existing SMB customer bases.

These partners generally provide a broad range of IT services to their customers; however they are typically not resourced to provide an enterprise-grade level of cyber security. By joining the CyberBiz Channel Partner Program, these businesses can relieve themselves of the burden of offering an ad-hoc cyber security solution, and instead provide their customers with a 24/7 monitored cyber security service, provided by Tesseract's team of security experts.

Despite the natural tendency for businesses to wind down towards the end of a calendar year, Tesseract signed-on five new channel partners during November and December and continues to focus on on-boarding appropriate channel partners during the March quarter. Once on board, it is then essential to train and enable the partner's sales team to ensure they have the knowledge and tools required to pursue and close CyberBiz sales. Our channel focused go-to-market strategy is executing to plan and continues to be a major focus of the business with regards to new business development.

Importantly, Australia's Data Breach Notification Scheme comes into force in February 2018, and Europe's General Data Protection Regulation (GDPR) takes effect in May 2018. Both of these initiatives bring data protection and privacy to the forefront of business strategy, changing the way businesses plan and budget for data security. Tesseract has been assisting our existing customers to prepare for the introduction of the new legislation and has also expanded our product offerings to cater for the increased demand for cyber security consulting services.

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

TESSERENT LIMITED

ABN

13 605 672 928

Quarter ended ("current quarter")

31 DECEMBER 2017

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|------------------------------------|--|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | 1,835 | 3,155 |
| 1.2 Payments for | | |
| (a) research and development | - | - |
| (b) product manufacturing and operating costs | - | - |
| (c) advertising and marketing | (132) | (162) |
| (d) leased assets | (65) | (130) |
| (e) staff costs | (652) | (1,377) |
| (f) administration and corporate costs | (1,522) | (3,405) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 5 | 17 |
| 1.5 Interest and other costs of finance paid | (1) | (3) |
| 1.6 Income taxes paid | - | - |
| 1.7 Government grants and tax incentives | - | 301 |
| 1.8 Other (provide details if material) | - | - |
| 1.9 Net cash from / (used in) operating activities | (532) | (1,604) |
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) property, plant and equipment | (4) | (46) |
| (b) businesses (see item 10) | - | - |
| (c) investments | - | - |

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|----------------------------|---------------------------------------|
| (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 | 200 | 400 |
| (e) other non-current assets | - | - |
| 2.3 Cash flows from loans to other entities | - | - |
| 2.4 Dividends received (see note 3) | - | - |
| 2.5 Other | - | - |
| 2.6 Net cash from / (used in) investing activities | 196 | 354 |

| | | |
|---|----------|----------|
| 3. Cash flows from financing activities | | |
| 3.1 Proceeds from issues of shares | - | - |
| 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 | - | - |
| 3.5 Proceeds from borrowings | - | - |
| 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 | - | - |

| | | |
|---|-------|---------|
| 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 | 1,947 | 2,861 |
| 4.2 Net cash from / (used in) operating activities (item 1.9 above) | (532) | (1,604) |
| 4.3 Net cash from / (used in) investing activities (item 2.6 above) | 196 | 354 |
| 4.4 Net cash from / (used in) financing activities (item 3.10 above) | - | - |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|--|------------------------------------|--|
| 4.5 | Effect of movement in exchange rates on cash held | - | - |
| 4.6 | Cash and cash equivalents at end of quarter | 1,611 | 1,611 |

| 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 | 857 | 1,197 |
| 5.2 | Call deposits | - | - |
| 5.3 | Bank overdrafts | - | - |
| 5.4 | Other (Term Deposit) | 754 | 750 |
| 5.5 | Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 1,611 | 1,947 |

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 |
|------------------------------------|
|------------------------------------|

| |
|-----|
| 112 |
|-----|

| |
|---|
| - |
|---|

- Executive Director salaries
- Director fees

Includes amounts paid to entities associated with the Directors

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. | | |

| |
|--|
| |
|--|

| 9. Estimated cash outflows for next quarter | \$A'000 |
|--|--------------|
| 9.1 Research and development | - |
| 9.2 Product manufacturing and operating costs | - |
| 9.3 Advertising and marketing | 50 |
| 9.4 Leased assets | 65 |
| 9.5 Staff costs | 584 |
| 9.6 Administration and corporate costs | 1,142 |
| 9.7 Other (provide details if material) | |
| 9.8 Total estimated cash outflows | 1,842 |

| 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.



25 January 2018

Sign here:
(Director/Company secretary)

Date:

Print name: Oliver Carton

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.