

DEC QTR 2020 - APPENDIX 4C QUARTERLY ACTIVITIES REPORT AND OPERATIONAL UPDATE

Tesseract Limited (ASX:TNT, Tesseract or the Company) is pleased to provide its quarterly cash report and business update of its activities and achievements for the quarter ended 31 December 2020.

HIGHLIGHTS

<p>Sales up 41.7% on Q1 Q2 turnover \$21.4M</p>	<p>EBITDA up 248% on Q1 Q2 EBITDA \$1.4M*</p>	<p>Run rate now \$110M+ per annum run rate** compared to \$40M in Q2 FY20</p>	<p>\$20.6M Customer Receipts in Q2 up 38% from previous quarter</p>
<p>Over \$3.5M received from conversion of options and warrants</p>	<p>\$7.9M Available Cash as at 31 December</p>	<p>Added to All Tech Index In Q2 FY21</p>	<p>NZ market entered via acquisition and joint venture</p>

**unaudited, subject to audit. Excludes one-off acquisition costs*

***per annum revenue run rate based on estimates of existing business excluding additional acquisitions*

FINANCIAL UPDATE

The Tesseract board is pleased to announce that the building of the Company continues to perform in line with or exceeding management estimates. Record turnover of **\$21.4M** was achieved in the quarter, up 41.7% from the previous quarter (includes two months Turnover from iQ3).

FY20-21 Actual Turnover by Quarter

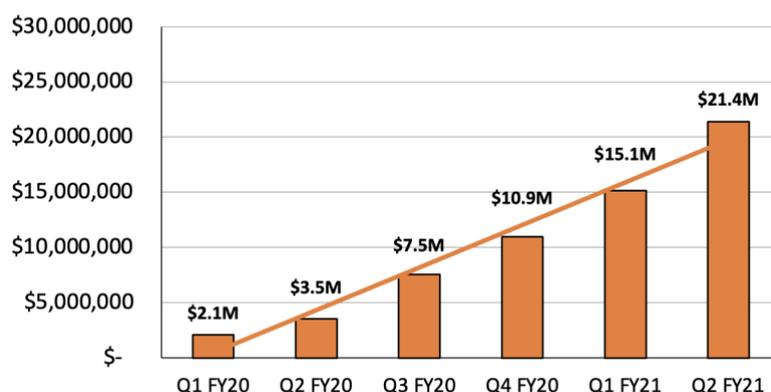


Figure 1: FY20-21 Actual Turnover by Quarter

With the addition of full quarter Turnover from iQ3 and a historical second half seasonal increase in sales, the Group's current Turnover run-rate is now in excess of **\$110M** on an annualised basis, subject to audit. This is anticipated to increase to **\$150M** by the end of FY21 with the completion of planned future acquisitions.

TNT continues to build its high-value recurring annuity turnover with multi-year, locked-in Managed Security Services (MSS) and Security Operations Centre (SOC) contracts now exceeding **\$35M**.

ASX ANNOUNCEMENT

Melbourne – 29 January 2021



OPERATING PROFITABILITY

The Company is also pleased to announce that it continues to build its quarter on quarter operating profitability, increasing operational EBITDA to **\$1.41M** for the quarter, up 248% from the previous quarter's \$405K.

The Company expects to continue this growth trend for the foreseeable future.

FY20-21 EBITDA by Quarter



Figure 2: FY20-21 EBITDA by Quarter

INCREASED CUSTOMER RECEIPTS

The Company collected customer receipts of in excess of **\$20.6M** in Q2, up 38% on Q1 and ended the quarter with cash reserves of \$7.9M. Whilst this was down \$5.8M from the previous quarter, it was broadly in line with management estimates, as a result of cash required for vendor payments to acquire their business and costs associated with the acquisitions.

In addition to acquisition completion costs, there was an operating cash deficit of \$1.2M for the quarter. This was a direct result of seasonality whereby customer receipts fall over the Christmas/NY period and will now be reflected in Q3 receipts. The Company also prepaid several suppliers in advance to secure annual discounts.

With almost \$8M in available cash at the end of December and expected cash flow positivity going forward, as a result of growing sales and earnings, the Company remains in a strong financial position heading into Q3.

TESSERENT LISTED ON THE ALL TECH INDEX

The Company was pleased to announce its addition to the S&P/ASX All Technology Index (All Tech Index). This comes as a result of our strong overall market performance during 2020, with continued significant growth across the Group.

The All Tech Index represents the ASX's fastest-growing sector, shining the spotlight on Australia's leading technology companies. With TNT's addition to the All Tech Index, the Company joins firms including Afterpay (ASX:APT), REA Group (ASX:REA) and Xero (ASX:XRO).

ACQUISITIONS UPDATE

Strategic acquisitions remain a cornerstone of Tesserent's growth strategy. As previously stated, the underlying core philosophy is to acquire quality cybersecurity assets that are complementary to the Cyber 360 strategy and incrementally Earnings Per Share (EPS) accretive. TNT sees this as an important element in continuing to deliver future value to our shareholders.

ASX ANNOUNCEMENT

Melbourne – 29 January 2021



With this in mind, the Company announced the strategic acquisition of New Zealand-based Lateral Security, which together with the Optic Security joint venture (announced in December and November 2020 respectively), represented its first step into the NZ cybersecurity market.

TNT looks forward to updating the market on the completion of the Lateral Security acquisition, together with additional future acquisitions, a number of which are at an advanced stage.

BUSINESS INTEGRATION UPDATE

The Company continues to identify and realise cross-selling opportunities between business units. In excess of \$3M in new sales were won as a direct result of cross-selling opportunities during the quarter, including:

- Multiple contracts in Federal, State and Local Government
- Multiple contracts that now have services from a number of the organisations that have joined the TNT group

The Company looks forward to keeping the market updated on the progress of our business integration and synergies initiatives, which we expect will culminate in the release of an integration strategy update upon the release of the mid-year results.

COVID-19 UPDATE

The COVID-19 pandemic continues to have no material negative effect on sales as evidenced by strong quarterly turnover and earnings growth.

FUTURE FOCUS

Tesserent, through its Cyber 360 strategy, continues to focus on building out a one-stop-shop that provides a complete end-to-end cybersecurity solution for its clients. A primary objective is to maximise shareholder value by increasing earnings margins through the growth of high-margin annuity-based income and the inclusion of proprietary intellectual property in its solutions.

The Company's previously stated goals for FY21 remain:

- Deliver our Cyber 360 capabilities to an increasing number of Australian organisations
- Integrate acquisitions to maximise synergy efficiencies and drive organic revenue growth through cross-selling
- Focus on capturing market share in three key markets: Government (including Defence), Critical Infrastructure and Banking & Finance
- Continuing to drive the Company's acquisition strategy to expand on Cyber 360 capabilities and increase shareholder value through incremental EPS growth
- Building out high-value recurring annuity revenue streams
- Expand proprietary intellectual property to drive high-margin product and service offerings
- Explore International expansion opportunities with a focus on Australia's key Five Eyes allies, which consists of the USA, UK, NZ and Canada

ASX ANNOUNCEMENT

Melbourne – 29 January 2021



The Company looks forward to providing further market updates on its future financial and commercial objectives, including its half-year report due in late February 2021.

ABOUT TESSERENT

Tesseract provides full service, enterprise-grade Cyber Security and networking solutions targeted at mid-market, enterprise and government customers across Australia and New Zealand. The Company's Cyber 360 strategy delivers integrated solutions covering identification, protection and 24/7 monitoring against Cyber Security threats. With in excess of 220 security engineers, Tesseract has the capability to support organisations defend their digital assets against increasing risks and cyber-attacks.

Tesseract has been transformed via the acquisition of several high-quality Cyber Security businesses including Pure Security, Rivium, North Security, Seer Security, Airloom, Ludus Security, iQ3 and Lateral Security, making it Australia's largest listed dedicated Cyber Security firm.

CONTACT

Investor Enquiries:

Julian Challingsworth

Managing Director

+61 (0)3 9880 5559

investor@tesseract.com

Media Enquiries:

Alex Belcher

Marketing Manager

+61 (0)3 9880 5525

alexandra.belcher@tesseract.com

Authorised by the Disclosure Team under Tesseract's Continuous Disclosure policy.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Tesseract Limited

ABN

13 605 672 928

Quarter ended ("current quarter")

31 December 2020

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	20,583	35,498
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(13,318)	(23,857)
(c) advertising and marketing	(79)	(173)
(d) leased assets		
(e) staff costs	(8,204)	(11,684)
(f) administration and corporate costs	(254)	(748)
1.3 Dividends received (see note 3)		
1.4 Interest received	-	1
1.5 Interest and other costs of finance paid	(49)	(220)
1.6 Income taxes (paid)/refund	35	35
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(1,286)	(1,148)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities (net of cash acquired)	(6,085)	(10,826)
(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 (6 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	(6,085)	(10,826)
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 and warrant shares	3,517	7,681
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(107)	(107)
3.5	Proceeds from borrowings	-	10,000
3.6	Repayment of borrowings	(222)	(222)
3.7	Transaction costs related to loans and borrowings	(1)	(136)
3.8	Dividends paid		
3.9a	Other – Interest paid	(288)	(288)
3.9b	Other – deferred settlement liabilities	(1,383)	(1,383)
3.10	Net cash from / (used in) financing activities	1,516	15,545
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	13,768	4,342
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,286)	(1,148)

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(6,085)	(10,826)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,516	15,545
4.5	Effect of movement in exchange rates on cash held	(8)	(8)
4.6	Cash and cash equivalents at end of period	7,905	7,905

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	7,905	13,768
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)	7,905	13,768

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	-
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<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>		

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<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>		
7.1 Loan facilities	15,000	15,000
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 Total financing facilities	15,000	15,000
7.5 Unused financing facilities available at quarter end		-
7.6 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.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(1,286)
8.2 Cash and cash equivalents at quarter end (item 4.6)	7,905
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	6,619
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	5.1
<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: N/A	
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: N/A	
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: N/A	
<i>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.</i>	

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: 29 January 2021

Authorised by: The Disclosure Team
(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.