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# SENETAS 2017 INTERIM RESULTS

27 February 2017

# AGENDA

1. HY17 HIGHLIGHTS
2. KEY FINANCIALS
3. OPERATIONAL REVIEW
4. OUTLOOK

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# HY17 HIGHLIGHTS

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# HY17 highlights

- Operating revenue up 8%
- Profit before tax down 31% as foreshadowed in the 6 February market update
- Certification for the new 100G encryptor is on track and a second customer has commenced testing
- Custom algorithm export approvals underway in advance of customer testing and certification
- Virtual encryptor has undergone successful testing with 2 customers
- Purchase of SureDrop and an equity stake in Smart Antenna Technologies (SAT)






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# KEY FINANCIALS

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# HY17 key financials

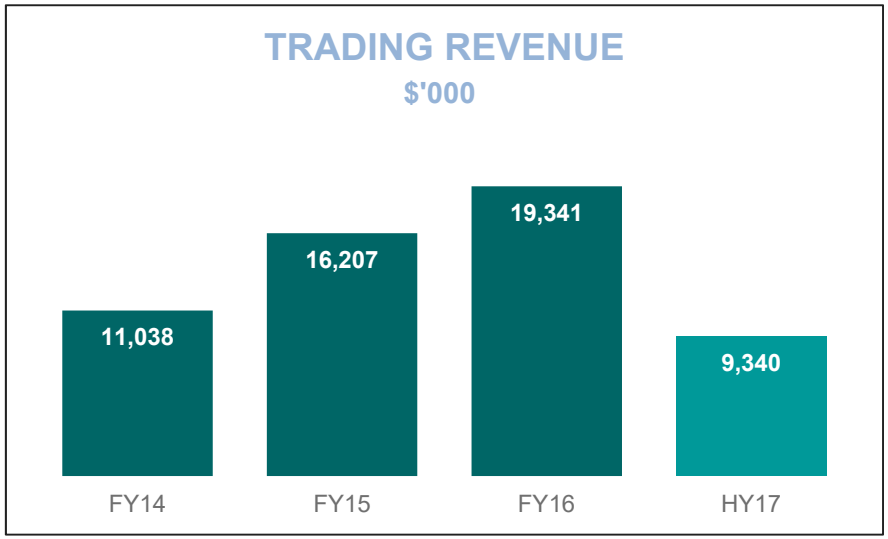
| Half Year ended 31 December 2016 | HY17 $000's | 1H16 $000's | Change |
|---|---|---|---|
| **Revenue from ordinary activities** | 9,340 | 8,666 | 8% |
| **Gross profit** | 6,823 | 7,191 | (5%) |
| **Other income** | 243 | 211 | 15% |
| **Profit before tax** | 1,266 | 1,845 | (31%) |
| **Tax expense** | (401) | (260) | 55% |
| **Net profit after tax** | 865 | 1,586 | (45%) |

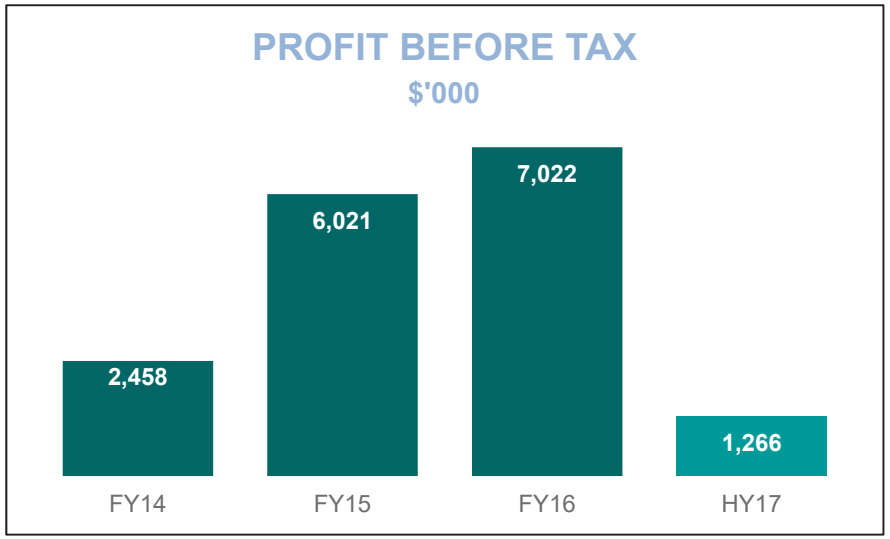
- Revenue increase reflects 1% decline in sales revenue and 22% growth in maintenance revenue
- Lower gross margin as a result of higher level of inventory transfer to Gemalto in HY17
- Higher effective tax rate as tax losses applied in HY16 have been fully utilised

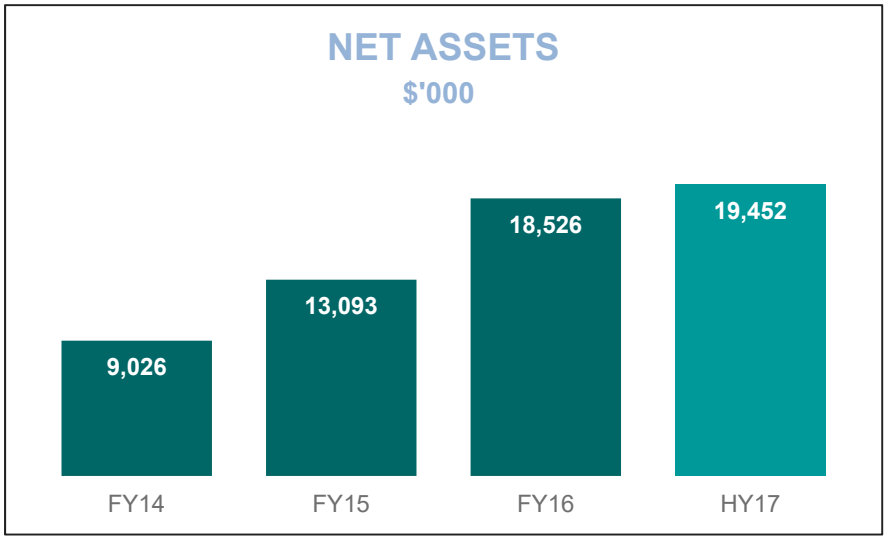


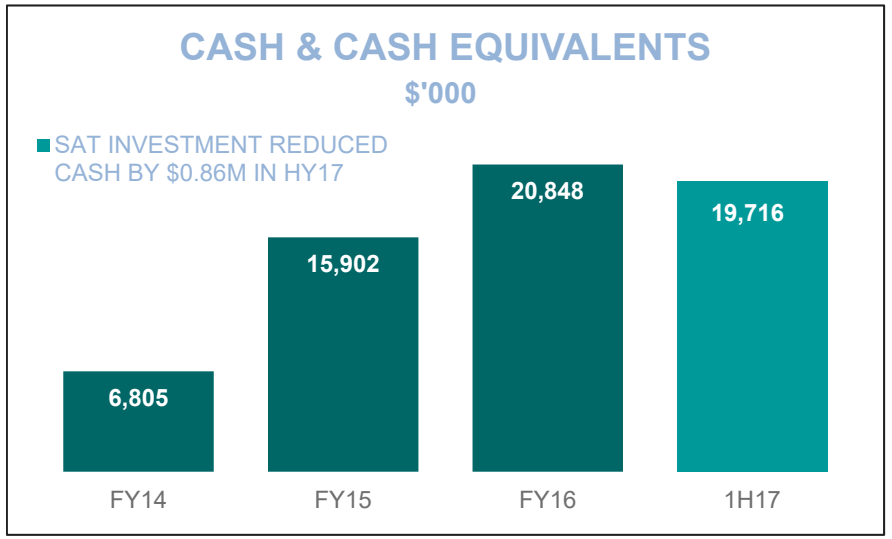
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# Trend on key financial metrics



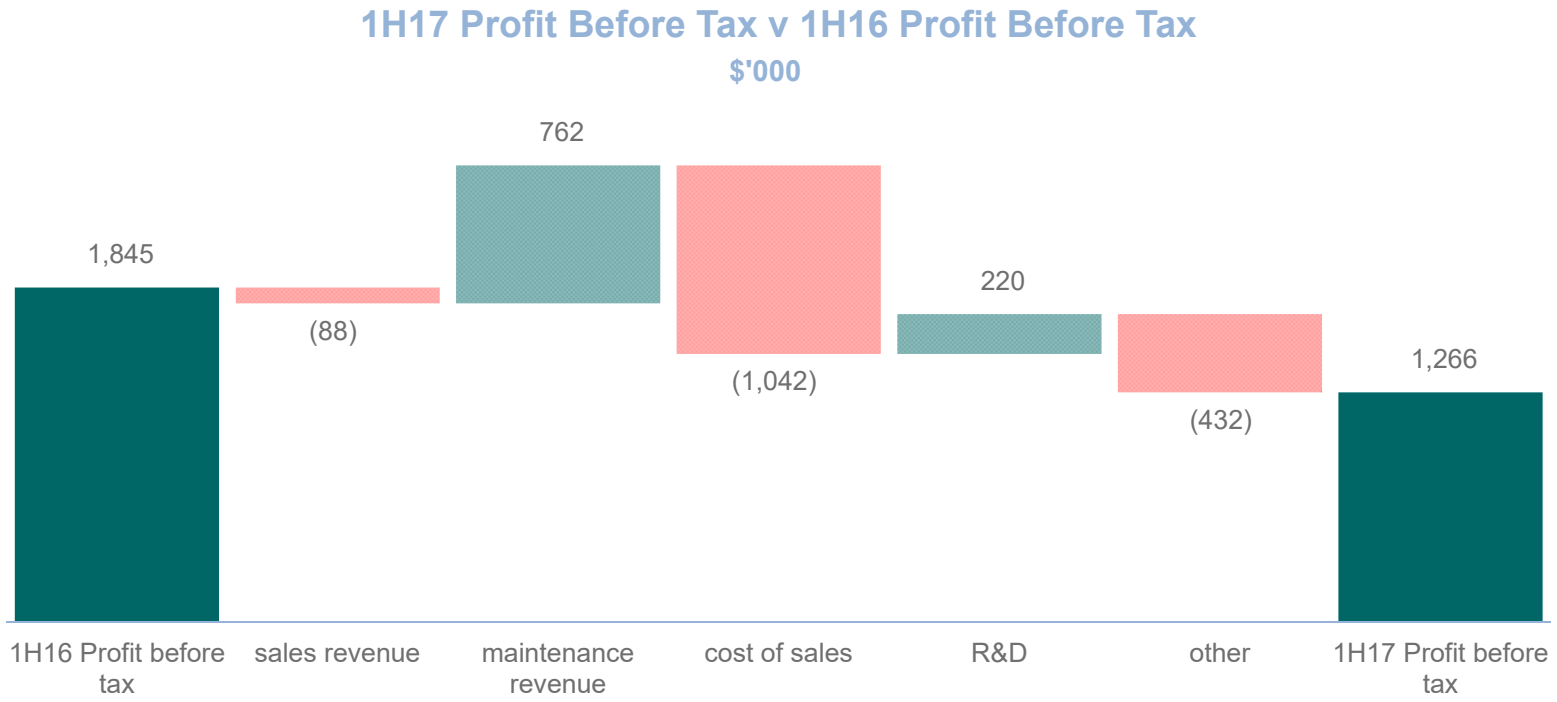






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# Drivers of HY17 profit movement




- Key driver of PBT decline was lower sales of encryptors to customers
- Customer network upgrades led to a temporary disruption to normal customer ordering patterns as announced to the market on 6 February 2017
- Good growth in maintenance revenue resulting from prior period sales growth
- Higher cost of sales reflects the increased level of inventory transfer to Gemalto during the HY



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# Operating cash flows

| Half Year ended 31 December 2016 | HY17 $000's | HY16 $000's | Change |
|---|---|---|---|
| Receipts from customers | 8,266 | 7,173 | 19% |
| R&D tax concession net of tax paid | 210 | 401 | (48%) |
| Payments to suppliers & employees | (9,148) | (7,140) | (28%) |
| **Operating cash flows** | **(141)** | **570** | **-** |
| **Investing cash flows** | **(989)** | **(132)** | **651%** |

- Growth in receipts from customers following strong sales in June 2016
- Increased encryptor production as Gemalto grew inventory levels
- Increased payments to suppliers in line with higher cost of sales in HY17
- Higher investing cash flows represent the investment in SAT announced in December 2016



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# Balance sheet remains strong

| Half Year ended 31 December 2016 | HY17 $000's | FY16 $000's | Change |
|---|---|---|---|
| Cash and cash equivalents | 19,716 | 20,848 | (5%) |
| Trade and other receivables | 2,487 | 5,927 | (58%) |
| **Total assets** | **26,841** | **29,474** | **(9%)** |
| Trade and other payables | (1,855) | (1,973) | (6%) |
| Income / company tax payable | (512) | (1,863) | (73%) |
| Unearned income | (4,087) | (6,234) | (34%) |
| **Total liabilities** | **(10,948)** | **(9,298)** | **(18%)** |
| **NET ASSETS** | **19,452** | **18,526** | **5%** |

**Strong balance sheet with net assets up 5%**

- Decline in receivables after strong sales period in June 2016
- Cash on hand of $19.7m and no debt
- Slightly lower cash balance reflects the investment in SAT



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# OPERATIONAL REVIEW

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# HY17 operational review

**Sales**

- Previously announced customer network upgrades had a significant impact on key customer ordering patterns in HY17
- The relevant customers have historically been Senetas' largest customers
- Impacts are expected to be temporary and should reverse as the network upgrades are completed

**Research & Development**

- Core R & D focus during the period remained on 3 major projects – 100G encryptor, custom algorithm products and virtual encryption technologies
- Development of each of these products is on track
- Expectations remain that R & D expenditure during FY17 will be similar to FY16

**Investment opportunities**

- Senetas continues to explore shareholder value enhancing investment opportunities
- The acquisition SureDrop and an equity stake in SAT represent opportunities that are complimentary to Senetas' core competencies, require a modest or no upfront investment, and have the potential to add significant value to Senetas in the longer term







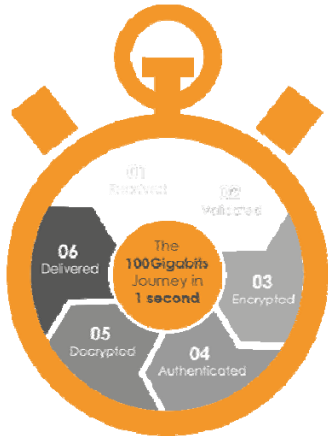






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# New Product Development




## 100G ultra high speed high assurance encryptor

- Certification process continues to plan
- A second major customer has recently commenced testing
- Senetas / Gemalto marketing campaign underway
- First sales orders currently expected very late in FY17

## Custom algorithm products

- Currently awaiting export approval – on track
- Customer testing and local certification will follow export approval – expected prior to the end of FY17
- At this stage sales are likely to commence midway through FY18

## Virtual encryption technologies

- Successful trials have been completed with 2 customers
- Customers have included Senetas virtual encryption technology in tender proposals to end users
- Success of those tenders will determine timing for initial sales – potentially before the end of FY17



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# SureDrop

- Simple file sync and share delivered with the security and resilience of a bespoke on-premises solution
- Data encryption, key management and file fragmentation security features are based on the same best-in-class technologies used in Senetas' multi-certified high-speed encryptors
- Acquired on an earn out basis with no upfront capital outlay
- The service is offered on a user subscription basis
- Potentially adds a new annuity type of revenue to Senetas
- SureDrop is in the early stages of release to the market and is not currently revenue producing but is being trialed by customers in partnership with a large Australian telecommunications company






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# OUTLOOK

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# 2017 Priorities

- **A highly innovative and responsive R&D capability remains at the core of Senetas' business** – continuing to develop new products to meet emerging customer needs including faster, 'high density' hardware and software solutions, and custom products to suit unique customer requirements
- **Leverage the Gemalto relationship** to increase access to regions and industries in which Senetas currently has low penetration
- **Assist Gemalto to grow revenue and further strengthen Senetas' in market sales and marketing capability to identify and realise sales opportunities**: building stronger relationships with Gemalto and end user customers; identifying emerging customer needs; and driving the sales of new products
- **Continue to develop new technology partnerships to expand the reach and capabilities of Senetas products** – new avenues to market with significant customer access
- **Identify and develop the drivers of Senetas' long term growth** – expansion into new markets via new product developments leveraging internal expertise and partner relationships, and exploring compelling acquisition opportunities

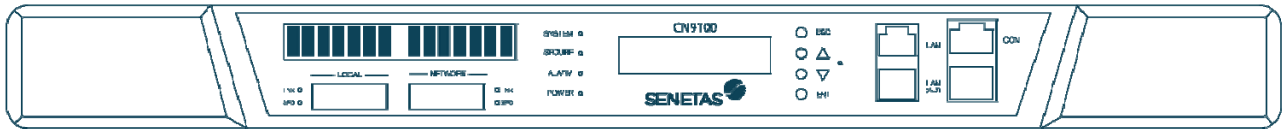


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# Summary and Outlook

- Lower than expected HY17 results driven by disrupted ordering patterns whilst major customers complete network upgrades
- Sales impacts expected to be temporary and are expected to reverse as those customers complete their network upgrades
- Timing for completion of the network upgrades is uncertain; however, current expectations are for FY17 net profit before tax to be between $5m and $6m – and net profit after tax between $3.4m and $4.2m
- A return to more normal customer ordering patterns earlier or later than currently anticipated will impact FY17 profit expectations
- Initial orders for the 100G ultra high speed high assurance encryptor and the new virtual encryption product are expected very late in FY17
- The custom algorithm products remain subject to export approvals and certification; however, Senetas is optimistic that initial sales may occur midway through FY18

## WHAT MAKES THE SENETAS CN9000 100GBPS ENCRYPTOR SO POWERFUL?






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# SENETAS 2017 INTERIM RESULTS

27 February 2017

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