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Security without compromise

Senetas Corporation Limited

2020 Full Year Results – 28 August 2020

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FY2020 Group Highlights

- Operating revenue of $22.6 million – up 6.1% on FY2019
  - Group revenue includes $2.8 million of revenue from Votiro for the period after it became a controlled entity in November 2019
- Gross margins for the Group of 87%
- Operating profit before tax for the underlying Senetas business up 4.8% to $4.1 million, excluding impacts from the Votiro investment
- Consolidated group net loss before tax including Votiro of $2.9 million
- Consolidated group net loss after tax of $3.6 million
- Consolidated group Net Assets at 30 June 2020 up 3.1%
- Strong balance sheet with $15.7 million of cash at 30 June 2020 and no debt

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FY2020 Highlights – Senetas Segment

- Operating revenue down 7.1% with lower product sales partially offset by good growth in maintenance revenue
  - Higher sales revenue in Asia Pacific, but revenue in Europe and North America was lower
  - Good growth in US Government revenue offset by lower sales to US commercial customers
  - Recurring maintenance revenue was 50% of total revenue
- Gross profit up 1.5% with higher gross margins of 86% in part reflecting the higher percentage of maintenance revenue
- Senetas segment underlying net profit before tax up 4.8% on a like for like basis compared to FY2019 (excluding the impacts of Votiro investment & other one time items)
- Higher R&D in FY2020 primarily associated with European certification and transport layer independence for hardware products
- Cost reduction initiatives implemented during FY2020 reduced Senetas corporate overheads by over 8%

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FY2020 Highlights – Votiro

- Third tranche of Senetas's investment in Votiro of US$2 million (A$2.9 million) was paid in January 2020 increasing Senetas's ownership of Votiro to approximately 60%
- Global Votiro sales and marketing capability established. US based sales team now in place and distribution partnerships expanded
- FY2020 revenue growth driven by
  - Initial sales into the North American market
  - Continued and growing success in Japan through local resellers
  - Expansion of Asia Pacific sales into Singapore & ANZ
- Strategic partnership and distribution agreement signed with Thales
- Ransomware attacks are one of the largest cyber security threats the world is facing. The capability of Votiro Disarmer to protect users against most ransomware threats is driving significant customer interest from both commercial and government customers

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COVID-19 Update

- Customer interest remains strong, but sales execution has slowed as a result of disruption to the normal customer engagement process and product testing procedures – no supply chain issues have emerged to date
- Sales lead times for Senetas products are long and FY2020 second half sales largely reflect activities over the previous 12-24 months
  - No noticeable impact on FY2020 maintenance revenue – key impact to date has been on the completion of product sales to US commercial customers
  - FY2021 impact on Senetas sales remains uncertain – sales pipeline reflects a modest softening in near term sales demand, but no material impact is expected on maintenance revenue
- Votiro sales growth has been strong, but the pace of growth has been slowed
  - Existing pipeline opportunities have been slower to progress with new customers
  - The new Thales relationship is a significant opportunity but other strategic partnership opportunities are taking longer to complete
  - Despite COVID-19 uncertainty, good sales growth is expected in FY2021

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KEY FINANCIALS



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FY2020 Key Financials

Full year ended 30 June 2020 ($000's)	FY2020*	FY2019	Change
Revenue from ordinary activities	22,605	21,313	6.1%
Gross profit	19,641	16,692	17.7%
Gross Margin %	*87%*	*78%*	*8pts*
Other income	712	708	0.5%
Share of loss of an associate*	(1,234)	(1,651)	25.2%
Profit (loss) before tax	(2,855)	320	-
Tax expense	(696)	(783)	11.1%
Net profit (loss) after tax	(3,551)	(463)	-

*Votiro results consolidated from November 2019. Loss of associate in FY2020 reflects Senetas's share of Votiro results from July-October 2019

- 6.1% growth in operating revenue – including consolidated Votiro revenue from November 2019 onwards
- Increase in gross margin reflects lower inventory transfers and depletion of Thales inventory during the period, and 96% gross margins for the Votiro business
- Tax line reflects tax expense on the Senetas segment underlying net profit before tax

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Senetas Operating Segment Results

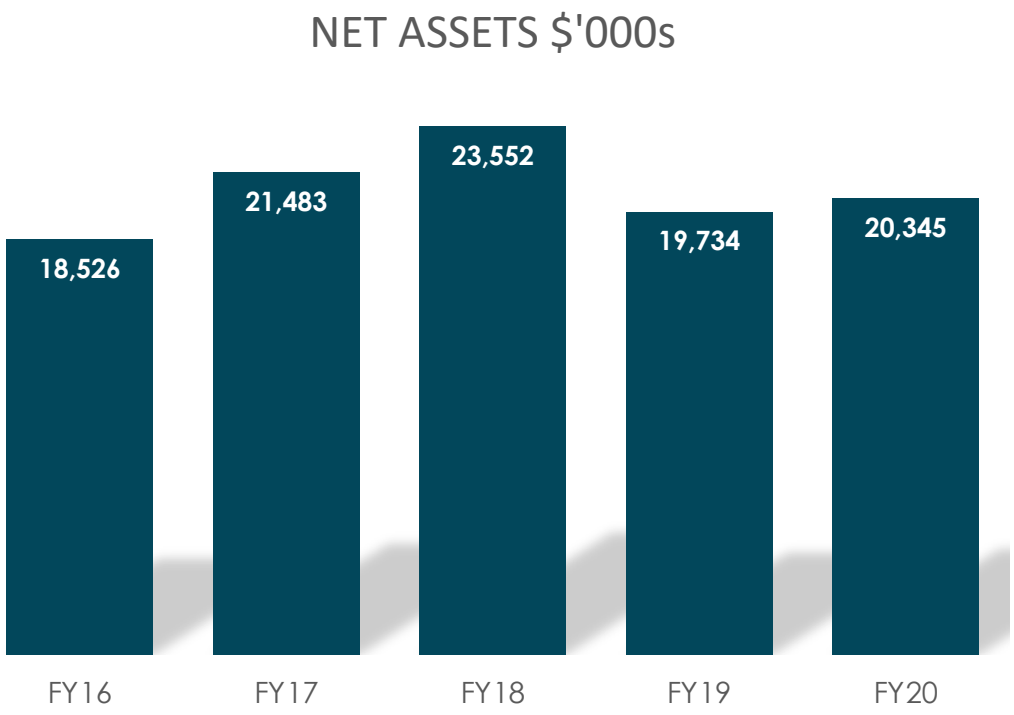
Full year ended 30 June 2020 ($000's)	FY2020	FY2019
Revenue from ordinary activities	19,790	21,313
Gross profit	16,950	16,692
Gross Margin %	*86%*	*78%*
Other income	1,254	708
Profit (loss) before tax	3,269	320
Adjustments to calculate underlying Senetas segment net profit before tax		
Share of loss of an associate (Votiro)	1,234*	1,651
Gain on step acquisition	(452)	-
Impairment to investment in SAT	-	1,893
Underlying net profit (loss) before tax	4,051	3,864

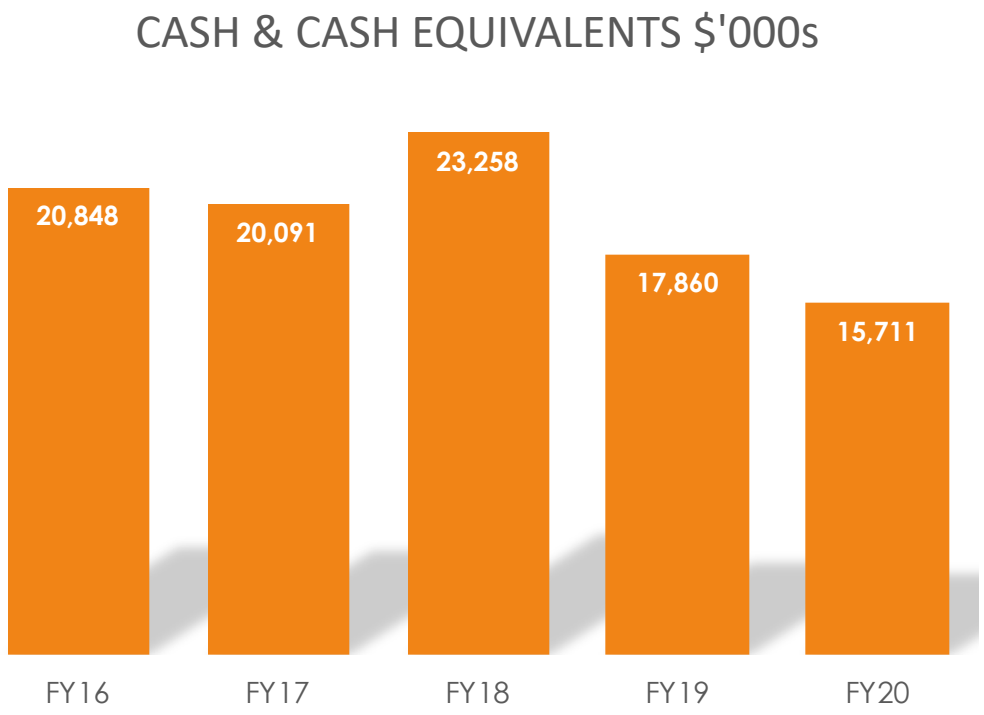
* Loss of associate in FY2020 reflects Senetas's share of Votiro results from July-October 2019

- Operating revenue was 7.1% below the prior period but gross profit was up 1.5% reflecting the higher percentage of recurring maintenance revenue in FY2020, and lower inventory transfers to Thales as inventory levels were depleted
- Higher R&D costs in FY2020 were partly offset by lower corporate overheads during the period
- Underlying net profit before tax was 4.8% higher than the prior period

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Strong Group Balance Sheet With No Debt





Since FY2018 Senetas has returned $4.5 million to shareholders via dividend and capital payments

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OPERATIONAL UPDATE



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- Continued growth in 100Gbps encryptor sales as more customers move to adopt 100Gbps network technology
- Good growth in sales to government customers – sales to commercial customers have been slowed by COVID-19 and related economic impacts
- Recurring maintenance revenue streams remain strong – up 15% on the prior year
- Submission for European certification on Senetas hardware encryptors completed
- Custom algorithm development for Eastern Europe has been completed
- SureDrop partnership in Australia with AUCloud, a sovereign Australian IaaS provider, now offers file sharing and collaboration capability with 100% data sovereignty and end-to-end encryption security

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R&D

FY2020 Priorities

- Network Independent Encryption capability for Senetas's CN series hardware encryptors provides the capability to encrypt concurrently across Ethernet and Internet protocol networks – substantially increasing the product use cases. The development has been finalised – 1Gbps encryptors have been released to market
- European certification was required in order to open up new market opportunities in Europe. Certification process has been completed

FY2021 Priorities

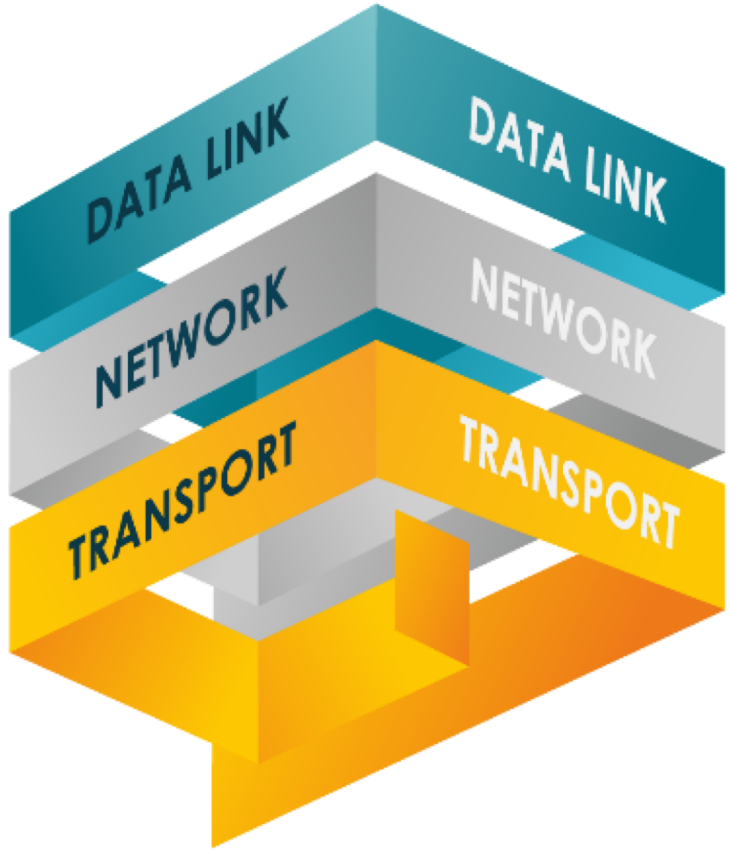
- Investment in Quantum readiness – future proofing Senetas encryption security in preparation for the future advent of quantum computing
- The Senetas crypto-agile and high-performance encryption platform is evolving from today's 'conventional' mathematics-based encryption algorithms to future quantum mechanics-based algorithms
- Additional Network Independent Encryption capabilities for more complex Internet networks

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Network Independent Encryption

Network Independent Encryption now available across Senetas's CN Series hardware encryptors

- The exponential growth in Cloud-enabled services and applications has seen organisations' data networks become increasingly multi-Layer, particularly in the use of Layers 2 and 3 (Ethernet and Internet)
- Senetas hardware encryptors have historically been limited to use across Layer 2 Ethernet networks
- The new Network Independent Encryption capabilities significantly expand the use cases for Senetas hardware encryptors
- Internet networks represent the majority of all networks used globally



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Custom Algorithm

- Development of Senetas's custom algorithm encryptor for the Eastern European market has been completed
- Opens a completely new market in a region where Senetas has not previously had products to sell
- Sales and marketing via Thales global distribution agreement
- Awaiting final Australian Government approvals prior to commencing shipments
- Significant pipeline of orders for 10Gbps and 1Gbps encryptors has already been developed – optimistic that first sales will be completed in H1 of FY2021
- Initial focus on financial and energy industry customers





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QUANTUM READINESS



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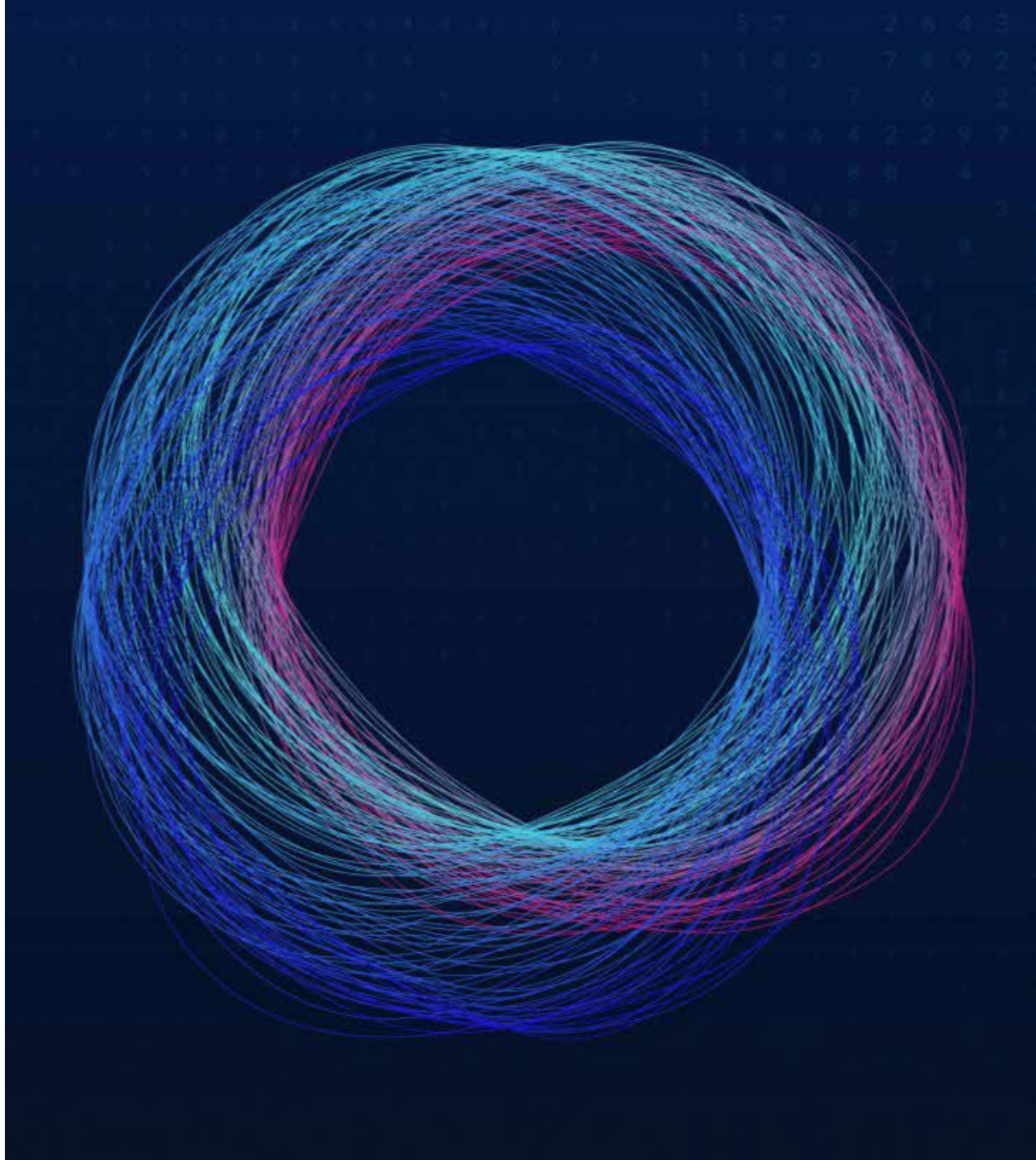
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From Crypto-Agility to evolving Quantum-Proof encryption solutions

The advent of quantum computing poses the single greatest cybersecurity threat in history.

In the hands of bad actors, it will put today's conventional mathematics-based data encryption at risk.

Senetas solutions' designed-in crypto-agility and R&D are focused on evolving quantum-proof encryption solutions.

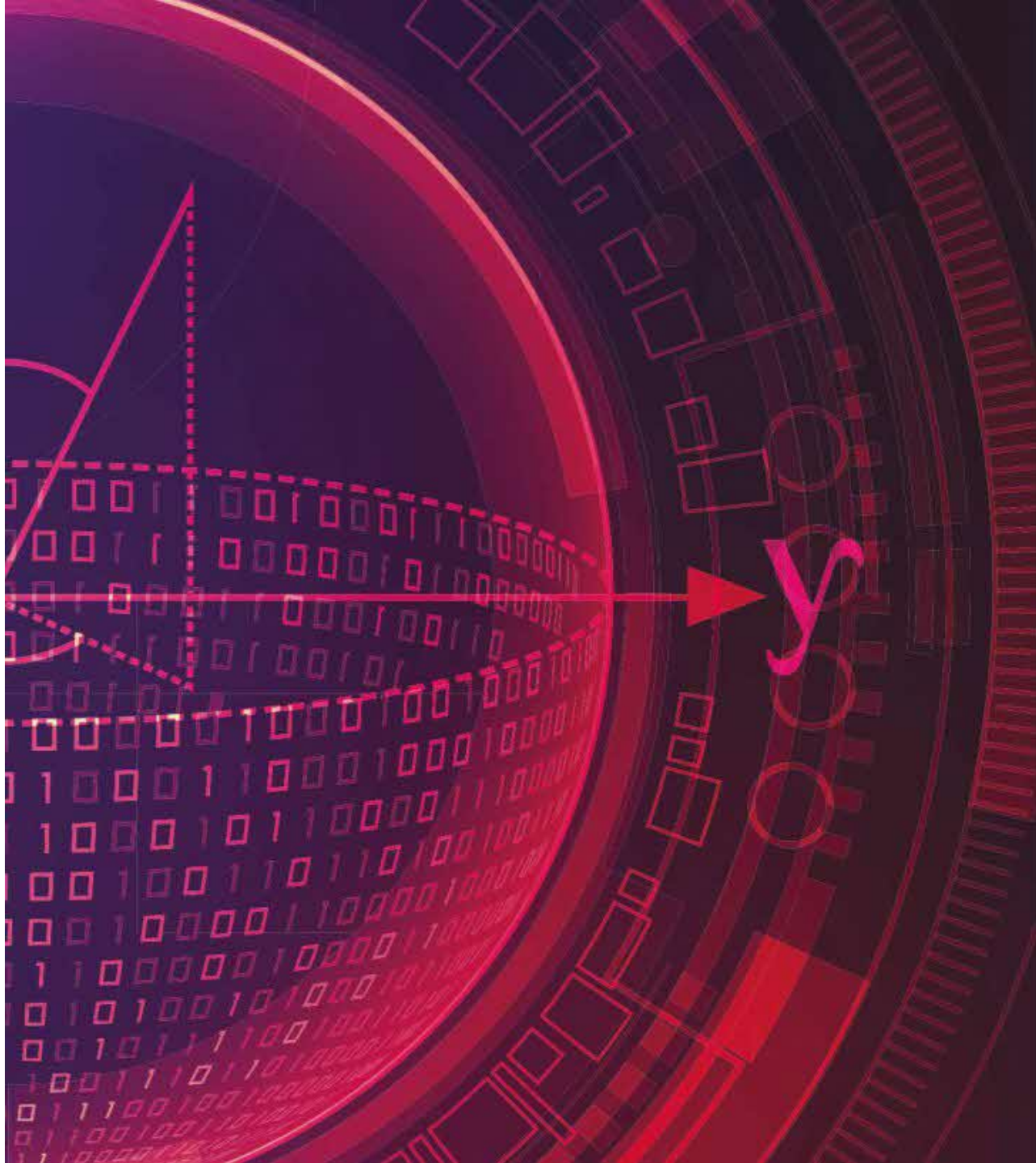


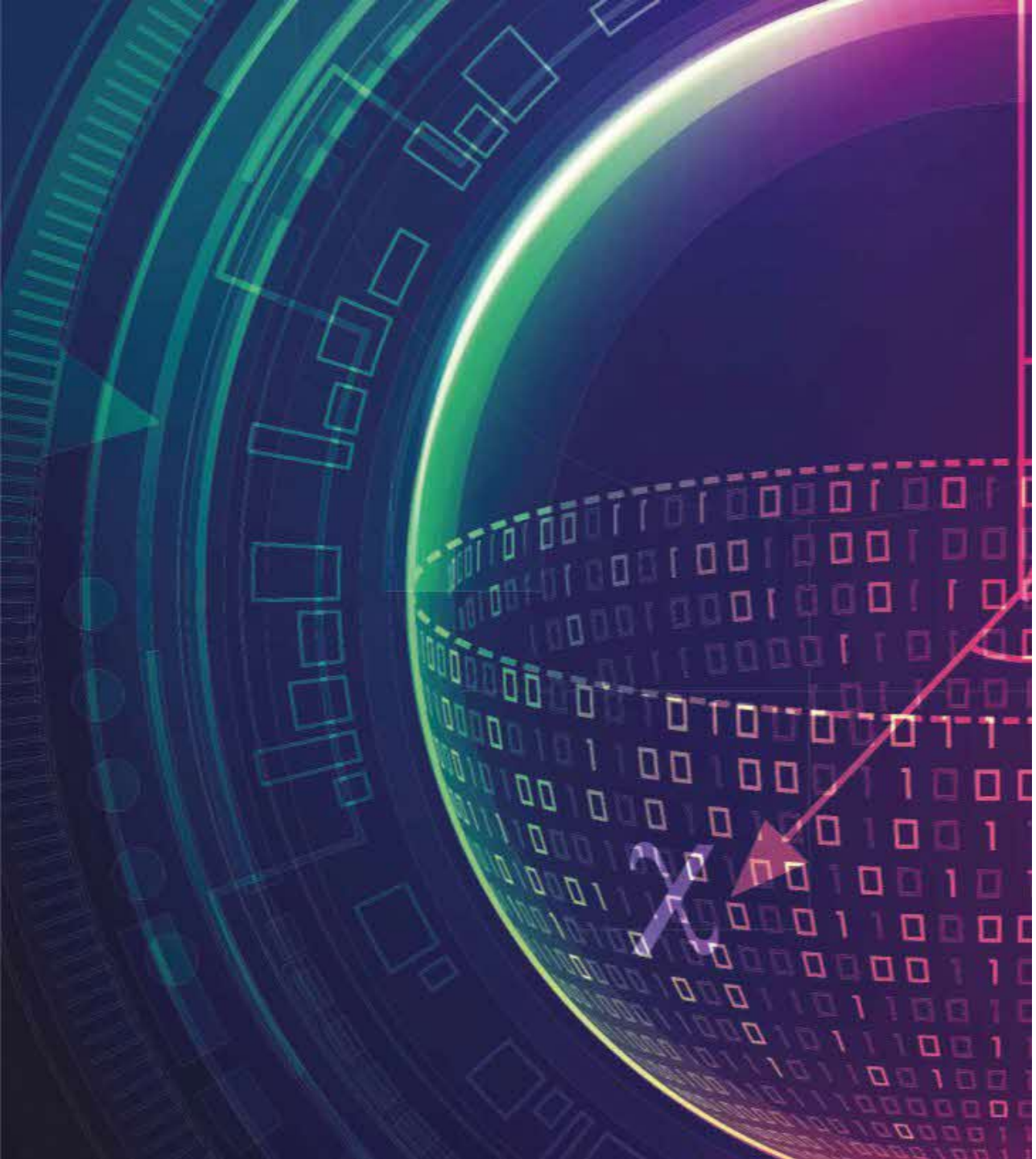
Senetas encryption solutions' Quantum Evolution

Quantum computers' performance characteristics will make them ideal for cyber-attacks and decryption of today's conventionally encrypted data.

Senetas is evolving its crypto-agile and high-performance encryption platform:

- Certified high-assurance hardware encryptors (CN Series for core IT network infrastructure security)
- SureDrop secure file-sharing and collaboration (application for remote working)
- Virtualised encryption (CV Series for security to the network edge)





Senetas encryption solutions' Quantum Evolution

Evolving from today's conventional mathematics-based encryption algorithms to future quantum-resistant algorithms.

This will provide customers long-term data protection against the arrival of quantum computing.

Today's conventional encryption algorithm standard, AES, will continue to serve data protection well until the arrival of a practical quantum computer.

But, in the meantime the most sensitive data will require an interim solution.

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Delivering a secure transition to a future Quantum-Safe world

Quantum-safe encryption is not limited to quantum-resistant algorithms alone.

Senetas R&D's quantum evolution will provide a secure transition for sensitive government, defence and business data:

- NIST evaluated candidate quantum-resistant algorithms
- Advanced random number generation
- Quantum key distribution

Providing an almost limitless and entirely random encryption of data today, for a secure transition to a quantum-safe future.



SURE DROP



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Cyber-Threats to the ‘New Normal’ – SureDrop Secure Remote Working

In the new ‘Covid-19 world’, there is every chance that ‘work from home’ will become the new normal.

Organisations must provide a secure and flexible file-sharing and collaboration tool. Senetas SureDrop provides an optimal solution.

SureDrop’s implementation is flexible, enabling on-premises and managed service provider, SaaS, deployment.

End-to-end encryption is just one of SureDrop’s significant security features.





Cyber-Threats to the ‘New Normal’ – SureDrop Secure Remote Working

In addition to SureDrop’s end-to-end encryption and file fragmentation security, it now offers:

- Support for Microsoft 365, Azure and Outlook
- Integration with Votiro Disarmer for protection against all malware and ‘unknown’ threats
- 100% data location control for data sovereignty
- Geo-support for multiple languages
- Support for Thales CypherTrust secure centralised encryption key management

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VOTIRO



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Votiro Update

- Established presence in the North American market & executed initial product sales
- Strategic partnership and distribution agreement signed with Thales focusing on North American government agencies
- Growth outlook for Votiro's CDR technology remains very positive driven by the capability of Votiro's File Disarmer to protect users against most ransomware threats
- North America is expected to be the primary growth market
- Key customer focus areas across financial services, energy / infrastructure, and insurance / healthcare

VOTIRO SECURED.



01 **Receive**
Received file is forensically analysed to identify any previously disclosed threats.

02 **Disarm**
File is broken down to its compo-nent elements and any malicious code removed.

03 **Reconstruct**
Cleansed file is rebuilt, preserving the integrity and functionality of the original.

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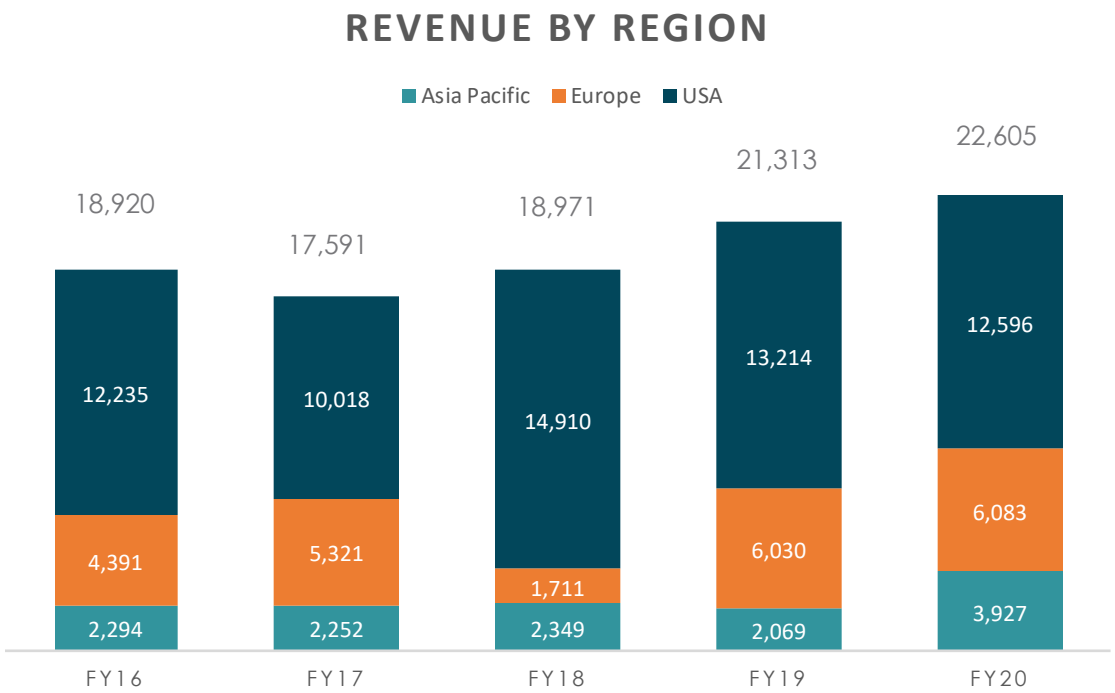
DETAILED FINANCIALS



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Operating Revenue



FY16-18 revenue has not been restated for the application of AASB15

- Small declines in USA and Europe revenue
- Asia Pacific revenue growth reflects increased Senetas encryption business revenue and the inclusion of region revenue from Votiro
- $2.8 million contribution from Votiro since November 2019, primarily in Asia Pacific
- Recurring maintenance revenue streams now 50% of total revenue

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Cash Flow

Full year ended 30 June 2020 ($000's)	FY2020	FY2019	Change
Receipts from customers	22,758	23,781	(4)%
Tax paid	(921)	(679)	(36)%
Payments to suppliers & employees	(21,836)	(17,547)	(24)%
Operating cash flows	170	5,865	-
Investing cash flows	(1,531)	(7,208)	-
Cash and cash equivalents at 30 June	15,711	17,860	(12)%

- All FY2020 cash flows include Votiro cash flows since November 2019
- The significant increase in payments to suppliers and employees reflects the inclusion of Votiro cash flows since November 2019
- Investing cash flows include the first instalment of the 2nd tranche of Senetas's investment in Votiro (US$1 million / A$1.6 million) – prior to Votiro becoming a controlled entity
- Other significant cash outflows during the period include $0.5 million relating to the return of capital approved by shareholders at the 2019 AGM

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Balance Sheet Remains Strong

Full year ended 30 June 2020 ($000's)	FY2020	FY2019	Change
Cash and cash equivalents	15,711	17,860	(12)%
Trade and other receivables	5,483	5,056	8%
Inventories	2,453	2,425	1%
Investment in Votiro	-	4,973	-
Goodwill & intangible assets	14,096	196	-
Total assets	42,507	33,359	28%
Trade and other payables	(3,215)	(2,509)	(28)%
Contract & lease liabilities	(13,333)	(9,090)	(47)%
Total liabilities	(22,203)	(13,625)	(63)%
NET ASSETS	20,317	19,734	3%

- 30 June 2020 balance sheet includes Votiro after it became a controlled entity from November 2019
- Strong balance sheet with net assets up 3% at 30 June 2020
- Cash on hand of $15.7 million and no debt – significant cash outflows include first instalment of the 2nd tranche of Senetas's investment in Votiro (US$1 million / A$1.6 million) and $0.5 million relating to the return of capital approved by shareholders at the 2019 AGM

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