27 August 2021

ASX ANNOUNCEMENT

Senetas Corporation Limited – Full Year Results for the year ended 30 June 2021

- Group operating revenue of $23.0 million – up 2%
- On a constant currency basis[1] group operating revenue was up 13%
- Operating profit before tax for the Senetas business segment of $3.4 million (up 76% on a constant currency basis[1])
- With good recent sales wins and a rapidly expanding sales pipeline Votiro is emerging as a significant growth opportunity
- Strong demand for Votiro's Secure File Gateway solutions with a record number of proof of concept trials underway
- Votiro now has over 400 customers globally and has processed over 5 billion documents with 100% efficacy, zero breaches and no latency
- Group net loss before tax of $7.5 million – includes a net loss before tax from Votiro of $10.9 million (including non-cash items of $5 million for amortisation and share based payments)
- Group net loss after tax attributable to members of $3.7 million
- Strong balance sheet position and no debt

Senetas Corporation Ltd (ASX: SEN) (Senetas / the Company), today announced its results for the full year ended 30 June 2021 (FY2021).

FY2021 financial highlights

Full year ended 30 June 2021 ($000's)	FY2021	FY2020*
Revenue from ordinary activities	23,006	22,605
Gross profit	19,578	19,641
Other income	400	712
Share of loss of an associate (Votiro)*	-	(1,197)
Profit (loss) before tax	(7,528)	(2,583)
Tax expense	(285)	(696)
Net profit (loss) after tax	(7,813)	(3,279)

**Votiro results were consolidated from November 2019. Loss of associate in FY2020 reflects Senetas's share of Votiro results from July-October 2019. FY2020 results area also restated for adjustment to share based payments expense*

[1] Constant currency movements reflect FY2020 financial results restated at the FY2021 average A$-US$ exchange rate

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The following table highlights the underlying operating results for the Senetas operating segment for FY2021.

Full year ended 30 June 2021 ($000's) **Senetas business segment**	**FY2021**	**FY2020**
Revenue from ordinary activities	19,834	19,790
Gross profit	16,563	16,950
Other income	576	1,254
Profit before tax	3,376	3,269
Adjustments to calculate underlying Senetas segment net profit before tax		
Share of loss of an associate (Votiro)*	-	1,197
Gain on step acquisition	-	414
Underlying Senetas segment net profit before tax	3,376	4,051

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

Almost 90% of Senetas's revenue is denominated in US$. The average A$-US$ exchange rate for FY2021 was A$1:US$0.75, in FY2020 the exchange rate was A$1:US$0.66. The strengthening of the A$ against the US$ has had a significant impact on Senetas's reported growth rates for FY2021. Where noted, Senetas has provided additional commentary on growth rates calculated on a constant currency basis.

- Group operating revenue of $23.0 million was up 2% over the prior period (FY2020: $22.6 million) – on a constant currency basis group operating revenue was up 13%
- Group operating revenue includes $3.2 million of revenue from Votiro for the period (FY2020: $2.8 million)
- Gross margin for the Group of 85% - down marginally on the prior period
- The Group net loss before tax of $7.5 million includes a $10.9 million operating loss before tax from Votiro
    - Votiro loss before tax includes large non-cash items such as share based payments expense of $2.9 million and amortisation of $2.1 million
- The Group net loss after tax was $7.8 million including a $10.5 million loss after tax from Votiro – net loss after tax attributable to members was $3.7 million
- The operating profit before tax for the Senetas operating segment in FY2021 was $3.4 million – up 76% on a constant currency basis compared to the underlying Senetas result in FY2020
- R&D costs were 3% higher in FY2021 primarily associated with Senetas's investment in Quantum resistance and transport layer independence
- Cost reduction initiatives initially implemented during FY2020 continued to provide further benefits in FY2021 with corporate overheads down by over 10% compared to the prior year
- Senetas retains a strong balance sheet with no debt and $11.8 million of cash on hand at 30 June 2021

Commenting on the year to 30 June 2021, Senetas CEO, Andrew Wilson, said: "FY2021 has seen some encouraging developments across both the Senetas and Votiro businesses, despite some of the challenges presented by COVID-19 to our businesses and the global economy.

"Most exciting for Senetas is the progress being made with our investment in Votiro which represents a significant growth opportunity for the company. Malware and ransomware attacks are becoming more common and more severe, and greater awareness of these threats is leading to a significant increase in engagement from potential customers. Uniquely, Votiro's Secure File Gateway has a proven 100% efficacy rate against both known and unknown ransomware and zero day attacks.

"In recent months Votiro has commenced a record number of proof of concept trials across the North American and Asia Pacific markets with 16 currently underway, and further trials scheduled for early in FY2022. Votiro's sales pipeline continues to grow, with the majority of near term opportunities located in the North American and Asia Pacific regions.

"The Senetas business achieved good sales growth across both the European and Asia Pacific markets, however, US sales were lower driven by softer commercial sales in the first half.

"The strengthening of the Australian dollar against the US dollar during the year had a significant impact on reported growth rates this year. The vast majority of Senetas's revenue is earned in US$ so whilst reported revenue was similar to the prior year, on a constant currency basis revenue was up by 13%, and the Senetas segment profit before tax was up 76%. A strong outcome in the current climate.

"Senetas sales highlights included our largest ever sale of 100Gbps encryptors, the first sale of those encryptors in the Australian market, and the first sales of our custom algorithm products into the Eastern Europe market.

"Whilst still quite small, the first sales of SureDrop occurred in the first half of the year and continued to build some good momentum through the second half.

"In the first half of the year Senetas also released the first to market high-assurance quantum resistant network encryption cybersecurity solutions that will provide customers with necessary long-term protection against the emerging threat of quantum computing by adding quantum resistant features to its current hardware network encryption platform. These solutions are expected to provide additional revenue opportunities for Senetas as the threats from quantum computing emerge in the coming years.

"COVID-19 continues to have an impact across both businesses with face to face contact with customers still very limited in most markets for most of the year. Direct contact with customers is integral to our sales process, particularly as part of proof of concept trails, and its absence has the effect of lengthening the sales cycle.

"COVID-19 and other natural disasters have also had a significant impact on the global supply of semiconductors. Resultant shortages will temporarily impact Senetas's ability to manufacture and supply its hardware encryption products. In conjunction with our partners Senetas has taken early steps to mitigate the impact of the chip shortage, however, based on current forecasts of chip availability it is expected that sales of hardware encryptors will be impacted in FY2022. Despite this, we still expect FY2022 Consolidated Group revenue to be higher than it was in FY2021.

"Senetas's balance sheet remains strong with $11.8 million of cash on hand and no debt at 30 June 2021."

Votiro

Votiro is a market leader in Secure File Gateway technology. Votiro secures files and documents by utilising Positive Selection processes to deliver known-safe content, ready for safe business operations. Its mission is to protect people from all file-based attacks, no matter where they came from or how complex they are, without impacting business productivity.

Votiro now has over 400 customers globally and has processed over 5 billion documents with 100% efficacy, zero breaches and no latency. Votiro's Secure File Gateway has also recently received certification confirming it is suitable for US Government applications.

Malware and ransomware attacks are becoming more common and more severe and demand for tools to protect against these attacks is expected to grow strongly. Votiro's patented, proprietary technology instantly deconstructs and reconstructs content of all types, in original file format, making it safe for enterprise use. It is effective in preventing content-borne cyber-attacks, including known and unknown attacks like ransomware and supply chain attacks.

Senetas has invested US$12.1 million in Votiro since late 2018 and has a controlling shareholding of just under 70%. The rise of ransomware attacks is one of the most serious global cybersecurity threats and Votiro's Secure File Gateway solution is effective at neutralising those threats (including zero day threats) with 100% efficacy, zero breaches and no latency. Votiro provides Senetas with immediate access to a high growth market opportunity.

Senetas is leveraging its experience with defence grade cybersecurity and its long and deep relationships with US Government agencies, large commercial organisations and Thales as our global distribution partner to help deliver significant benefits to Votiro.

Over the past 18 months the Votiro business has been restructured with a key focus on sales execution and targeting priority markets. A highly experienced management team has been recruited and a new CEO with strong experience in cybersecurity will be announced in the coming days. Votiro has now established a physical presence in the US market which is our key target market, and which will become its commercial head office.

Votiro's sales pipeline continues to grow, with the majority of near term opportunities located in the North American and Asia Pacific regions. Votiro currently has 10 proof of concept trials underway with government and large commercial customers in the US, and a further 6 concurrent trials underway in Asia Pacific, also with government and large commercial customers. Confidence in the sales pipeline is high because on average, Votiro wins customer contracts in over 75% of cases once reaching the proof of concept stage. In the US market Votiro's success rate is over 90%.

The trials currently underway in North America include large financial institutions, media organisations and one of the largest agencies within the US Department of Defence. Trials in the Asia Pacific region are also with commercial and government organisations, including several trials with Singapore Government agencies.

Key milestones for Votiro during FY2021 included the new relationships it established with Thales, Gotham Technology Group and Menlo Security in the US market developing opportunities with government and commercial clients. Votiro also launched a cloud-based SaaS version of the Secure File Gateway solutions – providing customers working within or migrating to the cloud with a scalable way to completely eliminate file-borne attacks carried through email, web downloads, and website uploads.

Major new customers acquired during the period include a Fortune 100 financial services provider with over 50,000 users; a large multi-national bank in the Asia Pacific region with over 40,000 users; and a large South African bank.

The success of Votiro's Secure File Gateway in neutralising the threats posed by ransomware presents a significant growth opportunity. Senetas is excited by the outlook for Votiro and has consequently invested more of its excess capital during FY2021 to support the business and increase its shareholding to just under 70%. In June 2021 Votiro completed a rights issue raising US$4.6 million, with Senetas contributing US$4.1 million and the balance from Votiro's minority shareholders and associated parties.

Funds from the capital raising will be used to meet the significant expansion in sales, marketing and customer support activities as Votiro takes the next steps to commercialise its technology.

With the record number of proof of concept trials underway and Votiro's success in converting trials into longer term customer contracts, a significant uplift in revenue growth in the near term is expected. Senetas expects Votiro revenue to more than double within the next 12-18 months.

Votiro's customers are all marquee major corporates or government organisations.

Operational review

Group revenue growth of 2% in FY2021 increased to 13% growth on a constant currency basis. Growth was driven by good growth in the European and Asia Pacific markets, but sales to US commercial customers were below the prior period.

Reported Senetas segment operating revenue was up marginally on the prior year, but on a constant currency basis was up 11%. Both product sales revenue and maintenance revenue were similar to the prior year. Recurring maintenance revenue was just over 50% of total Senetas segment revenue.

The majority of product sales revenue continues to be driven by sales of 10Gbps and 1Gbps encryptors, however, 100Gbps encryptors are the fastest growing of the product lines. Key sales highlights for the Senetas business included:

- Senetas's largest ever single order for 100Gbps encryptors
- The first sales of 100Gbps encryptors into the Australia market
- The first ever sales of SureDrop in the first half of the year. Overall sales of SureDrop remain quite small although there was some good sales momentum developing in the second half
- First sales of the new hardware encryptors with Transport Independent Mode providing security across Layer 2, 3 and 4 networks

Net profit before tax for the Senetas business segment of $3.4 million was lower than the underlying (prior to any impacts from the investment in Votiro) net profit before tax in FY2020 of $4.1 million. However, on a constant currency basis the Senetas segment net profit before tax was up 76% on the prior year.

Votiro operating revenue for FY2021 was $3.2 million, up from $2.8 million in FY2020. Votiro's sales growth was impacted by COVID-19 related disruptions, however, good sales momentum and pipeline build developed later in the year and the first two months of FY2022 have been very encouraging. Votiro's annual recurring revenue is expected to double in FY2022.

FY2021 is the first time a full year of Votiro results has been consolidated in Senetas's Group results. The Votiro net loss before tax of $10.9 million in FY2021 compares to a net loss before tax of $5.9 million for the eight months that Votiro was consolidated in the prior period. The Votiro segment loss before tax includes $5.0 million of non-cash items such as share based payments expense ($2.9 million) and amortisation ($2.1 million).

The underlying Votiro loss before tax (excluding the impact of non-cash items) was 7% lower in FY2021 than the prior 12 month period – reflecting good revenue growth, partly offset by increased costs relating to Votiro's additional sales and marketing investments into the North American market.

Gross margins for the Group were slightly lower at 85% (FY2020 – 87%).

Cost reduction initiatives across the group resulted in lower corporate overheads. Senetas corporate overheads were down over 10% on the prior period.

Semiconductor shortage

The COVID pandemic and other natural disasters have significantly impacted the global supply of semiconductors. Specific contributing factors have included:

- Manufacturing shutdowns during the pandemic combined with increased demand for electronic components driven by the work from home movement;
- Severe drought in Taiwan (Semiconductor fabrication consumes a large amount of purified water);
- Factory fires in Japan

It is likely that the global chip shortage will last into FY2023 as adding capacity may take 1 – 3 years. Whilst this shortage is likely to only be temporary, Senetas expects that there will be an impact on its production capacity in FY2022. In conjunction with its partners, Senetas took early steps to mitigate the impact of the shortage and remains relatively well placed. Nonetheless, based on current forecasts of chip availability it is likely that Senetas's sales of hardware encyptors in FY2022 will be 10-15% lower than FY2021. Senetas is working to manage the expectations of key customers and where possible will attempt to defer some sales into FY2023.

Despite the semiconductor shortage Senetas expects that its FY2022 Consolidated Group revenue will still be higher than FY2021.

R&D and new product development

R&D and new product development remains at the core of Senetas's business. The major areas of R&D focus in FY2021 included:

- The release of Senetas's quantum resistant network encryption solution;
- The completion of certification and regulatory processes to allow the first sales of Senetas's custom algorithm solutions for the Eastern Europe market;
- Product upgrades; and
- Enhanced transport layer independence capabilities for Senetas's hardware encryptors

Senetas's first to market high-assurance quantum resistant network encryption cybersecurity solution and the enhanced transport layer independent hardware encryptors were released to market during FY2021. R&D costs increased by 3% in FY2021.

Balance sheet and cash flow

Consolidated net assets at 30 June 2021 were $14.5 million with no debt and cash on hand of $11.8 million. The lower net assets at 30 June 2021 reflect the consolidation of the current period loss from Votiro.

Lower goodwill and intangible assets at 30 June 2021 reflect amortisation during the period ($2.1 million) and foreign exchange movements due to a lower US dollar.

The Senetas balance sheet reflects the cost of its investment in Votiro less amortisation – it does not reflect Senetas's current view of the underlying value of Votiro.

Receipts from customers were in line with revenue for FY2021. Group net cash outflows from operating activities was $3.1 million, comprising $2.7 million of operating cash inflows for the Senetas business segment and $5.8 million of operating cash outflows for the Votiro business segment.

Outlook

Commenting on the Company's outlook, Mr Wilson said: "Whilst issues relating to COVID-19 continue to pose some challenges for the business, we have been very pleased with the progress made in FY2021.

"We are particularly excited about the outlook for Votiro in FY2022. Votiro continues to perform very well in customer proof of concept trials and consistently beats its competition. Organisations are becoming increasingly aware of the threats posed by ransomware attacks, particularly unknown or zero day attacks, and that is reflected in the number of customer engagements and trials we have seen in recent months.

"Votiro's sales pipeline has built very strongly over the past half year and we expect that will result in very strong revenue growth over the next 12 months. The number of proof of concept trials underway and scheduled for the coming months gives us confidence in our sales pipeline with those trials historically resulting in a contract win for Votiro in over 75% of cases.

"The key challenge for the Senetas business in FY2022 will be the global shortage of semiconductor chips for our hardware encryption devices. Whilst this is only a temporary shortage, there will be a reduction in the number of encryptors we will be able manufacture in FY2022. We are working with our partners and customers in order to mitigate the impact to the business and potentially to defer some orders into FY2023 where possible. At this stage, based on the expected availability of semiconductor chips we anticipate a risk to product sales revenue of up to 10-15%, however, we still expect FY2022 Consolidated Group revenue will be higher than FY2021.

"Subject to the global shortage of semiconductor chips, the sales outlook for Senetas's hardware encryptors is otherwise looking very positive. Overall demand in key regions looks good with the Thales sales pipeline growing solidly and we have seen improvement in the US commercial market through the second half of FY2021.

"The threats from cybersecurity are growing, and Senetas and Votiro's world leading solutions position us very well for future growth."

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ABOUT SENETAS CORPORATION LIMITED

Senetas is an Australian public company (ASX:SEN) specialising in cybersecurity solutions - from high-performance network encryption to secure file-sharing collaboration and anti-malware applications. Used by global commercial and technology enterprises and governments in more than 45 countries, Senetas solutions are distributed and supported internationally by Thales, the world's largest security company.

Senetas cybersecurity solutions are trusted to protect business, government, defence, national infrastructure, cloud and technology service provider data against breaches and prevent crippling cyber-attacks.

A global leader in the protection of data transported across the high-speed networks essential to businesses and governments, Senetas provides network independent encryption hardware and virtualised solutions. These share a crypto-agile and quantum ready cybersecurity platform.

Certified by leading independent authorities (Common Criteria, FIPS and NATO), Senetas encryptors leverage end-to-end encryption and state-of-the-art key management providing long-term data protection without compromising network performance.

Senetas's encrypted file-sharing and collaboration application, SureDrop, provides the information security and data sovereignty control essential in today's world of rapidly growing remote work. SureDrop has the usability of box-type file-sharing and other collaboration tools, but with the added benefits of Microsoft 365, Outlook and Azure integration. It may be deployed on premises or as a service provider Software as a Solution (SaaS).

Secure File Gateway by Votiro, a Senetas subsidiary, prevents crippling malware and zero-day attacks such as ransomware and viruses. Votiro's award-winning and patented technology prevents malicious file content through email, web downloads and other file gateways.

Senetas solutions have been trusted to protect much of the world's most sensitive information for more than 20 years. They are used to protect everything from government and defence secrets to intellectual property, financial transactions, citizen privacy to real-time CCTV networks and critical national infrastructure.

www.senetas.com

ABOUT VOTIRO

Votiro is an award-winning cybersecurity company with a mission of securing organizations from all file-borne threats. Its proprietary, award-winning positive selection technology allows users to safely open email attachments, download and transfer files, share content, while keeping performance and functionality intact. With over 400 customers globally, Votiro has offices in US, Singapore, Australia, and Israel. Votiro is a Gartner Cool Vendor award winner and certified by the international standard of Common Criteria for Information Technology Security Evaluation (ISO/IEC 15408). Votiro has also been recently recognised as Best CDR Provider by the 2020 Cybersecurity Excellence Awards and named a Bronze winner in the Hot Security Technology Category by the 2020 Infosecurity Products Guide Awards.

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