



TESSERENT

ASX ANNOUNCEMENT | TESSERENT LIMITED

MELBOURNE – 31st JANUARY 2017

APPENDIX 4C – QUARTERLY AND ACTIVITIES REPORT

Key highlights during the quarter:

- Customer receipts increased by 24% on previous quarter from \$1.240m to \$1.537m
- Quarter-on-quarter receivables have increased in line with business growth
- Signed contract with major global professional services firm
- Renewed existing contracts and signed new customers in the education sector
- Successful sale of Sonar/MyNet IP to Family Zone Ltd (ASX: FZO) for \$3.8m in cash and shares
- Established platinum partner relationship with global provider AlienVault
- Signed strategic funding / rental arrangement with Dell Financial Services

Tesseract Limited (ASX: TNT) is pleased to deliver the December Quarterly Financial and Activities Report, highlighted by a 24% increase in quarterly receipts, several new business contracts signed, the completion of the Sonar/MyNet IP sale and the signing of a strategic partnership with Family Zone Limited (ASX: FZO).

Customer receipts increased by 24% for the December quarter to \$1.537 million reflecting the underlying growth of the business, as well as the financial strength of the annual renewal model within the education sector. The company also signed a new contract with a global professional services firm to supply managed connectivity and security services. This multi-year contract represents a strong opportunity for Tesseract and is in-line with our strategy to grow combined connectivity and security solution business.

Staff costs for the quarter have increased 10.5% however, as part of the Sonar /MyNet IP sale several staff have transitioned to FZO. The sale of Sonar/MyNet IP to FZO has allowed Tesseract to reinvest resources into our core business of managed security services.

The sale of the Sonar/MyNet IP to FZO, together with the signing of the strategic partnership agreement, represents a mutually beneficial outcome for both companies (ASX announcement of 8 November 2016). As previously announced, TNT will receive the balance (\$2.5 million) of the consideration in two further instalments; \$0.5 million – 28 February 2017 and \$2.0 million – 31 May 2017.

Prior to 31 December 2016, Tesseract signed a strategic rental agreement with Dell Financial Services for all IT infrastructure. Historically, all client IT infrastructure needs had been internally financed resulting in mismatched cash flows, where customers entered multi-year managed service contracts. This rental arrangement is a significant boost to the company in supporting the ongoing growth in

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customer opportunities with OPEX funded client infrastructure.

Administration and corporate costs are forecast to increase over the next quarter due to the FZO transaction including licence fees payable for the IP which have been offset by the reduction in staffing costs. Additionally, the rental payments for the IT infrastructure commenced January 2017, where previously the company had purchased this infrastructure outright.

Cash position at 31 December was \$1.913 million

Moving Forward

Tesseract is committed to providing end-to-end managed security for our customers. In-line with this vision, we have recently added a full-time Internet connectivity pre-sales technical expert to our team. This resource, together with the sales team, will be targeting Internet connectivity sales to ensure our customers have a secure connection to their network and the opportunity for Tesseract to reduce the number of individual vendors our customers' need to manage separately.

On the education front, Tesseract continues to build relationships with schools in Australia and overseas. Subsequent to the end of the September quarter, Tesseract signed a distribution agreement with a US education distribution partner (ASX announcement of 4 October 2016), which supplies the school system of West Virginia. This agreement has, so far, resulted in 31 schools from Berkeley County and 16 schools from Jefferson County (West Virginia), now using Tesseract's solutions. The opportunity to grow customers and revenue in the US education space is significant. The 47 schools already signed up represent a small fraction of the schools across Virginia's 26 counties. It has been a very pleasing start to the relationship with our US education channel partner, vindicating our US education sector growth strategy and we anticipate continued growth in this area in 2017.

About Tesseract

Tesseract is a specialist in managed cyber security. Tesseract manages direct end-customers in Australia while also offering a managed security service to wholesale channel partners globally, enabling them to deliver effective cyber-security management to their end-customers.

For more information, please visit the company's web site at www.tesseract.com.

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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 2016

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	1,537	2,777
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(19)	(59)
(d) leased assets	(1)	(2)
(e) staff costs	(938)	(1,787)
(f) administration and corporate costs	(1,344)	(2,633)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	22	25
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	(8)	(17)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	(239)
1.9 Net cash from / (used in) operating activities	(751)	(1,935)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(18)	(33)
(b) businesses (see item 10)	(500)	(500)
(c) investments	-	-

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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	1,000	1,000
(e) 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	482	467

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	2,182	3,381
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(751)	(1,935)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	482	467
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	-

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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	1,913	1,913

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	1,913	182
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Term Deposit)	-	2,000
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,913	2,182

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**

118

-

- 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**

-

-

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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	70
9.4 Leased assets	1
9.5 Staff costs	780
9.6 Administration and corporate costs	1,853
9.7 Other (provide details if material) New office fit out & make good costs	370
9.8 Total estimated cash outflows	3,074

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10.	Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1	Name of entity	The business of Blue Reef Pty Ltd (Acquired May 2016)	
10.2	Place of incorporation or registration	Melbourne, Australia	
10.3	Consideration for acquisition or disposal	12,875,000 shares \$1,000,000 <ul style="list-style-type: none"> \$500,000 on completion – May 2016 \$500,000 deferred to December 2016 	
10.4	Total net assets	\$2,855,520 Provisional – subject to review under Australian Accounting Standards for disclosure in the 31 December 2016 Half Year Report	
10.5	Nature of business	Provider of cyber security solutions in the education market	

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.



31 January 2017

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.

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