



ASX RELEASE

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Scout January 2018 Sales Update and Investor Conference Call

Highlights:

- Scout has booked a strong start to 2018, with (unaudited) January revenue of more than AU\$135,000
- January sales through Scout's direct and Amazon channels exceeded each of the months of sales through direct and Amazon in the seasonally strongest December quarter
- With Amazon restocked, website traffic has surged more than 32% with revenue from paid marketing growing at nearly 14% month-on-month
- Subscriber sign-ons in January from holiday season sales have added \$18,300 to annualised recurring revenue in just one month
- The Company has provided a simple chart and walkthrough below to assist in understanding the cash conversion cycle of an inventory order
- Scout is exploring opportunities to work with inventory financing vendors as demand, and the Company, continues to grow
- Conference call for investors at 11am AEDT on Wednesday 21 February

Home security provider Scout Security Limited ((ASX: SCT), "Scout" or "the Company") is pleased to provide an update on the Company's sales expansion in 2018.

The Company expects to book January revenue (unaudited) of more than \$135,000. This constitutes a strong start to the year for Scout. The Company expects to record normalised January sales (ie. excluding Zego) that are higher than each of the months in the seasonally strongest December quarter. Historically, CYQ1 is typically a slower quarter for home security system sales in the US.

This strong start to the year reflects Scout's ability to meet pent-up demand, and indicates growing acceptance of the Company's DIY home security offering among US consumers.

Scout Security co-founder and CEO, Dan Roberts, said:

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"Scout is off to a great start in 2018, which bodes well for us ahead of the Spring, which is the prime home moving season in the US.

"February's numbers are tracking well against January's and, even though it is a short month, the traction we are experiencing with new and existing customers continues to positively surprise.

"We are particularly pleased to see recurring revenue form a growing component of our revenue. This mix shift away from upfront hardware revenue and toward annuity-style service income is integral to promoting sustainable and scalable growth in our business."

The Company is pleased to report that with Amazon restocked, Scout has started marketing through the Amazon Search Marketing platform in earnest. This is coinciding with a surge of interest in the Scout security suite, with website traffic up more than 32% over the December quarter.

This is driving material sales growth for the Company, with revenue generated from paid marketing efforts growing at an average of nearly 14% month-on-month.

Scout cash conversion cycle: financial model for investors

To aid investors' understanding of Scout's business and cash flow cycle, the Company has prepared a simple model below. The following chart illustrates the cash receipts flowing from one inventory order and the resultant continued long-term growth in recurring monthly revenue.

The chart below visualises a hypothetical AU\$1 million spent on inventory (red bar), and breaks out how quickly that investment flows back to the Company in the form of hardware sales (green bar) and recurring revenue (blue bar).

The model, which assumes a modest month-on-month growth in sales over time (flowing from increased marketing and exposure), indicates how **each** \$1 million of inventory spend can generate \$2 million of cash for the Company over 12 months. The company notes that it has multiple inventory orders flowing through at any one time, not just one.

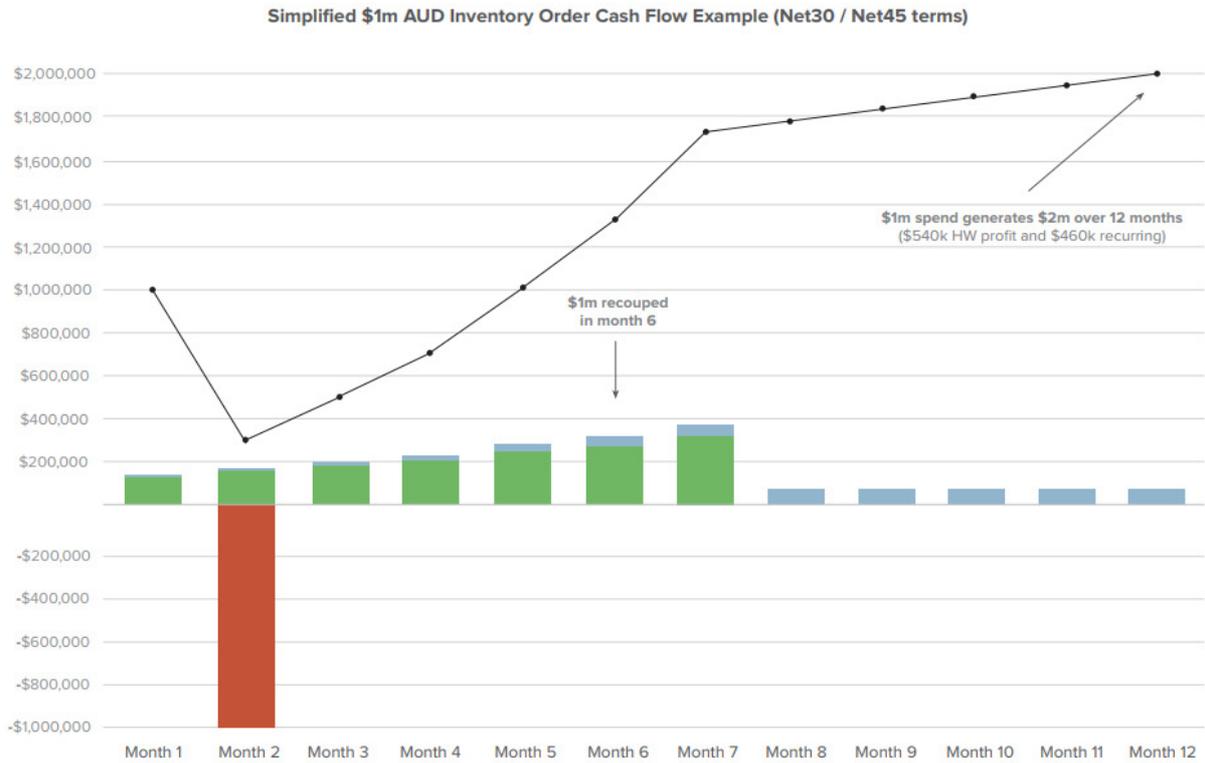
NOTE: this is a working example and does not contain actual numbers or forecasts relating to the Scout business. In practice, the Company is turning

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multiple inventory orders into cash receipts at any given time, which has a multiplying effect on the cash flow cycle depicted.

A larger version of the chart below is available here: <http://bit.ly/2o3k114>



Main Takeaways

- Cash poor situation is temporary
- \$1m investment, turns into +\$2m cash, plus continued annuity (\$650k pa)
- Initial investment is fully recouped in approximately 6 months

Key

- Sales - Recurring Revenue
- Sales - Hardware
- Cash balance
- Spent on inventory purchase

Notes & Assumptions

- Using simple gross margin ex-factory
- Assume \$19.20 ARPU/mo. on RMR
- Assume \$537.60 avg. hardware sale
- Includes monthly sales growth
- 1.28 AUD to 1 USD conversion used

NOTE: this is a working example and does not contain actual numbers or forecasts relating to the Scout business.

As this model indicates, the value of Scout's prepaid and on-hand inventory is directly relevant in assessing expected future cash flows, as it represents cash expected to flow back to the Company in a matter of months.

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Although the chart above reflects typical cash conversion for Scout, from time to time the Company may need to pre-purchase inventory. With Net45 terms secured, Scout anticipates the majority of its inventory orders moving forward to follow the pattern above, which drives faster cash generation and enables stronger and smoother growth.

Scout remains focused on delivering into demand, which is anticipated to rise into the June quarter (the prime US home moving season), and the Company expects to drive sales growth through additional uptake from leading security monitoring centres, alarm dealers and enterprise partners across the USA.

Continued growth in recurring monthly revenue (RMR)

The Company is pleased to report that its high margin recurring monthly revenue (RMR) continues to rise as consumers accept and retain the Scout product suite.

In January, Scout achieved growth in RMR adding more than \$18,000 to the Company's annualised recurring revenue. The annualised recurring component of Scout's revenue now stands at more than \$867,000, having grown by 37% year-on-year.

The Company is pleased to note that an increasing percentage of new customers are opting to subscribe to higher-value US\$20/month professional monitoring plans.

The performance improvement the Company has achieved in the past two months highlights the power of Scout's sales channels when fully in stock and with proactive marketing in full effect.

Empowering stronger and smoother growth

Scout is exploring opportunities to work with inventory financing vendors as demand, and the Company, continues to grow.

Although no such facility is currently secured or guaranteed, Scout believes this type of financial management could materially boost shareholder value and empower the Company to grow faster over the coming years.



Investor conference call

The Company is pleased to brief investors on its recent progress, including sales, marketing and distribution partnerships, on an Investor Conference Call with co-founder and CEO, Dan Roberts, on Wednesday 21 February.

Conference call details:

Time: 11am AEDT, Wednesday 21 February 2018

Participants can log into the conference call webinar at this link:

<https://attendee.gotowebinar.com/register/5988372821696326658>

Investors are encouraged to submit questions in advance for the Company to tim@nwrcommunications.com.au.

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About Scout Security Limited

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Scout Security Limited (ASX: SCT) sells the Scout Alarm, a self-installed, wireless home security system that is making security more modern, open and affordable. In 2016, the Scout system was recognised by CNet as one of the Best Smart Home Devices of the year.

Scout's design-centric offering gives users complete flexibility around connected home security, allowing the system to integrate with other best-in-class IoT devices and offering flexible monitoring options.

Scout is an official partner of Amazon Alexa, Google's Works With Nest and Samsung SmartThings. Scout is also an Amazon Alexa Fund portfolio company.

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