

22 May 2019

Ms. Penelope Reid
Adviser, ASX Listings Compliance
ASX Compliance Pty Ltd
Level 40, Central Park
152-158 St. Georges Terrace
Perth, WA 6000

Dear Ms Reid

Response to ASX Query Letter

Syntonic Limited (**SYT**) refers to your letter dated 15 May 2019 and provides the following responses to your queries.

- 1 Based on unaudited management figures, the contribution from Syntonic Brazil to SYT's revenue and EBITDA for the period from 1 July 2018 to 31 March 2019 were as follows:
 - (a) **Revenue:** A\$3.60 million was attributable to Syntonic Brazil.
 - (b) **EBITDA:** A\$2.09 million loss before interest, tax, depreciation and amortisation was attributable to Syntonic Brazil.
- 2 Please note that the above information is only provided due to ASX requiring SYT to do so, not because SYT has any information to announce to the market. Importantly, SYT cautions the market in respect of the above information that:
 - (a) The above figures are unaudited and consequently are subject to change pursuant to the end of financial year audit.
 - (b) A substantive review of the group's revenue under the new revenue accounting standard (applicable for the first time in the year ending 30 June 2019) is ongoing in the lead up to preparation of the annual financial statements.
 - (c) As disclosed within the 31 December 2018 half year report, the business combination undertaken on 20 August 2018 has been provisionally accounted for as at 31 December 2018 and is consequently subject to change when the treatment is reviewed in the preparation of the annual financial statements.Consequently, the market should await SYT's final audited results, particularly given that SYT does not announce financial forecasts.
- 3 SYT considers that a reasonable person who commonly invests in securities would not consider the information provided in response to question 1 in your letter is information that ought to have been disclosed under listing rule 3.1. SYT notes the following:
 - (a) The matters listed in paragraph 2 above, including that the response to question 1 includes unaudited management figures.

- (b) The revenue and EBITDA figures of \$13.95 million and \$0.89 million previously announced in relation to the Zenvia business are now dated (concerning calendar year 2017) and SYT considers that no reasonable investor would construe them as any sort of forecast as to the future performance of SYT as a consolidated group nearly a year and a half later.
- (c) Rather, the statements made in SYT's ASX announcement dated 18 June 2018 concerning the Zenvia business unit's standalone 2017 calendar year performance are statements of historical fact prior to the acquisition of the Zenvia business unit assets by SYT.
- (d) SYT has been consistent in its disclosures to the market that operationalising and integrating the assets acquired from Zenvia, including the technology (being Zenvia's mobile commerce platform), assignment of all active mobile carrier and content provider agreements and the transfer of key employees to support the business operations, is a transitional process and will be undertaken over a period of time. Having regard to this and the Company's recent disclosure in its March 2019 Quarterly Report that the asset transition is "nearly completed", SYT considers that a reasonable person would not have an expectation that SYT could, or would, replicate Zenvia's historical fully operational performance in 2017.
- (e) Moreover, SYT has had to integrate Zenvia's mobile commerce platform with SYT's Connected Services Platform™ in order to make sales via a single unified platform (being the Syntonic Revenue Generation Platform™). Accordingly, SYT considers that no in-kind comparison is possible between the previous Zenvia business and the SYT business derived from acquired assets.
- (f) The statement in SYT's appendix 4C that Syntonic Brazil is "growing revenue from acquired content" reflects the current activities of the Zenvia business unit assets and SYT has not (in any of its announcements) made any comparison to the Zenvia business unit's prior earnings / revenue (pre-acquisition) nor indicated that the prior earnings of the Zenvia business unit should be regarded as guidance for future financial results.
- (g) SYT's unaudited revenues for the period from 1 July 2018 to 31 March 2019 have already been disclosed to the market within SYT's half year report (for the half year ended 31 December 2018) and quarterly cash flow reports, inclusive of the revenue information in the response to ASX's question 1.
- (h) SYT's earnings figures up until 31 December 2018 (inclusive of the Brazilian business) were already announced to the ASX in SYT's half year report. In relation to EBITDA for the period from 1 January 2019 to 31 March 2019, SYT repeats the matters listed in paragraph 2 above.
- (i) SYT is mindful of its obligations under ASX Guidance Note 8 and has not made any statement in respect to the acquired assets that could be construed as de-facto earnings guidance.

Yours sincerely



Mr Steven Wood
Joint Company Secretary
Syntonic Limited

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15 May 2019

Mr Steven Wood and Ms Kate Sainty
Joint Company Secretaries
Syntonic Limited
945 Wellington Street
West Perth WA 6005

By email: sw@grangeconsulting.com.au; kes@grangeconsulting.com.au

Dear Mr Wood and Ms Sainty

Syntonic Limited ('SYT'): ASX Query Letter

ASX refers to the following:

- A. SYT's announcement titled "Syntonic is proposing to acquire Brazilian mobile commerce business unit" released on the ASX Market Announcements Platform ("MAP") on 18 June 2018, disclosing SYT's proposal to acquire the mobile commerce business unit of Zenvia Mobile Servicos Digitais S.A ("Zenvia") which, according to the announcement, generated CY2017 (unaudited) gross revenue of A\$13.95 million and CY2017 (unaudited) EBITDA of A\$0.890 million.

The announcement also said:

"Zenvia's Mobile Commerce Platform ("MCP"), the core asset of its mobile commerce business unit, enables consumers to make online purchases using the stored mobile credit in their carrier account, known as direct carrier billing. It is estimated that by 2019, total global carrier billing revenue will be worth more than US\$24 billion, with US\$1.2 billion from Latin America.

Zenvia's mobile commerce business has an established market presence, uniquely differentiated with its platform integrated into all major Brazilian mobile operators and with ongoing contractual relationships with many of Brazil's major content providers. The platform has an addressable audience of 235.7 million mobile subscribers."

- B. SYT's announcement titled "Syntonic acquires assets of Brazilian mobile commerce business unit" released on MAP on 20 August 2018, disclosing that SYT had acquired the assets of the mobile commerce business and that all acquired assets and business operations will be transferred and/or assigned to Syntonic Brazil, a newly incorporated Syntonic subsidiary, during HY2 CY18, with all operating revenues to be recognised during the transition period.
- C. SYT's "Appendix 4D – Half Year Report" for the period ended 31 December 2018, released on MAP on 28 February 2019, disclosing revenue from ordinary activities for the whole of the SYT group for the period of A\$2,831,120.
- Note 6 to the financial statements, under the sub-heading "Assets and liabilities acquired", states that SYT has recognised the fair value of accounts receivable that were acquired as \$707,383.
- D. SYT's most recent Appendix 4C for the quarter ended 31 March 2019 released on MAP on 30 April 2019 ("Appendix 4C"), disclosing "Syntonic Brazil is **growing revenue** from the acquired content agreements and has reached terms and conditions for 10 new content properties including a number of applications expected to be released in the next several months." (emphasis added)
- E. The Appendix 4C shows receipts from customers of A\$2,597,000 for the whole of the SYT group for the year to date in circumstances where SYT has indicated to the market that the Zenvia mobile content business will have made a contribution for approximately 8 of the 9 months to 31 March 2019.

F. Listing Rule 3.1, which provides:

“Once an entity is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity’s securities, the entity must immediately tell ASX that information.”

G. Sub-section 674(2) of the *Corporations Act 2001* (Cth) (the “Act”), which provides:

“(2) If:

- (a) this subsection applies to a listed disclosing entity; and*
- (b) the entity has information that those provisions require the entity to notify to the market operator; and*
- (c) that information:*
 - (i) is not generally available; and*
 - (ii) is information that a reasonable person would expect, if it were generally available, to have a material effect on the price or value of ED securities of the entity;*

the entity must notify the market operator of that information in accordance with those provisions.”

H. Section 677 of the Act, which provides:

“For the purposes of sections 674 and 675, a reasonable person would be taken to expect information to have a material effect on the price or value of ED securities of a disclosing entity if the information would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the ED securities.”

I. ASX Listing Rules Guidance Note 8, which provides (relevantly):

4.2 When is information market sensitive?

The test for determining whether information is market sensitive and therefore needs to be disclosed under Listing Rule 3.1 is set out in section 677 of the Corporations Act. Under that section, a reasonable person is taken to expect information to have a material effect on the price or value of an entity’s securities if the information “would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of” those securities. ...

4.3 The need to assess information in context

In assessing whether or not information is market sensitive and therefore needs to be disclosed under Listing Rule 3.1, the information needs to be looked at in context, rather than in isolation, against the backdrop of:

- the circumstances affecting the entity at the time;*
- any external information that is publicly available at the time; and*
- any previous information the entity has provided to the market (eg, in a prospectus or PDS, under its continuous or periodic disclosure obligations or by way of earnings guidance). ... (emphasis added)*

7.3 Market sensitive earnings surprises

... If an entity becomes aware that its earnings for the current reporting period will differ (downwards or upwards) from market expectations, it needs to consider carefully whether it has a legal obligation to

notify the market of that fact. This obligation may arise under Listing Rule 3.1 and section 674, if the difference is of such magnitude that a reasonable person would expect it to have a material effect on the price or value of the entity's securities – referred to below as a “market sensitive earnings surprise”. Alternatively, in the case of an entity which becomes aware that its earnings for a reporting period will differ from earnings guidance it has published to the market, it may arise under section 1041H, because failing to inform the market that its published guidance is no longer accurate could constitute misleading conduct on its part. ...

1. How does an entity determine what the market is expecting its earnings for the current reporting period to be?

ASX considers that the best and most appropriate base guide to use for these purposes is:

- if an entity has published earnings guidance for the current period, that guidance;
- if an entity has not published earnings guidance for the current reporting period and it is covered by sell-side analysts, the earnings forecasts of those analysts; and
- if an entity has not published earnings guidance for the current reporting period and it is not covered by sell-side analysts, its earnings for the prior corresponding period.

Each of these measures is only a guide to what the market is expecting. As mentioned previously, market expectations can be set or modified by the disclosures the entity makes to the market over the reporting period. ... (emphasis added)

Request for Information

Having regard to the above, ASX asks SYT to respond separately to each of the following questions and requests for information. Please explain the basis for your reasoning in each case.

1. What has been the contribution from Syntonic Brazil to SYT's revenue and EBITDA for the period from 1 July 2018 to 31 March 2019?
2. Considering that:
 - a. when it proposed to acquire the Zenvia mobile content business, SYT disclosed the business' unaudited revenue and EBITDA for the calendar year ended six months previously, which may reasonably be assumed to constitute its most current financial results at the time of disclosure;
 - b. the revenue and EBITDA so disclosed were \$13.95 million and \$0.89 million, respectively;
 - c. at no time did SYT disclose that these figures reflected anything beyond Zenvia's ordinary operations, such as a one-off windfall or event, which might qualify investors' understanding of these figures;
 - d. on 30 April 2019, SYT disclosed that Syntonic Brazil, which operates the acquired business, is “growing revenue”; and
 - e. SYT does not appear to have released any other information about the specific financial performance of Syntonic Brazil,

does SYT think that a reasonable person who commonly invests in securities would consider the information provided in response to question 1 is information that ought to have been disclosed under listing rule 3.1? If not, why not?

When and where to send your response

This request is made under, and in accordance with, listing rule 18.7. Your response in relation to the above queries is required as soon as reasonably possible and, in any event, by not later than **9.00am AWST on Monday 20 May 2019**.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under listing rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail at ListingsCompliancePerth@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This will allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on MAP.

Should you have any queries in relation to the above, please let me know.

Yours sincerely

Penelope Reid
Adviser, Listings Compliance (Perth)