



Scout Security Limited

ABN 13 615 321 189

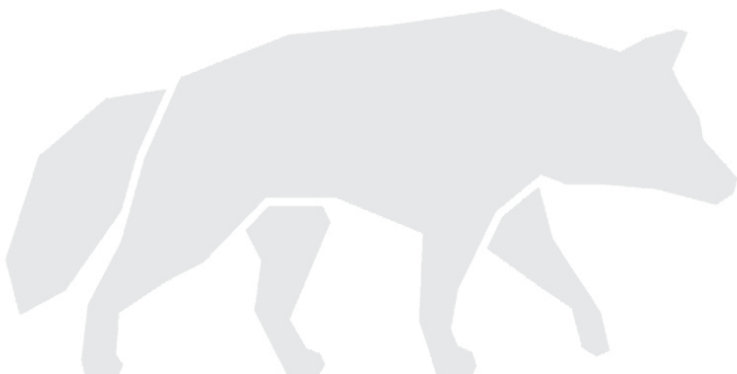
and its controlled entities

APPENDIX 4E

Preliminary Final Report

30 June 2020

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SCOUT SECURITY LIMITED

AND CONTROLLED ENTITIES

ABN 13 615 321 189

APPENDIX 4E

Preliminary final report

30 June 2020

Corporate directory

Current Directors

Mr Daniel Roberts	<i>Chief Executive Officer</i>
Mr David Shapiro	<i>Non-executive Director</i>
Mr Anthony Brown	<i>Non-executive Director</i>
Mr Sol Majteles	<i>Non-executive Director</i>
Mr Martin Pretty	<i>Non-executive Director</i>

Company Secretary

Mr Stuart Usher

Registered Office - Australia

Street: Level 1,
247 Oxford Street
LEEDERVILLE WA 6007

Postal: PO Box 52
WEST PERTH WA 6872

Telephone: +61 (0)8 6141 3500

Facsimile: +61 (0)8 6141 3599

Email: investors@scoutalarm.com

Website: www.scoutalarm.com

Registered Office – United States

210 North Racine Avenue
Unit 3S, Chicago, IL 60607
United States of America

Auditors

Bentleys Audit & Corporate (WA) Pty Ltd
Level 3, 216 St Georges Terrace
PERTH WA 6000
Telephone: +61 (0)8 9226 4500

Solicitors

Steinepreis Paganin
Level 4, The Read Buildings
16 Milligan Street
Perth WA 6000

Share Registry

Advanced Share Registry Limited
Street + Postal: 110 Stirling Highway
NEDLANDS WA 6009

Telephone: 1300 113 258 (within Australia)
+61 (0)8 9389 8033 (International)

Facsimile: +61 (0)8 6370 4203

Email: admin@advancedshare.com.au

Website: www.advancedshare.com.au

Securities Exchange

Australian Securities Exchange
Level 40, Central Park, 152-158 St Georges Terrace
Perth WA 6000

Telephone: 131 ASX (131 279) (within Australia)
Telephone: +61 (0)2 9338 0000

Facsimile: +61 (0)2 9227 0885

Website: www.asx.com.au

ASX Code SCT

Bankers

Westpac Banking Corporation
130 Rokeby Road
Subiaco WA 6008

APPENDIX 4E

Preliminary final report
30 June 2020

SCOUT SECURITY LIMITED

AND CONTROLLED ENTITIES
ABN 13 615 321 189

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Company Update

1. Operating and financial review

1.1. Nature of Operations: Principal Activities

Scout Security Limited (ASX: SCT or the Company) was founded in Chicago, USA in 2013 and spent 7 years building a self-installed, wireless, home security platform. Scout's open, affordable, design-centric offering gives users complete flexibility around connected home security, allowing the system to integrate with other best-in-class connected home devices and offering flexible monthly subscriptions. Scout is an official partner of Amazon Alexa (including Alexa Guard) and Google's Assistant. Scout is also an Amazon Alexa Fund portfolio company.

The platform has proved itself attractive to large, iconic, global brands who have entered into white label partnership agreements with Scout which in the next phase of the Company's development will aid the roll out of systems in the United States and beyond.

1.2. Operations Review

a. Review

FY20 was a transitional year for the Scout business. The emphasis changed from platform development to program scale and, specifically, generating increased white label sales. The Company is happy to report that we did so successfully.

- Receipts from customers has increased 7.45% to AU\$3.12m
- Expenses have been reduced 15.4% to AU\$3.58m with savings from being in scale mode rather than development
- Whilst as an early stage Company we are reporting a Net Loss of AU\$1.5m, Management notes that it is half of last years' Net Loss of AU\$3.6m

Operating highlights of the year included:

- In July 2019 Scout launched and achieved first sales of its Keypad and Video Doorbell, marketing the product to new and existing customers
- In December 2019 Scout launched the Scout Panic Button, Remote Control and Siren
- In March 2020, Scout announced it was bolstering the white label development team to reflect the change of emphasis from platform building to platform selling with a number of key new hires (detailed below)
- In April 2020, Scout announced an updated partnership agreement with key resale partner Zego Powered by PayLease ("Zego") which resulted in Zego advancing US\$250,000 to Scout in return for a discount on monthly licence fees (the "Zego Pre-payment")
- Post year-end, in early July 2020, Scout announced it had entered into a five-year commercial agreement with strategic partner and shareholder, Prosegur Compañía de Seguridad, S.A. ("Prosegur"). The key terms of the commercial agreement included an upfront US\$500,000 fee to be paid to Scout for licensing rights and an agreement that Prosegur would launch sales of Prosegur branded Scout products in a target market this calendar year

Operational Cashflow Improvements

We are pleased to report that in FY20, the Company

- Achieved its first quarter of positive operating cash flow (to December-19) and
- Reduced its operating cash outflows from AU\$2.9m in FY19 to AU\$520k in FY20

This significant improvement in operating cash flow performance is a trend the Company hopes to extend with the goal of being cash flow positive in calendar year 2020 and into FY21.

The significant reduction in cash outflows demonstrates that even a small number of white label partners can dramatically boost Scout's revenue and cash trajectory whilst building a distribution network for hardware sales and a base of recurring monthly revenue. Management notes, that had the Prosegur transaction closed a couple weeks earlier and the Company could have included the US\$500k (AU\$728k) licence fee in its FY20 cash flow, the year's pro forma cashflow from operations would have shown an inflow of \$204k.

The Company plans to build on FY20's success and expects to announce new commercialisation plans for white label partners and existing partner roll out before the end of CY20.

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Company Update

Revenue from the Company's three key sources are detailed below:

b. Scout White Label Development

Scout earns revenue from customising its DIY home security platform to meet the specific branding and technical requirements of white label partners. The success of the program is shown in the growing number of partnership agreements entered into with significantly larger and well-resourced players in the security and connected home industries. Partners include Prosegur, Stanley Black and Decker and Zego.

Through the white label program, Scout leverages the platform that took it seven years to build to gain scale independent of the Company's own available capital resources. Through the partnerships, Scout's products are sold under the partners' iconic branding and through their domestic and international distribution networks. Scout is also able to access unique product development capabilities to accelerate growth in the Company's business.

During FY20 Scout earned a total of AU\$933,403 (FY19: Nil) through the white label program development fees. In early July, after the close of the reporting period, the Company secured and announced the five-year commercial agreement with Prosegur.

Multiple Scout white label partners are expected to announce commercialisation plans before the end of CY20.

c. Hardware Sales

Scout's business model includes the sale of hardware at lower margin with a view to generating higher margin recurring revenue over a longer term. Scout sells hardware direct to customers and through its white label partners.

The arrangements with the white label partners vary. With some partners, sales of hardware is "traditional" in that Scout places orders with its suppliers, and then sells the good to the partners and records the full revenue and cost of goods in its accounts. With other partners, the partner places its order directly with Scout's suppliers and Scout records only the equivalent of the gross profit as revenue. Whilst this means Scouts revenue is lower than in the "traditional" model, the important advantage to Scout is that it does not need to provide any working capital to fund these type of orders.

Therefore, management believes that for the purposes of reporting and prior period comparison gross profit on hardware sales will be a key success in the future.

In FY20 Scout's gross profit on Hardware Sales was AU\$115k (down from AU\$278k in FY19). Hardware Sales were down because large orders were received by Scout late in the FY19 year which were sold by the client through the first part of FY20.

Hardware enables delivery of the Scout platform to subscribers who then pay recurring monthly subscriptions for software and back-to-base monitoring. Hardware sales are therefore a direct driver of recurring revenue.

In FY20 Scout sold over 3500 systems. Since inception, Scout has sold more than 20,000 systems.

Scout holds a positive view for continued growth in hardware sales, based on positive momentum with Zego and in its direct-to-consumer business, and as the Company works toward launches with other white label partners in the US and abroad.

d. Recurring Revenue

Scout derives recurring revenue from licence fees, monitoring fees and video cloud storage fees. In FY20, recurring revenue was AU\$619,507. Scout's monthly recurring revenue continued to grow through FY20 and at the end of June had reached an annualised run rate of A\$720k (US\$516k).

1.3. Corporate

a. Working Capital Facility

In August 2019, Scout entered into an agreement with DDM Holdings Pty Limited providing access to a working capital facility of up to A\$1 million. The Company was able to immediately draw A\$500,000 which was used to pursue expansion opportunities. In February the A\$500,000 tranche was repaid, and the facility closed.

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Company Update

b. Forgivable Loan Under US CARES ACT

In April 2020, Scout was approved by the US Small Business Administration (SBA) to access nondilutive, forgivable funding as part of the Paycheck Protection Program ("PPP"), pursuant to the US Coronavirus Aid, Relief and Economic Security Act (the "CARES Act").

Scout was approved for an unsecured loan of \$141,790 USD (~\$223k AUD), which is due in two years, attracts a fixed annual interest rate of 1% and all payments are deferred for six months; however, interest will continue to accrue over this period.

The loan will be forgiven as long as:

- The loan proceeds are used to cover payroll costs, mortgage interest, rent and utility costs over the eight-week period after the loan is made; and
- Scout maintains its employee and compensation levels.

c. Convertible Notes

After the close of the financial year, in July 2020, Scout announced it had entered into a Convertible Note Deed ("Note") with investors including existing shareholders of the Company, to raise up to \$2 million. The Company has drawn \$750,000 of the note and has a further \$1.25m available which can be drawn subject to certain conditions.

d. Issue of Unquoted Options

In accordance with shareholder approval received at its Annual General Meeting on 29 November 2019, Scout allotted 333,334 "2018 Loan Options" during the March quarter. The 2018 Loan Options were approved to be issued in consideration for a reduced interest rate under the 2018 Loan Deed announced to the ASX on 28 September 2018. The options are unquoted and exercisable at \$0.30 with an expiry of 7 December 2020.

e. Change of Auditor

In February, Scout advised Nexia Perth Audit Services Pty Ltd ("Nexia") had resigned as auditor of the Company, due to the untimely death of Mr. TJ Spooner, who served as the audit partner and main point of contact at Nexia for Scout. Nexia received ASIC consent to resign as auditor of Scout.

Scout completed a review and tender process and appointed Bentleys Audit and Corporate (WA) Pty Ltd ("Bentleys") as auditor of Scout Security Limited to replace Nexia.

1.4. Outlook

Having invested heavily in developing its white label business, Scout is now beginning to capitalise on its strategic position as an independent, DIY platform which can provide enterprise partners a fast, capital-light path to scale.

With several multi-billion-dollar companies aligned to Scout's white label program, the Company firmly believes the model is resonating with the right partners at the right time. The recent partnership deal with Prosegur expands Scout's scope outside of the USA and is a major milestone on the road to becoming a global company operating at global scale.

While the Company works towards launching with Prosegur internationally in CY20, an equally heavy emphasis is being put on launching existing domestic white label partners in the USA and securing additional partners in the US market. Scout's management is of the belief that consumer demand for contact-free, self-installation will spur a significant number of organisations to evaluate their options for entering the do-it-yourself security market and re-evaluate any plans on product or service offerings that have an in-person component.

In CY20 Scout expects to be in a position to announce commercialisation plans for existing partners and multiple new white label partners. The Company is looking forward to expanding its base of active users and delivering growth in upfront and recurring revenue.

With growing concerns about personal safety, particularly in the US, amid trends of fear and uncertainty, Scout expects sales of its DIY security systems to continue to increase as consumers look to hedge against the unknown.

Throughout the home security industry, and more broadly across the consumer-facing parts of the economy, in-person services are reeling from COVID-19 distancing requirements and uncertain consumer sentiment. The Company believes this will drive sustainable demand for contactless options, providing a demand tailwind for Scout's self-installed offering, and observes that businesses with consistent recurring monthly revenues are better positioned to navigate potential ebbs and flows in consumer discretionary spending.

Company Update

Scout's goal is to be cashflow positive for this calendar year, in FY21 and beyond. We believe this to be achievable, considering:

- Scout development and support fees received since 1 January 2020
- The pipeline of new business identified which spans all stages from inquiry to advanced contract negotiation
- Scout's monthly recurring revenue continues to grow and is expected to accelerate with the Prosecur territory launch and in the US with other white label partners
- Management's goal is to secure multiple additional white label partners and announce their respective commercialisation plans in FY21

Scout's annual overhead is approximately A\$2.7 million, and it is management's goal that recurring revenue grows to match this overhead by the close of FY22. In the interim, management will continue to focus on securing white label partner development fees, generating margin from hardware sales and platform licensing to cover the business' cash burn, in addition to the current base of recurring revenue.

1.5. Financial Review

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business. The Group incurred a 57% reduction in loss for the year to A\$1,593,246 (2019: A\$3,634,170 loss).

The Group's revenue for the year ended 30 June 2020 was recorded at \$3,124,846 as compared with the previous year ended 30 June 2019 which recorded \$2,908,067.

The net assets of the Group have decreased from 30 June 2019 by \$1,578,860 to \$(1,413,649) at 30 June 2020 (2019: \$165,211).

As at 30 June 2020, the Group's cash and cash equivalents decreased from 30 June 2019 by \$303,004 to \$62,310 at 30 June 2020 (2019: \$365,314) and had a working capital deficit of \$1,207,048 (2019: \$138,745 working capital). Please refer to the Operations Review above for additional business segment performance.

1.6. Future Developments, Prospects and Business Strategies

Likely developments in the operations of the Group have been disclosed in the Operating and Financial Review section of the Directors' Report.

Other likely developments, future prospects and business strategies of the operations of the Group and the expected results of those operations, not otherwise disclosed in this report, have not been included in this report as the Directors believe that the inclusion of such information would be likely to result in unreasonable prejudice to the Group.

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Results for announcement to the Market

for the year ended 30 June 2020

1 REPORTING PERIOD (item 1)			
■ Report for the financial year ended:	30 June 2020		
■ Previous corresponding period is the year months ended:	30 June 2019		
2 RESULTS FOR ANNOUNCEMENT TO THE MARKET			
	Movement	Percentage %	Amount \$
■ Increase in revenues from ordinary activities (item 2.1)	↑	7.45 to	3,124,846
■ Decrease in loss from ordinary activities after tax attributable to members (item 2.2)	↓	(56.16) to	(1,593,246)
■ Decrease in loss from after tax attributable to members (item 2.3)	↓	(56.16) to	(1,593,246)
a. Dividends (item 2.4)		Amount per Security ¢	Franked amount per security %
■ Interim dividend		nil	n/a
■ Final dividend		nil	n/a
■ Record date for determining entitlements to the dividend (item 2.5)	n/a		
b. Brief explanation of any of the figures reported above necessary to enable the figures to be understood (item 2.6): Refer to the attached Operations Review.			
3 PRELIMINARY FINAL REPORT			
a. Statement of comprehensive income (item 3): Refer to Consolidated statement of profit or loss and other comprehensive income on page 8			
b. Statement of financial position (item 4): Refer to Consolidated statement of financial position on page 9			
c. Statement of cash flows (item 5): Refer to Consolidated statement of cash flows on page 11			
d. Statement of changes in equity (item 6): Refer to Consolidated statement of changes in equity on page 10			
4 DIVIDENDS (item 7) AND RETURNS TO SHAREHOLDERS INCLUDING DISTRIBUTIONS AND BUY BACKS (item 14.2)			
Nil.			
a. Details of dividend or distribution reinvestment plans in operation are described below (item 8): Not applicable			

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Results for announcement to the Market

for the year ended 30 June 2020

5 RATIOS	Current period	Previous corresponding period
a. Financial Information relating to 5b and 5c:	\$	\$
Earnings for the period attributable to owners of the parent	(1,593,246)	(3,634,170)
Net assets	(1,413,649)	165,211
Less: Intangible assets (including net deferred tax balances)	-	-
Net tangible assets	(1,413,649)	165,211
	No.	No.
Fully paid ordinary shares	119,211,053	119,211,053
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	119,211,053	114,341,215
	¢	¢
b. Net tangible assets backing per share (cents) (item 9):	(1.186)	0.139
c. Earnings per share attributable to owners of the parent (cents) (item 14.1):	(1.336)	(3.178)
The Group does not report diluted earnings per share, as dilution is not applied to annual losses generated by the Group. During the 2020 financial year the Group had 27,300,001 unissued shares under option and 36,000,000 which are anti-dilutive.		
6 DETAILS OF ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST DURING THE PERIOD: (item 10)		
a. Control gained over entities		
■ Name of entities (item 10.1)	Nil	
■ Date(s) of gain of control (item 10.2)		
b. Loss of control of entities		
■ Name of entities (item 10.1)	Nil	
■ Date(s) of loss of control (item 10.2)	N/A	
c. Contribution to consolidated profit (loss) from ordinary activities after tax by the controlled entities to the date(s) in the current period when control was gained / lost (item 10.3).	Nil	
d. Profit (loss) from ordinary activities after tax of the controlled entities for the whole of the previous corresponding period (item 10.3)	Nil	
7 DETAILS OF ASSOCIATES AND JOINT VENTURE: (item 11)		
■ Name of entities (item 11.1)	Nil	
■ Percentage holding in each of these entities (item 11.2)	n/a	
	Current period	Previous corresponding period
	\$	\$
■ Aggregate share of profits (losses) of these entities (item 11.3)	N/A	N/A

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Results for announcement to the Market

for the year ended 30 June 2020

- | |
|---|
| <p>8 Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position. (item 12):</p> <p>Refer to commentary update accompanying this 4E</p> |
| <p>9 The financial information provided in the Appendix 4E is based on the preliminary final report (attached), which has been prepared in accordance with Australian Accounting Standards (item 13)</p> |
| <p>10 A COMMENTARY ON THE RESULTS FOR THE PERIOD (item 14)</p> <p>Refer to Company Update on page 1 . The Group had revenue of \$3,124,846 (2019: \$2,908,067) for the period.</p> |
| <p>11 The preliminary final report has been prepared based on the 30 June 2020 accounts which are in the process of being audited by an independent Audit Firm in accordance with the requirements of s.302 of the <i>Corporations Act 2001</i> (Cth). (item 15)</p> |

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APPENDIX 4E

Preliminary final report

30 June 2020

SCOUT SECURITY LIMITED

AND CONTROLLED ENTITIES

ABN 13 615 321 189

Consolidated statement of profit or loss and other comprehensive income

for the year ended 30 June 2020

	Note	2020 \$	2019 \$
<i>Continuing operations</i>			
Revenue	1.1	3,124,846	2,908,067
Cost of sales		(1,133,243)	(2,307,431)
		1,991,603	600,636
Other income	1.2	31	2,749
Consultancy and professional fees		(772,327)	(1,191,467)
Depreciation and amortisation		(27,646)	(1,592)
Employment costs	2.1	(1,519,176)	(1,408,543)
Finance costs		(52,074)	(34,132)
Information technology costs		(284,942)	(192,222)
Occupancy costs		(129,103)	(93,976)
Share-based payments expense	6	-	(327,000)
Sales and marketing		(364,275)	(515,320)
Shipping and postage		(13,537)	(19,379)
Travel and accommodation		(44,136)	(92,104)
Other expenses		(377,664)	(361,820)
Loss before tax		(1,593,246)	(3,634,170)
Income tax expense		-	-
Net loss for the year		(1,593,246)	(3,634,170)
<i>Other comprehensive income, net of income tax</i>			
■ Items that may be reclassified subsequently to profit or loss:			
□ Foreign currency movement		14,386	(19,118)
Other comprehensive income for the period, net of tax		14,386	(19,118)
Total comprehensive income attributable to members of the parent entity		(1,578,860)	(3,653,288)

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

SCOUT SECURITY LIMITED

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Consolidated statement of financial position

as at 30 June 2020

	Note	2020 \$	2019 \$
<i>Current assets</i>			
Cash and cash equivalents	3.1	62,310	365,314
Trade and other receivables	3.2.1	19,963	13,076
Inventories	4.1	885,726	1,350,562
Other current assets	3.3.1	68,257	38,779
Total current assets		1,036,256	1,767,731
<i>Non-current assets</i>			
Property, plant, and equipment	4.2	-	26,466
Total non-current assets		-	26,466
Total assets		1,036,256	1,794,197
<i>Current liabilities</i>			
Trade and other payables	3.4.1	1,212,519	1,028,387
Unearned revenues	3.5	1,030,785	600,599
Total current liabilities		2,243,304	1,628,986
<i>Non-current liabilities</i>			
Borrowings	3.6.1	206,601	-
Total non-current liabilities		206,601	-
Total liabilities		2,449,905	1,628,986
Net (liabilities)/assets		(1,413,649)	165,211
<i>Equity</i>			
Issued capital	5.1.1	12,179,075	12,179,075
Reserves	5.4	3,295,982	3,281,596
Accumulated losses		(16,888,706)	(15,295,460)
Total equity		(1,413,649)	165,211

The consolidated statement of financial position is to be read in conjunction with the accompanying notes.

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Consolidated statement of changes in equity

for the year ended 30 June 2020

	Note	Contributed equity	Accumulated Losses	Foreign Currency Translation Reserve	Share-based Payments Reserve	Total equity
		\$	\$	\$	\$	\$
<i>Balance at 1 July 2018</i>		9,123,799	(11,661,290)	50,898	2,914,323	427,730
Loss for the year attributable owners of the parent		-	(3,634,170)	-	-	(3,634,170)
Other comprehensive income for the year attributable owners of the parent		-	-	(19,118)	-	(19,118)
Total comprehensive income for the year attributable owners of the parent		-	(3,634,170)	(19,118)	-	(3,653,288)
<i>Transaction with owners, directly in equity</i>						
Shares issued during the year (net of costs)	5.1	3,055,276	-	-	-	3,055,276
Options granted during the year	5.3	-	-	-	335,493	335,493
Balance at 30 June 2019		12,179,075	(15,295,460)	31,780	3,249,816	165,211
<i>Balance at 1 July 2019</i>		12,179,075	(15,295,460)	31,780	3,249,816	165,211
Loss for the year attributable owners of the parent		-	(1,593,246)	-	-	(1,593,246)
Other comprehensive income for the year attributable owners of the parent		-	-	14,386	-	14,386
Total comprehensive income for the year attributable owners of the parent		-	(1,593,246)	14,386	-	(1,578,860)
<i>Transaction with owners, directly in equity</i>						
Shares issued during the year (net of costs)		-	-	-	-	-
Balance at 30 June 2020		12,179,075	(16,888,706)	46,166	3,249,816	(1,413,649)

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

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Consolidated statement of cash flows

for the year ended 30 June 2020

	Note	2020 \$	2019 \$
<i>Cash flows from operating activities</i>			
Receipts from customers		3,618,180	3,529,124
Payments to suppliers and employees		(4,085,990)	(6,465,812)
Interest received		31	2,749
Finance costs		(51,826)	-
Net cash used in operating activities	3.1.1a	(519,605)	(2,933,939)
<i>Cash flows from investing activities</i>			
Net cash used in investing activities		-	-
<i>Cash flows from financing activities</i>			
Proceeds from issue of shares		-	3,055,276
Interest paid		-	(25,639)
Proceeds of borrowings		500,000	500,000
Repayment of borrowings		(500,000)	(500,000)
Government grants		216,601	-
Net cash provided by financing activities		216,601	3,029,637
Net (decrease) / increase in cash and cash equivalents held		(303,004)	95,698
Cash and cash equivalents at the beginning of the year		365,314	269,616
Cash and cash equivalents at the end of the year	3.1	62,310	365,314

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

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Notes to the Appendix 4E preliminary final report for the year ended 30 June 2020

Note	1	Revenue and other income	2020 \$	2019 \$
1.1		Revenue		
		Product sales	982,196	2,031,755
		Subscription revenues	619,507	876,312
		Development fees	933,403	-
		Licensing and support fees	589,740	-
			3,124,846	2,908,067
1.2		Other Income		
		Interest income	31	2,749
			31	2,749

Note	2	Loss before income tax	2020 \$	2019 \$
		The following significant revenue and expense items are relevant in explaining the financial performance:		
2.1		Employment costs		
		■ Salary and wages	1,419,196	1,324,831
		■ Director Fees	95,642	79,374
		■ Superannuation	4,338	4,338
			1,519,176	1,408,543

Note	3	Financial assets and financial liabilities	2020 \$	2019 \$
3.1		Cash and cash equivalents		
		Cash at bank	62,310	365,314
			62,310	365,314
3.1.1		Cash Flow Information		
	a.	Reconciliation of cash flow from operations to loss after income tax		
		Loss after income tax	(1,593,246)	(3,634,170)
		Cash flows excluded from loss attributable to operating activities	-	-
		<i>Non-cash flows in (loss)/profit from ordinary activities:</i>		
		■ Depreciation and amortisation	27,646	1,592
		■ Foreign exchange loss / (gain)	13,205	37,982
		■ Net share-based payments expensed	-	335,493
		<i>Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:</i>		
		■ Decrease / (increase) in inventories	464,836	(57,078)
		■ (Increase) / decrease in prepayments and other receivables	(36,365)	260,321
		■ Increase in trade and other payables	604,319	121,921
		Cash flow (used in) operations	(519,605)	(2,933,939)

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Notes to the Appendix 4E preliminary final report

for the year ended 30 June 2020

Note 3 Financial assets and financial liabilities (cont.)

		2020	2019
		\$	\$
3.2	Trade and other receivables		
3.2.1	<i>Current</i>		
	Trade receivable	19,963	13,076
		19,963	13,076
3.3	Other assets		
3.3.1	<i>Current</i>		
	Other current assets	68,257	38,779
		68,257	38,779
3.4	Trade and other payables		
3.4.1	<i>Current</i>		
	<i>Unsecured</i>		
	Trade payables	960,671	779,454
	Accruals and other payables	251,848	248,933
		1,212,519	1,028,387
3.5	Unearned revenues		
3.5.1	<i>Current</i>		
	<i>Unsecured</i>		
	Unearned revenues	1,030,785	600,599
		1,030,785	600,599
3.6	Interest-bearing loans and borrowings		
3.6.1	<i>Non-current</i>		
	Government loans	206,601	-
		206,601	-

3.6.2 On 21 April 2020, the Company has been approved by the US Small Business Administration (SBA) to access non-dilutive, forgivable funding as part of the Paycheck Protection Program ("PPP"), pursuant to the recently adopted Coronavirus Aid, Relief and Economic Security Act (the "CARES Act").

Under the PPP, the US government has authorised up to US\$349 billion in forgivable loans to small businesses to pay their employees during the COVID-19 crisis. The program provides eligible companies with 2.5x their expected monthly payroll costs to support them through the COVID-19 crisis.

The Company has been approved for an unsecured loan of US\$141,790, based on its calculation of the maximum amount it is permitted given the current guidance provided by the United States Department of Treasury. The loan is due in two years, attracts a fixed annual interest rate of 1% and all payments are deferred for 6 months; however, interest will continue to accrue over this period.

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APPENDIX 4E

Preliminary final report
30 June 2020

SCOUT SECURITY LIMITED

AND CONTROLLED ENTITIES

ABN 13 615 321 189

Notes to the Appendix 4E preliminary final report
for the year ended 30 June 2020

Note 4 Non-financial assets and financial liabilities

4.1 Inventories	2020	2019
	\$	\$
Finished goods - at cost	539,010	935,519
Prepayments – inventory orders	346,716	415,043
	885,726	1,350,562

4.2 Property, plant, and equipment	2020	2019
	\$	\$
Furniture and fittings	517,158	517,158
Accumulated depreciation	(517,158)	(490,692)
Total plant and equipment	-	26,466

Note 5 Equity

5.1 Issued capital	2020	2019	2020	2019
	No.	No.	\$	\$
Fully paid ordinary shares at no par value	119,211,053	119,211,053	12,179,075	12,179,075
5.1.1 <i>Ordinary shares</i>	2020	2019	2020	2019
	No.	No.	\$	\$
At the beginning of the year	119,211,053	108,123,685	12,179,075	9,123,799
Shares issued during the year:				
■ Placement at \$0.30 (Director participation)	-	250,000	-	75,000
■ Share subscription Agreement at \$0.275	-	10,837,368	-	2,980,276
Transaction costs relating to share issues	-	-	-	-
At reporting date	119,211,053	119,211,053	12,179,075	12,179,075
5.2 Performance shares			2020	2019
			No.	No.
Performance shares			36,000,000	36,000,000

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Notes to the Appendix 4E preliminary final report for the year ended 30 June 2020

Note 5 Equity (cont.)

5.3 Options	2020	2019	2020	2019
	No.	No.	\$	\$
Options and performance shares	27,300,001	42,972,175	3,249,816	3,249,816
At the beginning of the period	42,972,175	26,800,000	3,249,816	2,914,323
Options issued/(lapsed) during the year:				
■ Options (lapsed)/issued via share subscription agreement ¹	(16,005,508)	16,005,508	-	-
■ Issue of loan options ²	333,334	166,667	-	8,493
■ Share-based payment expense for options issued in the prior period	-	-	-	327,000
At reporting date	27,300,001	42,972,175	3,249,816	3,249,816

- The Group issued 10,837,368 ordinary shares and 16,005,508 options as part of a share subscription agreement. The total funds raised from the capital raising was \$2,980,276.
- These options have been granted in accordance with a Loan agreement for a \$500,000 working capital loan. The loan was drawn down on 28 September 2018. As part of the loan agreement interest was payable at 12.25%, however the lender had the option to charge interest at 7.25% in exchange for options to buy shares in the company. The lower rate of interest was charged for the entire period. The value of the options comprises the difference in the interest charged between the two rates. The loan was repaid during the financial year ended 30 June 2019.

5.4 Reserves

	2020	2019
	\$	\$
Foreign currency translation reserve	46,166	31,780
Share-based payment reserve	3,249,816	3,249,816
	3,295,982	3,281,596

Note 6 Share-based payments

	Note	2020	2019
		\$	\$
6.1 Share-based payments:			
■ Recognised as Share-based payment expense		-	327,000
Gross share-based payments		-	327,000

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