

Tesseract Limited

13 605 672 928

APPENDIX 4E

Reporting period

Reporting period: Financial year ended 30 June 2019

Comparative period: Financial year ended 30 June 2018

Results for announcement to the market

Key information	\$	Up/Down	% Change
Revenue from ordinary activities	5,260,272	Down	1.3
Loss after tax from ordinary activities attributable to members	(4,372,821)	Down	41.2
Net loss attributable to members	(4,372,821)	Down	41.2

Key highlights during the year

- Restructuring was completed and a new management team has been recruited to deliver Tesseract end-to-end cyber strategy.
- **Cyber 360** go to market strategy well received with growth in the pipeline from **\$2.8M** in Q42018 to **\$7.5M** in Q42019 (168%).
- Product portfolio increased from 3 to 17 products to meet new end-to-end cyber strategy.
- Average total contract value increased from **\$54,000** to **\$125,000** (131%).
- **\$4M** (\$1.5M received in early July) of new capital raised to support acquisition of Rivium and to build out new **Cyber 360** strategy.
- Acquisition of Rivium, a leading Splunk practice was announced in April 2019.
- Strategic partnership formed with leading artificial intelligence cyber security company **Darktrace**.
- Investment in proprietary SD-WAN capabilities resulted in Tesseract's largest individual sale to K&S Freighters with a total contract value of **\$3.2M**.
- Tesseract's core managed security services continue to steady growth, the annuity basis of the recurring revenue, from 36-month customer contracts, has grown to be \$8M as at the time of the report.

Post Balance day Highlights:

- Announced (in July 2019) that Tesseract had completed more firewall sales in the month of July than in all of the financial year 2019.
- Rivium acquisition was completed on the 3rd of July 2019.
- The Company issued a substantial Invoice (\$667k) to a client in early July which is not included in receivables.

Commentary

The restructure of the business was completed during FY2019, Key 2020 deliverables include:

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- Cash flow positive on a month by month basis in last quarter FY2020.
- Deliver end-to-end cyber services to mid market Australian organisations.
- Attractive environment to build a career.
- Delivers strong returns to shareholders.
- The company notes that during FY2019 it faced considerable one-off restructuring costs totaling \$220k , and acquisition costs totaling \$740k. It is envisaged that acquisition costs will be limited to \$250k in FY2020.

Technology

Tesseract has developed world class managed solutions around our partners technology platforms. By combining the best technology platforms from the world's leading cyber companies and our leading security operations center (SOC) capabilities our customers are provided end to end coverage at all times.

Key technology partners include:

- **Palo Alto Networks** is the world's leading supplier of firewall, endpoint and cloud security products, Tesseract works closely with the team at Palo Alto Networks and manages over 80 solutions for our customers.
- **Splunk** is a global leader in searching, monitoring and analyzing big data from an operations and security perspective. Tesseract plans to launch a Splunk managed security offer in FY2020 and will apply our leading security capability alongside the elite Splunk capabilities that the Rivium acquisition has brought to the group. Splunk is currently used by 92 out of the Fortune 100.
- **DarkTrace** is a leading provider of Artificial Intelligence (AI) solutions to manage risk within a customer's network, the platform is autonomous in learning the normal patterns of an organisation and includes an immune system that stops threats inside your network automatically.
- **Tesseract SD-WAN** Tesseract continues to deploy and expand on its proprietary SD-WAN solutions, as a result we see strong business growth potential as organisations move towards this highly scalable cost-effective solution for their network management.

Accelerating Growth

As part of the growth strategy, Tesseract announced that it would be accelerating business growth through strategic acquisitions; the first acquisition under the new strategy was Rivium, an elite Splunk team with a strong business in supporting clients buy and deploy Splunk solutions.

Rivium possesses an established team that adds a Security Information Event Management (SIEM) and insider threat capability to Tesseract's suite of cybersecurity solutions. The company has offices across Victoria, New South Wales, Queensland and the ACT.

Tesseract announced (in April 2019) that it would purchase 100% of the company for a consideration of \$3.25M (\$1.495m cash + 17.55m shares at \$0.10 per share).

Tesseract continues to actively pursue acquisition opportunities.

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Dividends paid and proposed

No dividend has been proposed to be paid or is payable for the year ended 30 June 2019, nor for the comparative period.

Net tangible assets per share

	2019 \$/share	2018 \$/share
Net tangible assets per share	0.01	0.02

Control gained or lost over entities in the year

Not applicable

Investment in Associates and Joint Ventures

Not applicable.

Status of Audit

The report is based on accounts which are in the process of being audited.

Attachments

The preliminary financial report of Tesseract Limited for the year ended 30 June 2019 is attached.

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Tesserent Limited and its controlled entities

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2019

	Note	2019 \$	2018 \$
Revenue from continuing operations	2	5,260,272	5,327,957
Other income	3	107,266	1,103,803
Cost of goods sold		(2,279,416)	(2,372,554)
Employee benefits expense		(3,140,727)	(2,662,491)
Depreciation and amortisation expense		(316,993)	(277,594)
Goodwill written off		-	(777,375)
Intellectual property assets written off		-	(67,736)
Finance costs		(57,326)	(68,777)
Occupancy costs		(442,872)	(458,351)
Communication costs		(445,735)	(595,152)
Consulting and legal costs		(1,463,141)	(568,993)
Travel		(77,032)	(78,135)
Bad and doubtful debts		(39,183)	(51,185)
Call Option Investment impairment		(165,809)	-
Other expenses		(1,322,124)	(1,174,244)
		<u>(9,750,358)</u>	<u>(9,152,587)</u>
Loss before income tax		<u>(4,382,820)</u>	<u>(2,720,827)</u>
Tax benefit/(expense)		9,999	(374,843)
Net loss for the year		<u>(4,372,821)</u>	<u>(3,095,670)</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u>(4,372,821)</u>	<u>(3,095,670)</u>
Earnings per share			
Basic earnings per share (cents)	1	(2.90)	(2.62)
Diluted earnings per share (cents)	1	(2.90)	(2.62)

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes

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Appendix 4E
Preliminary final report

Tesseract Limited and its controlled entities
Consolidated statement of financial position
As at 30 June 2019

	Note	2019 \$	2018 \$
Assets			
Cash and cash equivalents		999,660	1,717,221
Trade and other receivables		218,767	344,194
Prepayments		292,263	260,065
Inventories		276,620	55,693
Current tax asset		137,335	361,256
Other Financial Assets	4	1	-
Total current assets		<u>1,924,646</u>	<u>2,738,429</u>
Other financial assets	4	-	165,810
Plant and equipment		510,309	623,882
Intangible assets	5	977,511	733,848
Deferred tax asset		149,618	139,619
Other non-current assets		257,229	257,229
Total non-current assets		<u>1,894,667</u>	<u>1,920,388</u>
Total assets		<u>3,819,313</u>	<u>4,658,817</u>
Liabilities			
Trade and other payables		1,765,342	1,210,577
Other financial liabilities	6	137,991	61,212
Contract Liabilities		614,691	678,792
Provisions		228,315	269,266
Total current liabilities		<u>2,746,339</u>	<u>2,219,847</u>
Other financial liabilities	6	281,714	352,157
Provisions		430,299	365,117
Total non-current liabilities		<u>712,013</u>	<u>717,274</u>
Total liabilities		<u>3,458,352</u>	<u>2,937,121</u>
Net assets		<u>360,960</u>	<u>1,721,696</u>
Equity			
Issued capital	7	13,754,507	10,875,937
Reserves	7	772,900	639,385
Accumulated losses		(14,166,447)	(9,793,626)
Total equity		<u>360,960</u>	<u>1,721,696</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

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Tesserent Limited and its controlled entities
Consolidated statement of changes in equity
For the year ended 30 June 2019

	Issued capital	Reserves	Accumulated losses	Total equity
	\$	\$	\$	\$
Balance at 1 July 2017	10,140,892	705,347	(6,697,956)	4,148,283
Comprehensive income				
Loss for the year	-	-	(3,095,670)	(3,095,670)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	(3,095,670)	(3,095,670)
Transactions with owners, in their capacity as owners, and other transfers				
Shares issued during the year	768,300	(204,400)	-	563,900
Capital raising costs	(33,255)	-	-	(33,255)
Shares and options granted during the year	-	138,438	-	138,438
Total transactions with owners and other transfers	735,045	(65,962)	-	669,083
Balance at 30 June 2018	10,875,937	639,385	(9,793,626)	1,721,696
Balance at 1 July 2018	10,875,937	639,385	(9,793,626)	1,721,696
Comprehensive income				
Loss for the year	-	-	(4,372,821)	(4,372,821)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	(4,372,821)	(4,372,821)
Transactions with owners, in their capacity as owners, and other transfers				
Shares issued during the year	2,975,932	(153,633)	-	2,822,299
Capital raising costs	(97,362)	-	-	(97,362)
Shares and options granted during the year	-	287,148	-	287,148
Total transactions with owners and other transfers	2,878,570	133,515	-	3,012,085
Balance at 30 June 2019	13,754,507	772,900	(14,166,447)	360,960

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

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Tesseract Limited and its controlled entities
Consolidated statement of cash flows
For the year ended 30 June 2019

	Note	2019	2018
		\$	\$
Cash flows from operations			
Receipts from customers (inclusive of GST)		5,415,067	5,922,560
Payments to suppliers and employees (inclusive of GST)		(8,266,862)	(8,219,859)
		<u>(2,851,795)</u>	<u>(2,297,299)</u>
Other Income		26,382	-
Interest received		15,989	27,804
Interest and other finance costs paid		-	(6,439)
Research & development tax concession		288,330	844,010
Proceeds from transaction restructure		-	150,000
Net cash outflow from operating activities		<u>(2,521,094)</u>	<u>(1,281,924)</u>
Cash flows from investing activities			
Purchase of plant and equipment		(27,775)	(84,633)
Proceeds on disposal of plant and equipment		-	199,779
Purchase of intangibles – development costs capitalised		(418,453)	(370,516)
Payment of deferred settlement liability for software additions		(133,874)	(215,428)
Proceeds from sale of software		-	250,000
Net cash outflow from investing activities		<u>(580,103)</u>	<u>(220,798)</u>
Cash flows from financing activities			
Proceeds from issuing of shares	7	2,481,000	392,550
Payments for issuing of shares	7	(97,364)	(33,255)
Net cash inflow from financing activities		<u>2,383,636</u>	<u>359,295</u>
Net decrease in cash and cash equivalents		<u>(717,561)</u>	<u>(1,143,427)</u>
Cash and cash equivalents at the beginning of the financial year		<u>1,717,221</u>	<u>2,860,648</u>
Cash and cash equivalents at the end of the financial year		<u>999,660</u>	<u>1,717,221</u>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes

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Tesseract Limited and its controlled entities

Notes to the preliminary final report

For the year ended 30 June 2019

The accounting policies adopted in this preliminary final report are consistent with those in the financial report for the interim financial report for the period ending 31 December 2018, which reflects any accounting policy updates from that applied in the financial report for the year ended 30 June 2018.

1. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Tesseract Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

	2019 \$	2018 \$
Earnings per share from continuing operations		
Loss after income tax (basic)	(4,372,821)	(3,095,670)
Loss after income tax (diluted)	(4,372,821)	(3,095,670)
Weighted average number of shares used in calculating basic and diluted earnings per share	150,950,488	118,368,498
Basic earnings per share (cents per share)	(2.90)	(2.62)
Diluted earnings per share (cents per share)	(2.90)	(2.62)

2. Revenue

Sales revenue	5,260,272	5,327,957
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3. Other income

Transaction restructure fee ¹	-	150,000
Onerous provision writeback	-	399,279
Research and development tax concession	137,335	457,741
Interest	15,989	27,803
Reversal of R&D over accrual in prior year	(72,925)	-
Other	26,867	68,980
	107,266	1,103,803

(1) The Company entered into a transaction restructure agreement with Family Zone Cyber Security Limited (ASX:FZO) agreeing to a variation of the existing Asset Sale Agreement. The restructure fee was recognised over the term of the restructured payment plan and has been recognised as cash received in operating activities within the statement of cash flows.

4. Other financial assets

	2019 \$	2018 \$
Current Assets		
Call option investment at fair value	1	-
Non-current assets		
Call option investment at fair value	-	165,810
Total	1	165,810

1) During the period the company wrote down a call option providing Tesseract with the right but not obligation to acquire a cyber security business based in the United Kingdom. The option expires 21 December 2019 and if exercised prior to expiry the amount paid for the option is offset against the purchase price of the business. If the counterparty decides not to proceed with the sale, the call option investment is redeemed in full by the counterparty. Management have taken a view that it is unlikely that this call option will be exercised, and have thus impaired the value of the Asset down to \$1.

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Notes to the preliminary final report
For the year ended 30 June 2019

5. Intangible assets

Consolidated	Intellectual Property	Software	Total
30 June 2018	\$	\$	\$
Cost	22,607	834,139	856,746
Accumulated amortisation	-	(122,898)	(122,898)
Net book amount	22,607	711,241	733,848
30 June 2019			
Opening net book value	22,607	711,241	733,848
Additions – capitalised development costs	-	418,453	418,453
Amortisation charges	-	(174,791)	(174,791)
Closing net book value	22,607	954,903	977,511
As at 30 June 2019			
Cost	22,607	1,252,592	1,275,199
Accumulated amortisation	-	(297,689)	(297,689)
Net book amount	22,607	954,903	977,511

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Notes to the preliminary final report
For the year ended 30 June 2019

	2019	2018
	\$	\$
6. Other financial liabilities		
Deferred settlement liabilities		
Current	137,991	61,212
Non-current	281,714	352,157
	419,705	413,369

Deferred settlement liability is recognised when the company has a legal or constructive obligation, as a result of a past event, for which an outflow of economic benefits will result and that outflow can be reliably measured. Future payments are discounted to their net present value at contract commencement using a discount rate of 15.08%.

The difference between actual payments and the discounted amount is recognised as a finance cost.

Where the discounted payment is due within 12 months of the balance date, the deferred settlement liability will be recorded as a current liability.

	2019	2018
	No	No
7. Capital and reserves		
Number of shares		
On issue at start of year	126,041,546	116,774,600
Shares issued to directors	-	412,086
Shares issued pursuant to the capital raising	47,882,837	7,142,860
Shares issued as equity settled expense	5,428,000	352,000
Shares issued to employees	3,690,740	1,360,000
Total shares on issue	183,043,123	126,041,546
	2019	2018
	\$	\$
On issue at the start of the year	10,875,937	10,140,892
Shares issued to directors	-	37,500
Shares issued pursuant to the capital raising	2,481,000	500,000
Capital raise costs	(97,364)	(33,255)
Shares issued as equity settled expense	289,400	26,400
Shares issued to employees	205,532	204,400
Share capital at the end of the year	13,754,507	10,875,937
	2019	2018
	\$	\$
Reserves		
Share based payments reserve	772,900	639,385

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Notes to the preliminary final report

For the year ended 30 June 2019

8. Segment report

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) in order to effectively allocate Group resources and assess performance.

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer CEO in the capacity of CODM. Two operating segments have been identified: IT Security Managed Services and Software Licensing.

The CEO reviews Profit before tax. The accounting policies adopted for internal reporting to the CEO are consistent with those adopted in the financial statements.

	IT Security Managed Services	Software Licensing	Inter segment eliminations	Totals
2019	\$	\$	\$	\$
Revenues				
Sales to external customers	4,935,657	324,615	-	5,260,272
Inter segment sales	-	343,630	(343,630)	-
Total sales revenue	4,935,657	668,245	(343,630)	5,260,272
Onerous provision write back	-	-	-	-
Transaction restructure fee	-	-	-	-
Research & development tax concession	137,335	-	-	137,335
Other revenue	(30,554)	485	-	(30,069)
Total revenue and other Income	5,042,438	668,730	(343,630)	5,367,538
Profit/loss before income tax expense	(4,467,898)	95,077	-	(4,372,821)
Total segment assets	3,016,688	802,625	-	3,819,313
Total segment liabilities	3,294,416	163,936	-	3,458,352
	IT Security Managed Services	Software Licensing	Inter segment eliminations	Totals
2018	\$	\$	\$	\$
Revenues				
Sales to external customers	5,033,889	294,068	-	5,327,957
Inter segment sales	33,820	384,030	(417,850)	-
Total sales revenue	5,067,709	678,098	(417,850)	5,327,957
Onerous Provision write-back	-	399,279	-	399,279
Transaction Restructure Fee	150,000	-	-	150,000
Research & development tax concession	457,741	-	-	457,741
Other revenue	96,783	-	-	96,783
Total revenue and other Income	5,772,233	1,077,377	(417,850)	6,431,760
Profit/loss before income tax expense	(2,858,959)	138,132	-	(2,720,827)
Total segment assets	11,356,346	686,832	(7,384,361)	4,658,817
Total segment liabilities	2,793,901	143,220	-	2,937,121

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