

29 February 2024

ASX ANNOUNCEMENT

Senetas Corporation Limited Half Year Results for the six months to 31 December 2023

- Strong growth in third-party sales of Senetas products and services – up over 40%
- Senetas segment sales pipeline continued to grow – up 34% compared to December 2022
- Votiro annual recurring revenue (ARR) currently US\$8.5 million – up over 75% from December 2022, but below target largely due to one large contract that has been delayed into the second half of FY2024
- Votiro sales pipeline (including renewals) in excess of US\$33 million at December 2023
- Senetas segment gross profit similar to the prior period with lower inventory transfers to Thales offset by lower cost of goods sold
- Senetas segment profit before tax was A\$1.4 million (HY2023: \$2.3 million) as a result of the planned lowering of inventory transfers to Thales, and lower Variable Consideration¹
- Adjusting for Variable Consideration¹, Senetas segment revenue was down 4% to \$9.7 million, and profit before tax was \$1.7 million – up 19% over the prior period
- Group net loss after tax attributable to members was \$3.9 million (net cash loss after adjusting for non-cash items was \$2.5 million)
- Cash on hand at 31 December 2023 was \$11.7 million

Senetas Corporation Ltd (ASX: SEN) (Senetas / the Company), today announced its results for the six months ended 31 December 2023 (HY2023).

HY2023 Summary – Statutory Group Financials

Six months ended 31 December 2023 (\$'000's)	HY2024	HY2023
Revenue from ordinary activities		
– Senetas	9,364	10,964
– Votiro	4,144	3,945
Consolidated Group Revenue	13,490	14,908
EBITDA		
– Senetas	1,464	2,204
– Votiro	(8,003)	(6,714)
Consolidated Group EBITDA	(6,539)	(4,510)
Net Profit (Loss) Before Tax		
– Senetas	1,425	2,331
– Votiro	(9,511)	(8,441)
Consolidated Group Net Profit (Loss) Before Tax	(8,085)	(6,110)
Consolidated Net Profit (Loss) After Tax Attributable to Members	(3,868)	(3,093)
Cash And Cash Equivalents @ 31 December 2023	11,687	8,930

¹ Variable Consideration impacts per AASB15 – calculations/adjustments detailed on pages 5 & 6 of this release





- Group operating revenue of \$13.5 million (HY2023: \$14.9 million)
- Lower group revenue was driven by lower inventory transfers to Thales, as expected, and lower Variable Consideration
- Senetas segment revenue adjusted for Variable Consideration was down 4% to \$9.7 million
- Gross margin for the Group was 90% - up from 81% in the prior period
- Senetas segment EBITDA was \$1.5 million
- The operating profit before tax for the Senetas operating segment in HY2024 was \$1.4 million (HY2023: \$2.3 million)
- Operating profit before tax for the Senetas segment adjusted for Variable Consideration was up 19% to \$1.7 million (refer calculations on page 6)
- The Group net loss after tax of \$7.9 million for HY2024 includes a \$9.3 million operating loss after tax for Votiro
 - \$4.1 million of the Votiro loss is attributable to minority interests
 - Votiro's loss before tax includes non-cash items such as share based payments expense and amortisation totaling \$1.8 million.
- Votiro annual recurring revenue (ARR) is currently US\$8.5 million – up over 75% from Dec 2022
- The Group net loss after tax attributable to members was \$3.9 million
- The Group net loss attributable to members after adjusting for non-cash items was \$2.5 million
- Cash on hand at 31 December 2023 was \$11.7 million

HY2024 Results Commentary

Commenting on the six months to 31 December 2023, Senetas CEO, Andrew Wilson, said:

“Despite some complexity in the reported results for the Senetas business segment in HY2024, both the Senetas and Votiro businesses have made good progress in growing third-party sales and their future sales pipelines.

“The Senetas business has been hampered in recent years by industry wide electronic component shortages that have significantly impacted our end customer's technology projects and has consequently delayed their orders for Senetas products. With those component shortages having now eased we have seen a very strong return to growth in completed orders with customers.

“Thales's third-party sales of Senetas products and services were up over 40% compared to the prior period, and the number of hardware units shipped was 46% higher. And together with the increase in third-party sales we have also seen 34% growth in Senetas's future sales pipeline which will support sales growth through 2024.

“Despite the lower inventory transfers and Variable Consideration, the Senetas segment gross profit remained similar to the prior period, with lower reported revenue offset by lower cost of goods sold. Gross margins increased to 90% with a lower proportion of sales relating to inventory transfers, however, we expect Senetas segment margins will return to long term averages as inventory levels normalise over the next 12-18 months.



"After eliminating the impacts of Variable Consideration on the Senetas segment results, profit before tax was up 19% to \$1.7 million reflecting the higher margins through the period.

"Votiro's ARR has reached US\$8.5 million, which is below its previously stated target range. The key driver of the lower than target ARR was a large deal in the Asia Pacific market that has been delayed due to extended procurement processes. The deal is still expected to be completed in the second half of FY2024.

"As a new supplier to some of our larger customers, Votiro is confronting these extended procurement processes that can cause transaction finalisation to be delayed by up to a few months in some cases. To date, however, no deals have been lost as a result of these delays, and Votiro is confident of strong growth in 2024. New sales and partner incentives are also expected to help shorten sales cycles in 2024.

"Despite some of these delays, with improved deal closure rates and planned operating efficiencies, Votiro remains on track to reach cash flow breakeven around the middle of the 2024 calendar year."

Senetas operational review

As disclosed in Senetas's FY2023 results, lower inventory shipments to Thales were expected through FY2024, and they were the key driver of lower revenue in HY2024. In total, inventory shipments to Thales were down 23%.

With the global electronic component shortages having eased, Senetas and Thales are expected to continue lowering safety stock levels and transition to more historic inventory levels over the next 12-18 months.

However, there was strong growth in demand for Senetas products during HY2024. Third-party sales of Senetas products and services by Thales were up 40% which partially offset the lower reported revenue from inventory transfers and a negative adjustment to Variable Consideration (refer tables on page 6). The number of units shipped by Thales was up 46%.

The future sales pipeline continued to build throughout HY2024 with the Thales pipeline of sales for Senetas products up 34% compared to Dec 2022.

Despite the lower inventory transfers and Variable Consideration, Senetas segment gross profit was similar to the prior period, with the lower revenue largely offset by lower cost of goods sold. Gross margins increased to 90% with a higher proportion of sales relating to third-party sales by Thales.

Operating expenses were higher in HY2024, primarily driven by additional R&D costs associated with upgrades to Senetas's 10Gbps encryptors, and a new version of the 100Gbps encryptor under development. Additional costs were also incurred in relation the processes to update some of Senetas's global security certifications.

Other income was lower after the completion of a customer funded project in the Europe region.

Senetas's profit before tax adjusted for Variable Consideration was up 19% to \$1.7 million (refer calculations on page 6). The Senetas segment reported profit before tax was lower at \$1.4 million (HY2023: \$2.3 million).

Thales's recently completed acquisition of Imperva creates a cybersecurity business with over US\$1.5 billion in revenue and is now the 5th largest cybersecurity company globally. The acquisition of Imperva will significantly expand Thales's access to the cybersecurity market.

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Senetas's and Votiro's product portfolios are very complementary to Imperva's with no competing products, and therefore represent an important medium term growth opportunity once the Thales/Imperva business integration is complete.

Votiro operational review

Votiro's operating revenue was up 5.1% to \$4.14 million in HY2024 driven by growth in the Asia Pacific region. The Asia Pacific region remains the key driver of Votiro's revenue and ARR. There were 36 new customers and 'upsell' deals completed through the 2023 calendar year.

Votiro has continued to develop its customer base and sales pipeline through the period, however, there have been some unexpected delays in contract completion that meant its previously disclosed ARR target was not met. As a new supplier to some of its larger customers, Votiro is confronting extended procurement processes have delayed contract closure by up to 2 or 3 months in a few cases. However, despite these delays, Votiro has to date not lost any deals through that process and remains confident of strong growth in 2024.

Votiro's ARR is currently US\$8.5 million, below the target of up to US\$10 million, primarily due to the delay of one large contract yet to be finalised in the Asia Pacific region. That deal is nonetheless expected to be completed in the second half of FY2024.

The total contract value for Votiro at 31 December 2023 was US\$30 million, up 37% since August 2023, and its future sales pipeline was US\$33 million.

Votiro FY2023 loss after tax was \$9.3 million (HY2023: \$8.2 million) which included \$1.8 million of non-cash items. Of Votiro's after tax loss, \$4.1 million is attributable to the minority interests in Votiro.

Votiro is consistently succeeding in technology trails against its direct competitors, and an upgraded product launch and sales and marketing program is due to be rolled out across the next few months.

Votiro's customer renewal rate remained at >90% which, consistent with FY2023, was slightly below the prior period as Votiro discontinued support for some low margin end of life products in the Japan market.

With improved deal closure rates and planned operating efficiencies through the second half of FY2024, Votiro remains on track to reach its cash flow breakeven target by the middle of the 2024 calendar year.

Balance sheet and cash flow

Consolidated net assets at 31 December 2023 were \$3.2 million with cash on hand of \$11.7 million. The lower net assets at 31 December 2023 reflect the consolidation of the current period loss from Votiro, partly offset by the capital raised by Senetas in December 2023.

The higher cash on hand at 31 December 2023 reflects the impact of the Senetas capital raising and Senetas segment cash inflows, partly offset by the consolidation of the Votiro losses.

Consolidated group receipts from customers were down 13% in line with lower reported revenue, however, cash flow in the second half of FY2024 is expected to be stronger than the first half, and FY2024 cash flow is expected to be ahead of FY2023.

Senetas successfully completed a placement and entitlement offer in December 2023 to raise \$5 million. The primary objectives of the capital raise were to support Senetas's investment in Votiro and for general working capital purposes. Whilst Votiro is targeting cash flow breakeven by the



middle of the 2024 calendar year, it continues to require the financial support of its shareholders until it reaches that point.

Outlook

Commenting on the Company's outlook, Mr Wilson said:

"Increasing demand for Senetas's products and services has seen strong recent growth in third-party sales as well as growth in the future sales pipeline. With increasing sales momentum throughout HY2024, and the sales pipeline at Dec 2023 up 34%, we anticipate that the good recent sales momentum will continue through 2024.

"As we have previously disclosed to the market, lower inventory shipments to Thales will continue to impact reported revenue through the remainder of 2024, but the anticipated strong third-party sales by Thales are expected to generate higher gross margins for the Senetas segment and therefore moderate the impact on profit.

"Both cash flow and third-party sales of Senetas products in FY2024 are expected to be higher than FY2023.

"Votiro's business continues to build its customer base and sales pipeline with over 75% ARR growth since December 2022. Its total sales pipeline was US\$33 million at December 2023, with US\$21 million of new pipeline prioritised for focus in the 2024 calendar year.

"Whilst pipeline conversion remains a bit slower than anticipated due to extended procurement processes with some larger contracts, no deals are being lost as a result and good progress is expected through the remainder of FY2024. In addition, new sales and partner incentives have been established recently that are expected to help shorten sales cycles in 2024.

"Importantly, the cash flow breakeven target around the middle of calendar year 2024 remains on track."

Variable Consideration

AASB15 has applied to Senetas's results since FY2019, but to date only the Senetas business segment has been impacted by Variable Consideration.

AASB15 requires the company to estimate and recognise the revenue expected to be earned from customer contracts in the future, rather than waiting for the actual end sale before recognising the revenue. The practical effect of this for Senetas is that it must recognise in a reporting period the revenue expected to be generated from the inventory held by Thales in the period in which the inventory is originally purchased by Thales, before it is on-sold to a third-party customer.

Generally, as Thales's inventory of Senetas products grows, AASB15 will increase Senetas's reported revenue, and as Thales's inventory declines, as it has done in HY2024, it will reduce Senetas's reported revenue, despite the strong growth in third party sales of Senetas products and services by Thales in HY2024.

The tables below highlight the impact of the Variable Consideration adjustments to Senetas segment revenue and PBT over recent half years.



Senetas operating segment – impact of AASB15 (variable consideration) on YoY growth rates for HY2024

Half years ended 31 December (000's)	HY2024	HY2023	Difference	%
Senetas segment reported revenue	9,346	10,964	(1,618)	(14.8)
Variable Consideration per AASB15	(321)	854	(1,175)	(137.6)
Adjusted revenue	9,667	10,110	(443)	(4.4)
Senetas segment profit before tax	1,426	2,331	(905)	(38.8)
Adjustment for Variable Consideration	321	(854)	(1,175)	(137.6)
Profit before tax adjusted for variable consideration	1,746	1,477	270	18.2

Senetas operating segment – impact of AASB15 (variable consideration) on reported financials since FY2020

Half years ended 31 December (000's)	HY2024	HY2023	HY2022	HY2021	HY2020
Senetas segment reported revenue	9,346	10,964	10,084	12,760	9,932
Variable Consideration per AASB15	(321)	854	426	432	(133)
Adjusted revenue	9,667	10,110	9,658	12,328	10,065
Senetas segment profit before tax	1,426	2,331	951	3,464	70
Adjustment for Variable Consideration	321	(854)	(426)	(432)	133
Profit before tax adjusted for variable consideration	1,746	1,477	525	3,032	203

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ABOUT SENETAS CORPORATION LIMITED

Senetas is an Australian public company (ASX:SEN) specialising in cybersecurity solutions - from high-performance network encryption to secure file-sharing collaboration and anti-malware applications. Used by global commercial and technology enterprises and governments in more than 45 countries, Senetas solutions are distributed and supported internationally by Thales, the world's largest security company.

Senetas cybersecurity solutions are trusted to protect business, government, defence, national infrastructure, cloud and technology service provider data against breaches and prevent crippling cyber-attacks.

A global leader in the protection of data transported across the high-speed networks essential to businesses and governments, Senetas provides network independent encryption hardware and virtualised solutions. These share a crypto-agile and quantum ready cybersecurity platform.

Certified by leading independent authorities (Common Criteria, FIPS and NATO), Senetas encryptors leverage end-to-end encryption and state-of-the-art key management providing long-term data protection without compromising network performance.

Senetas's encrypted file-sharing and collaboration application, SureDrop, provides the information security and data sovereignty control essential in today's world of rapidly growing remote work. SureDrop has the usability of box-type file-sharing and other collaboration tools, but with the added benefits of Microsoft 365, Outlook and Azure integration. It may be deployed on premises or as a service provider Software as a Solution (SaaS).

Secure File Gateway by Votiro, a Senetas subsidiary, prevents crippling malware and zero-day attacks such as ransomware and viruses. Votiro's award-winning and patented technology prevents malicious file content through email, web downloads and other file gateways.

Senetas solutions have been trusted to protect much of the world's most sensitive information for more than 20 years. They are used to protect everything from government and defence secrets to intellectual property, financial transactions, citizen privacy to real-time CCTV networks and critical national infrastructure. Learn more at www.senetas.com

ABOUT VOTIRO

Votiro is a Zero Trust Content Security company trusted by industry leaders around the world to deliver billions of safe and compliant files to team members, vendors, and the customers that depend on them. Votiro's defense-in-depth solution provides organisations with proactive threat prevention, real-time privacy and compliance, and actionable data insights – at scale via an open-API.

Votiro is headquartered in Austin, TX, with offices in Australia, Israel, and Singapore. Votiro is SOC 2 Type II compliant and certified by the international standard of Common Criteria for Information Technology Security Evaluation (ISO/IEC 15408). Learn more at www.votiro.com