

FOREWORD TO TESSERENT'S
APPENDIX 4D - HALF YEARLY REPORT

Turnover increases YoY by 500% to \$36.5M
Operational EBITDA increases by \$4.6M to \$2.9M
Net assets increase from \$16.5M to \$65M
Cash at bank increases from \$4M to \$8M

Tesseract Limited (ASX:TNT, Tesseract or the Company) is pleased to provide the Company's Half Yearly Report (Appendix 4D) for the half-year ended 31 December 2020. The Board notes the following points regarding the progress of the Company's strategy and performance during and after the reporting period.

Key Highlights for H1 FY21

- Financial achievements:
 - \$36.5M Turnover¹ achieved (in excess of 500% growth on same period last FY)
 - \$2.9M Operational EBITDA³ achieved against a prior period loss of \$1.7M
- Acquisitions:
 - Seer Security (completed August 2020)
 - Airloom (completed September 2020)
 - Ludus Cybersecurity (completed September 2020)
 - iQ3 (completed November 2020)
 - Lateral Security NZ (completed February 2021)
- Joint Ventures:
 - Optic TNT Security Pty. Ltd. JV with NZ-based Secure Optic (announced November 2020)
- Listed on [ASX All Tech Index \(S&P/ASX All Technology Index\)](#)
- Entered NZ market with acquisition of Lateral Security

The H2 FY21 Results will benefit from:

- The inclusion of 5 months results from Lateral Security which completed in February 21
- The inclusion of the full 6 months revenue and earnings for the following acquisitions :
 - Seer Security (5 months in H1 results)
 - Airloom (4 months in H1 results)
 - Ludus Cybersecurity (4 months in H1 results)
 - iQ3 (2 months in H1 results)
- Strong organic growth with significant uplift across our Government projects.

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Explanation of Results

H1 FY21 saw Tesseract achieve transformational business growth, resulting from strategic acquisitions and increased business unit cross-sales which created shareholder value in a number of key areas including a significant uplift in market capitalisation and share price.

Whilst the Company's comparative YoY revenue and earnings is strong, the H1 FY21 statutory results are still backward-looking and are not a current reflection of the Company's current or go-forward financial position.

As a result of these aforementioned acquisitions, significant upfront (one-off) costs were incurred without the full half-year financial benefits (Figure 3) being recognised in the H1 FY21 statutory accounts (Figure 1). The Company's Employee Share Option Plan (ESOP) which is a significant way to attract and maintain a highly skilled workforce in a competitive market and provides tax benefits was another expense recognised in the statutory accounts.

	Six months ending:		Variance (\$)	Variance (%)
	Dec 2020 (\$'000)	Dec 2019 (\$'000)		
Turnover ¹	36,486	6,095	30,391	500%
Statutory Revenue	28,870	5,311	23,559	444%
Underlying EBITDAC ²	4,662	(279)	4,941	n/c
Operational EBITDA ³	2,911	(1,661)	4,572	n/c
Operational Depreciation	(927)	(382)	(545)	143%
Operational EBIT ³	1,984	(2,043)	4,027	n/c
Operational Finance costs	(198)	(236)	38	-16%
Profit/(loss) before tax ⁴	1,786	(2,279)	4,065	n/c
One-off acquisition costs	(2,715)	(1,008)	(1,707)	169%
Acquisition finance costs	(2,219)	(19)	(2,200)	n/c
Amortisation of identifiable intangibles (on acquisition)	(402)	(93)	(309)	332%
ESOP option expense for Staff	(2,630)	(586)	(2,044)	349%
Subtotal	(7,966)	(1,706)		
Statutory loss before tax	(6,180)	(3,985)	(2,195)	55%

¹ Turnover includes gross income on certain third-party software licence sales - treated on a net basis for statutory reporting

² EBITDAC is Earnings Before Interest, Tax, Depreciation, Amortisation and Corporate costs

³ Before One-off acquisition costs and Share option expense

⁴ Before One-off acquisition costs, Acquisition finance costs and Share option expense

Figure 1: Actual H1 FY21 Headline Results

- The items highlighted and subtotalled above \$7,966,000 include \$5,364,000 (67%) that were noncash payments.

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ASX ANNOUNCEMENT

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Future Focus:

Tesseract, through its Cyber 360 strategy, continues to focus on building out a one-stop-shop that provides a complete end-to-end cybersecurity solution for its clients. A primary objective is to maximise shareholder value by increasing earnings margins through the growth of high-margin annuity-based income and the inclusion of proprietary intellectual property in its solutions.

The Company's previously stated goals for FY21 remain:

- Deliver our Cyber 360 capabilities to an increasing number of Australian organisations
- Integrate acquisitions to maximise synergy efficiencies and drive organic revenue growth through cross-selling
- Focus on capturing market share in three key markets: Government (including Defence), Critical Infrastructure and Banking & Finance
- Continuing to drive the Company's acquisition strategy to expand on Cyber 360 capabilities and increase shareholder value through incremental EPS growth
- Building out high-value recurring annuity revenue streams
- Expand proprietary intellectual property to drive high-margin product and service offerings
- Explore International expansion opportunities with a focus on Australia's key Five Eyes allies, which consists of the USA, UK, NZ and Canada

The Company looks forward to providing further updates on its future financial and commercial objectives.

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