



ASX ANNOUNCEMENT (ASX: CVT)

12 January 2018

APPENDIX 4C AND BUSINESS UPDATE FOR QUARTER ENDED 31 DECEMBER 2017

Overview

The highlights of the quarter were:

- Contract wins across Europe, UK and US
- Solid customer receipts
- Significant growth in our sales pipeline
- Successful completion of a capital raise

Quarter Two Financial Highlights

Financial highlights for the quarter were:

- The Company held \$6.347M in cash as at 31 December 2017 (30 September 2017: \$4.486M);
- Receipts from customers were \$148K, slightly lower than the previous quarter of \$167K. We had expected to report a significant uplift but a large overdue customer payment (\$59K) did not hit our accounts until early January due to closures over Christmas. This amount has since been received and will be reflected in the third quarter cash flow;
- Spend increased on sales and marketing and this will be maintained as we build momentum;
- Underlying operating costs for the December quarter were \$1.85M, higher than the \$1.67M in the September quarter but under our forecast, driven primarily by increased on sales and marketing, higher staff headcount due to the establishment of the Austin development office, external development advisors, and professional fees in connection with the annual audit;
- In November, the company raised \$2.06M, with \$425K through placement with sophisticated investors and \$1.63M through a share purchase plan;
- The AusIndustry R&D Tax Incentive Grant of \$1.6M was received in November;
- Total cash movement for the quarter was an increase of \$1.86M, driven mainly from the capital raise and receipt of grants for the period, offset by a slight increase in operating expenses.

Quarter Two Operating Highlights

- **Marketing and Sales**

As mentioned at the AGM, our marketing and sales activity for the quarter was relatively intense as we sought to build our sales pipeline and engage with potential channel partners. Customer wins in the last quarter, which were spread across Europe, UK and US, reflect our continuing momentum and increase our level of confidence.

Both digital marketing initiatives and the company's attendance as an exhibitor and presenter at Black Hat Europe in December have materially increased our unweighted pipeline to over US\$12m, with some significant six-figure opportunities. Of course, we need to further qualify these leads into prospects and achieve a reasonable level of conversion.

In addition to direct sales, we are developing our indirect channel strategy and expect to be able to make further announcements in February as we conclude agreements and can report on actual sales opportunities with these partners. As shareholders know, the latter is what matters.

Our existing partnership with MacTel in Australia has pleasingly seen paying users grow by Q2 on Q1. Consequently, monthly revenues from this channel are continuing to increase. This is good news.

- **Product Development**

Our Product Development activities for the quarter have also been quite intense with the release of updates (new service packs) for SafeShare, Eclipse, iOS and Android mobile apps for MacTel, and the beta launch of our data discovery tool. The discovery tool will be to generate customer demand by helping customers understand where their sensitive data resides and highlighting the need to protect that data.

Having both the Covata SafeShare and (CipherPoint) Eclipse products gives us the ability to provide the best solution choice for each customer's use case. Over time, their features will be available through our new Data Security Platform (DSP).

- **Microsoft**

Q2 saw the completion of the Azure production release of SafeShare. We also continued to work on developing new integrations to the Microsoft stack as customers demand better security around their familiar productivity applications like Office 365 and SharePoint. Shareholders should expect further updates on integrations and on further Azure deployments during Q3.

Next Quarter

- Estimated cash outflows for the March 2018 quarter are anticipated to be \$2.07M (exclusive of revenue and interest);
- Staff costs for the next quarter are anticipated to be \$1.2M; and
- R&D and related activities are anticipated to result in outflows of \$294K, as the company pushes development of the Data Security Platform toward a beta release.

- Ends -

About Covata

Covata is a leading provider of software solutions that protect data and enable secure collaboration. Our data-centric security platform empowers governments and businesses to discover, protect and control their sensitive information. Our products and platform support multiple use cases including search, governance and compliance, user behavior and analytics and file synchronization and sharing.

Covata also provides data discovery, transparent data encryption, centralised permissions management, and activity logging for sensitive and regulated information in SharePoint.

With offices and resources in the US, UK Europe and Australia and coverage in all other regions our customers span the public sector and defense, aerospace, technology, finance, media and sports industries.

We ensure security is never an afterthought, protecting information and ensuring the safe and efficient sharing of data across internal and external stakeholders, devices, networks and geographic regions providing organizations with control, visibility and auditability of their sensitive information.

For further information, please visit covata.com.

Covata Investor Relations contact:

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Covata Limited
Head of Finance and Joint Company Secretary
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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Covata Limited

ABN

61 120 658 497

Quarter ended ("current quarter")

31 December 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	148	315
1.2 Payments for		
(a) research and development	(81)	(129)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(113)	(256)
(d) leased assets	-	-
(e) staff costs	(1,052)	(2,060)
(f) administration and corporate costs	(608)	(1,082)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	8	75
1.5 Interest and other costs of finance paid	(1)	(2)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	1,612	1,612
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(87)	(1,527)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(46)	(65)
(b) businesses (see item 10)	-	(165)
(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	1	1
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	2
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other – return of credit card facility deposit	-	-
2.6	Net cash from / (used in) investing activities	(45)	(227)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	2,062	2,062
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(56)	(56)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	2,006	2,006

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	4,486	6,325
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(87)	(1,527)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(45)	(227)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,006	2,006

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(13)	(230)
4.6	Cash and cash equivalents at end of quarter	6,347	6,347

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,347	4,486
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Term deposits callable with less than 3 months notice)	4,000	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	6,347	4,486

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A'000**

(166)

-

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$A'000**

-

-

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(294)
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	(403)
9.4 Leased assets	-
9.5 Staff costs	(1,205)
9.6 Administration and corporate costs	(174)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(2,076)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity		-
10.2 Place of incorporation or registration		-
10.3 Consideration for acquisition or disposal (share-based consideration)		-
10.4 Total net assets		-
10.5 Nature of business		-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:
(Director)

Date: 12 January 2018

Print name: Edward Pretty

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. As noted in its 2017 Notice of Annual General Meeting, the Company has obtained a waiver of Listing Rule 7.3.2 to permit the issue of up to 12,977,400 shares to the vendors of CipherPoint Inc. more than 3 months after shareholder approval of the issue but no later than 20 July 2018, subject to the satisfaction of certain revenue milestones (Milestone 2 Shares). No Milestone 2 Shares were issued during the period to which this Appendix 4C relates. The Milestone 2 Shares will be issued subject to CipherPoint Inc. achieving revenues between 1 July 2017 and 30 June 2018 of not less than US\$500,000 and conditional upon a key staff member of CipherPoint continuing to be employed by CipherPoint (or the Company or its group entities) at 30 June 2018 (subject to agreed exceptions, including termination without cause). Further details regarding the Milestone 2 Shares are set out in the notes to Resolution 6 in the explanatory memorandum which formed part of the Company's 2017 Notice of Annual General Meeting.