



ASX ANNOUNCEMENT (ASX: CVT)

12 April 2018

APPENDIX 4C AND BUSINESS UPDATE FOR QUARTER ENDED 31 MARCH 2018

Overview

The highlights of the quarter were:

- 174% increase in cash receipts for the period; Q3 cash receipts \$406,000 vs \$148,000 in Q2
- Significant increase in lead generation activities and demonstrations to key prospective customers
- Good discipline on operating expenditure
- Successful completion of acquisition of data classification IP from, and alliance with, dataglobal GmbH

Quarter Two Financial Highlights

Financial highlights for the quarter were:

- The Company held \$5.12M in cash as at 31 March 2018 (31 December 2017: \$6.347M);
- Receipts from customers were \$406K, significantly higher than the previous quarter of \$148K;
- Underlying operating costs for the March quarter were \$1.807M, lower than the \$2.076M as forecasted in the December quarter; and
- Total cash movement for the quarter was a decrease of \$1.227M

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Quarter Two Operating Highlights

Sales

Cash receipts in Q3 were higher than the two previous quarters combined, as a result of significant sales momentum, particularly in the United States. A portion of these cash receipts reflect deals closed in Q2 that have been subsequently settled in Q3.

The CipherPoint acquisition continues to deliver for Covata. The acquisition has surpassed its first milestone of \$US300,000 in revenue for the six months to 31 December 2017, with growth in sales opportunities continuing in Q3.

Eclipse, our secure on-premises SharePoint solution (acquired through CipherPoint), and SafeShare, our easy-to-use browser-based secure data exchange, were the main focus for our sales team in Q3, and this is expected to be the case in Q4.

Our existing partnership with MacTel in Australia delivered further increases in paying users in Q3 on Q2. Consequently, an uplift in monthly revenues from this channel is expected through Q4 as new pricing and billing arrangements come into effect.

Covata has accelerated business development work with a higher number of product demonstrations compared to previous quarters, which we are now working to convert to new billings and sales across the next two to three quarters.

Following the release of our SharePoint O365 solution in Q1 FY19, the sales focus will expand to offer this new solution to the large number of leads in our pipeline that specifically require a cloud product and have delayed their procurement decision until that solution is available for production release.

Management view the strong marketing and sales momentum created through the CipherPoint deal as validation of its acquisition-led strategy and will continue to assess other acquisition opportunities that complement our product suite and take the company a step closer to its vision of offering a Data Security Platform that not only protects but understands data across its entire lifecycle.

Marketing

Our digital marketing activities continued in Q3 with a specific focus on regulatory changes that are likely to trigger growth across the data security sector. This included ITAR (International Traffic in Arms Regulations), relating to the security of defence data (predominantly in the US), and the recently implemented Notifiable Data Breaches regulations in Australia. This was supported by vertical initiatives in health and finance.

Team

In February 2018, the decision was made to replace the former Head of EMEA sales with two new and more experienced resources, one in the United Kingdom and the other in Germany. This is a reflection of the origin of new leads. While the new personnel will require time to

familiarise themselves with (and build) the sales pipeline, management remain optimistic about our prospects flowing from the UK and Europe.

Branding

During the quarter the decision was made to consolidate brands under Covata with the result that customers and prospects will understand that our acquired Eclipse (previously CipherPoint) product is now part of the Covata product suite and a component of our Data Security Platform. This is expected to support the business with cross-selling.

Product Development

Our product development activities for the quarter for SafeShare and Eclipse included improving user experience, addressing bugs and simplifying permission models.

There was also further development and improvement following the beta release of our discovery tool (which helps customers understand where their sensitive data resides).

Additionally, the development team has been able to demonstrate the application of an inline editing tool for users of Microsoft applications so that customers can retrieve and edit documents in their browser during a SafeShare browser session. Management consider Microsoft applications a priority given high usage amongst enterprises world-wide.

This will be further refined and put into production as soon as possible as part of our focus on integrating our Data Security Platform into productivity applications. Work on the Data Security Platform continues in parallel with the incremental improvement to our existing products.

Data classification - dataglobal GmbH

On 21 March, Covata announced it entered into a strategic alliance with German-headquartered dataglobal GmbH ('dg') and acquired certain rights to dg's intellectual property relating to data classification and analysis.

Management consider dg's technology to be a key differentiator in the market and it was acquired as part of a larger strategy to provide solutions that help clients more simply interpret data.

By acquiring proven technology, Covata has avoided the lengthy and costly process of building the platform in-house. The technology also brings significant cross-selling opportunities and has already led to new leads.

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Next Quarter

- Estimated operating cash outflows for the June 2018 quarter are anticipated to be \$2.199M (exclusive of revenue and interest);
- Staff costs for the next quarter are anticipated to be \$1.363M;
- R&D and related activities are anticipated to result in outflows of \$278K, as the company continues to push development of the Data Security Platform and now begins the integration work with the dataglobal classification engine; and
- Cash flows from investing activities will reflect the first payment of €350,000 by Covata to dataglobal for the intellectual acquired in connection with data classification.

- 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.

For further information, please visit covata.com.

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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 March 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	406	721
1.2 Payments for		
(a) research and development	(54)	(183)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(66)	(322)
(d) leased assets	-	-
(e) staff costs	(1,299)	(3,359)
(f) administration and corporate costs	(388)	(1,470)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	29	104
1.5 Interest and other costs of finance paid	(1)	(3)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	1,612
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,373)	(2,900)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(19)	(84)
(b) businesses (see item 10)	-	(165)
(c) investments	-	-

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Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
(d) intellectual property	-	-
(e) other non-current assets	81	81
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	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	62	(165)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	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)
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

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	6,347	6,325
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,373)	(2,900)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	62	(165)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	2,006

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	84	(146)
4.6	Cash and cash equivalents at end of quarter	5,120	5,120

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	5,120	2,347
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)	5,120	6,347

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**

-

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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.		

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(278)
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	(212)
9.4 Leased assets	-
9.5 Staff costs	(1,363)
9.6 Administration and corporate costs	(346)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(2,199)

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		-

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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 April 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.