

TOMIZONE LIMITED Australia

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ASX: TOM

Tomizone September 2017 Quarterly Update and FY18 Outlook

- **Ironman and Bluesky acquisitions successfully completed**
 - **Reliable recurring revenues and contracted revenues post September quarter, now more than \$350,000 per month**
 - **Contracted future cashflow receivables now at \$3.5M and expected to increase**
 - **Expansion of managed services customer base following the strategic transactions**
 - **Significant cost savings unlocked through acquisition synergies**
 - **Restructure secures experienced corporate, business and operational management talent for Board and leadership teams**
 - **Contract with Social Light renegotiated with significant cost savings whilst maintaining access to the product and services for our customers**
 - **More managed services products and proven billing system implemented**
 - **Strong outlook, with annualised revenues budgeted to be an annualised \$8M this year.¹**
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The Board of Tomizone Limited (ASX: TOM) ('**Tomizone**', 'the Company') is pleased to provide investors with this Quarterly Update for the period ending 30 September 2017. A copy of the Company's Appendix 4C for the quarter is **attached**.

A key focus for Tomizone during the September Quarter was the implementation of its growth strategy, as outlined in its Entitlement Offer issue documents and recent ASX releases. Under this strategy, the Company is developing new recurring revenue streams by cross-selling a combination of managed hardware, software and WiFi services to its existing client base through a single monthly subscription.

The Company has a clear focused strategy, which includes:

- Focusing on its current key markets of New Zealand and Australia (plus, potentially Singapore)
- Reviewing all cost structures to maximise value at lowest operational cost
- Ensuring the business has the infrastructure to enable it to grow
- Continuing to expand the core managed services customer base and product set
- Becoming EBITDA and cashflow positive as soon as possible
- Growing a sustainable recurring and reliable revenue stream

The execution of this strategy also includes undertaking acquisitions that are aligned with current market segments to drive revenue increases through growth in distribution, customer base, and revenue streams. As a result, over time, the contribution of Tomizone's core WiFi product (as a percentage of total Group revenues) is expected to decrease, however it is expected to remain an important part of the managed services product set.

¹ This revenue projection has been prepared based on current trading performance and the Directors' best estimate of likely future trading conditions. Investors should note that the achievement of this revenue projection is based on numerous factors which are outside the control of the Company, and therefore should exercise caution in relying on such information.

Following the close of the September Quarter, the Company completed two complementary acquisitions, being Bluesky Online Services Limited (**Bluesky**) and New Zealand based managed services company Ironman Group Limited (**Ironman**), detailed further below. As these acquisitions were completed after Quarter end, the September Quarter results excludes the benefits of those transactions. Some of the remaining costs of both the restructure of the current Tomizone WiFi business, and other one-off costs relating to the acquisitions, will also be reflected in the December Quarter.

As a consequence of the acquisitions, we are forecasting increased revenues of over \$350,000 per month, with effect from the December quarter and expect this to continue to grow as we sign new customers on recurring revenues. The Company expects revenue to increase to be an annualised \$8M in the next financial year.

BlueSky and Ironman acquisitions completed 1 October 2017

A major milestone in the execution of Tomizone's transformation strategy was the successful acquisition of the assets of Bluesky (see ASX announcement dated 8/9/17) and Ironman (see ASX announcement dated 27/9/17).

Both transactions were completed following the end of the Quarter on 1 October 2017, after Tomizone secured agreement with Bondholders and obtained necessary regulatory approvals.

Tomizone is now making significant headway towards the integration of both businesses into the Company, with the process expected to be completed by early January 2018.

Bluesky is a well-established, profitable business that delivers its business customers a range of managed services, including telecommunications and IT related products, with a focus on Voice Over Internet Protocol (VOIP), wireless network services (including WiFi), data security, cloud-based technology solutions and data centre operations. It has focused on the medical and corporate sectors, providing a significant base where Tomizone WiFi services can be expanded and installed.

Ironman's business model is to develop recurring revenue streams by providing a combination of hardware and software services in a single monthly subscription. It provides a wide selection of technology infrastructure solutions on monthly rental terms to around 4,000 customers throughout New Zealand, and is expected to offer the same services into the Australian market.

Through its extensive partnerships with a range of business and technology service providers, Ironman also offers a wide array of managed services including digital signage, point of sales systems, website design, digital marketing, and telecommunications services.

These transactions will allow Tomizone to become a vertically and horizontally integrated one-stop-shop provider for technology-related managed services, using the Company's product set as its core differentiator and driver.

Post-acquisition revenue increase

The acquisitions of Bluesky and Ironman have substantially increased Tomizone's recurring and reliable revenue streams, while also boosting contracted future revenues to ~ \$3.5M. Further, Ironman has the opportunity to re-sign an existing book of managed services and hardware contracts with a face value, if all are re-signed, of approximately \$13M over the next four years.

With the combination of the businesses, Tomizone is poised to grow, in a managed and controlled manner, with a known product set, and existing customer base.

Revenue streams secured as a result of the transactions include:

1. Contracted monthly minimum fixed managed services revenues
2. Monthly revenues from the monetisation of Tomizone's core WiFi services
3. Variable monthly revenues from other support services
4. Revenues from the sale of services and products supporting the managed services income streams

The combination of the above provides the Tomizone group with contracted or reliable recurring subscription revenues of more than \$350,000 per month, starting in the December Quarter, along with projected budgeted revenues of a further \$250,000 - \$300,000 per month, giving a budgeted total of \$600,000 to \$700,000 per month or \$7.2m to \$8.4m per annum.

This revenue is expected to provide a foundation for Tomizone to deliver solid and reliable growth into the future.

Expected revenue increases will be partially offset by cash outflows as restructuring efforts are completed and the additional marketing needed to introduce and promote the new product sets rolled out. The majority of these costs will be incurred in the December Quarter and reflected in the half-year results.

The ongoing recurring revenues, plus new contracts being signed each month is expected to steadily increase the recurring revenue streams to an EBITDA positive position in the first half of the 2018 calendar year.

Reported net profit will continue to be impacted by interest associated with the Company's current debt load, and the Directors will continue to review alternatives to reduce debt and the cost of that debt.

Cost savings from acquisition synergies

As a direct result of the BlueSky and Ironman transactions, there has been a restructure of the senior management team and identification of around \$600,000 per annum in infrastructure, staff and operational savings, which will become evident during the first half of the 2018 calendar year.

While these costs will impact both the December Quarter and the Half Year results, this will allow the Company to move rapidly towards an EBITDA-positive position in the near future.

Tomizone's senior management team are focused on closely managing the cost structures of the business, and expect that synergy-driven cost savings from the recent acquisitions, plus revenues from additional new products, to start flowing through to produce a positive EBITDA in the first half 2018.

Board and leadership refresh

To oversee the execution of the new growth strategy, and as a result of the recent Bluesky and Ironman transactions, Tomizone has refreshed its Board and restructured its senior leadership team.

On 4 July 2017, Tomizone appointed former Wolfstrike Rentals Group (ASX:WSG) Managing Director Ian Bailey as its Non-Executive Director and Chairman, Mr Bailey is an experienced technology executive with a history of successfully and rapidly growing small cap companies. Matt Adams a seasoned finance executive and chartered accountant also joined the board as Non-Executive Director.

To further strengthen the board Max Carling, an experienced corporate finance executive and management professional and the chairman of Carling Capital Partners (CCP) joined the Tomizone Board as an Independent Director effective 1 September 2017.

The Company has been actively looking to identify a suitable Managing Director to drive the business strategy and direction.

Subsequent to the end of the quarter, former Ironman CEO Dean Cates accepted the role of Tomizone New Zealand Group CEO, while BlueSky Managing Director Gary Myburgh took charge of technology as Tomizone's Chief Information Officer (CIO).

With the new Board and leadership team in place, Tomizone is well positioned to successfully deliver on its growth strategy going forward.

Social Light contract renegotiation

During the Quarter, Tomizone renegotiated its proposed agreement with Social Light, to terminate the sale process and purchase agreement, which was going to cost the Company a minimum of \$45K per month.

At no penalty to Tomizone, both parties mutually agreed to implement a technology reseller agreement, to replace the proposed purchase and IP transfer arrangement. This agreement gave the Company access to the software, source code and intellectual property required by customers, as well as the ability to terminate the arrangement with three months' notice.

There are numerous benefits of this strategy to Tomizone's shareholders, including:

- Less dilutive given Tomizone no longer has to issue the Social Light vendors 24,500,300 ordinary shares
- Retained access to Social Light's technology products and capabilities through agreed procurement terms
- A resulting quarterly overhead saving of ~AUD\$100,000
- Less time commitment managing a business with operations in the Philippines

New products and billing system launch

Subsequent to the end of the Quarter, Tomizone has moved rapidly to advance its growth strategy by leveraging the technology and expertise it has secured through the Bluesky and Ironman transactions. This has been accomplished by launching a range of new IT managed services products, underpinned by a new proven billing system.

TomiTalk is a fully-managed business Voice Over Internet Protocol (VOIP) calling product, which is hosted and managed internally through Bluesky's data centres. This solution incorporates hardware provisioning, network installation and management, and integrates seamlessly with the Company's core WiFi product offer. Based on historical billing data, it could potentially generate up to \$320 per month in recurring revenue per customer, in addition to any existing contracts.

Tomizone has also introduced a new revenue-generating service called TomiLease, which allows customers to bundle their hardware leases and other managed services (including TomiTalk) onto a single bill.

To underpin these new solutions, Tomizone is migrating its TomiTalk customers onto a new online billing engine that will reduce transactional costs to the Company, while providing customers with a simplified and streamlined account management experience.

The new billing platform will allow Tomizone to rapidly scale new services into revenue and add new services to its current service offering over time. The platform will give the Company the flexibility to manage and bill future fixed-price services, such as electricity and other similar products, on the same bill as its current Voice services

Outlook for Financial Year 2018

Tomizone is committed to generating additional revenue growth and cash flows over the coming quarters through the continued execution of its growth strategy, with a clear plan to reach an EBITDA and cash flow positive position as soon as possible.

Tomizone will grow its revenue streams from the implementation of the growth plan by way of the new products secured through the recent acquisitions of Bluesky and Ironman Group. The Company anticipates the new TomiLease product to be well received by the customer base and we anticipate this product will assist and support the growth of the managed services business. It is likely that the TomiLease product will become a significant part of the business over the current financial year and will underpin and secure the Company's managed services customer base.

Tomizone is now actively encouraging its customers to enter into long term (typically 36 – 48 months) contracts for services and hardware as a complete managed services offering.

To communicate its enhanced product offering to existing and potential customers, Tomizone has already updated and launched its new website.

Tomizone is actively pursuing additional revenue and cash flow accretive acquisitions that will add scale to the business and allow the cross selling of its managed services, including WiFi, IT managed services and other services.

For further information, please contact:

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About Tomizone

Tomizone is a managed services provider of products and services, including Wi-fi based connectivity, analytics and location based services and software, IT technology, telephony, WiFi enabled CCTV, and security systems to enterprises, retailers, brands and public venues. The Company's strategy is to provide its customers with an increasing range of products and services that add value to Tomizone's customer and enable them to enhance their customers experience, with those services provided on a monthly recurring revenue

For further information, please visit www.tomizone.com

Appendix 4C
Quarterly report for entities subject to Listing Rule 4.7B

Name of entity: Tomizone Limited
ABN: 99 000 094 995

Quarter ended ("current quarter"):
30 September 2017

Consolidated statement of cash flows**1.0 Cash flows from operating activities**

- 1.1 Receipts from customers¹
- 1.2 Payments for
- (a) research and development
 - (b) product manufacturing and operating costs
 - (c) advertising and marketing
 - (d) leased assets
 - (e) staff costs
 - (f) administration and corporate costs

- 1.3 Dividends received (see note 3)
- 1.4 Interest received
- 1.5 Interest and other costs of finance paid
- 1.6 Income taxes paid
- 1.7 Government grants and tax incentives
- 1.8 Other (provide details)

1.9 Net cash from / (used in) operating activities

| Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|----------------------------|---------------------------------------|
| 390 | 390 |
| - | - |
| (321) | (321) |
| - | - |
| (7) | (7) |
| (380) | (380) |
| (179) | (179) |
| - | - |
| - | - |
| (148) | (148) |
| - | - |
| - | - |
| - | - |
| (645) | (645) |

2 Cash flows from investing activities

- 2.1 Payments to acquire
- (a) property, plant and equipment
 - (b) businesses (see item 10)
 - (c) investments
 - (d) intellectual property
 - (e) other non-current assets
- 2.2 Proceeds from disposal of:
- (a) property, plant and equipment
 - (b) businesses (see item 10)
 - (c) investments
 - (d) intellectual property
 - (e) other non-current assets

- 2.3 Cash flows from loans to other entities
- 2.4 Dividends received (see note 3)
- 2.5 Other (provide details)

2.6 Net cash from / (used in) investing activities

| | |
|----------|----------|
| - | - |
| - | - |
| - | - |
| - | - |
| - | - |
| - | - |
| - | - |
| - | - |
| - | - |
| - | - |
| - | - |
| - | - |
| - | - |
| - | - |
| - | - |
| - | - |

3 Cash flows related to financing activities

- 3.1 Proceeds from issues of shares
- 3.2 Proceeds from issues of convertible notes
- 3.3 Proceeds from exercise of share options
- 3.4 Transaction costs related to issues of shares, convertible notes or options
- 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)

3.10 Net cash from / (used in) financing activities

| | |
|--------------|--------------|
| 1,660 | 1,660 |
| - | - |
| - | - |
| - | - |
| - | - |
| - | - |
| (420) | (420) |
| - | - |
| - | - |
| - | - |
| 1,240 | 1,240 |

4.0 Net increase / (decrease) in cash and cash equivalents for the period

| | |
|-----|--|
| 4.1 | Cash and cash equivalents at beginning of quarter/year to date |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) |
| 4.5 | Effect of movement in exchange rates on cash held |
| 4.6 | Cash and cash equivalents at end of quarter |

| | |
|------------|------------|
| 146 | 146 |
| (645) | (645) |
| - | - |
| 1,240 | 1,240 |
| (40) | (40) |
| 701 | 701 |

1. Where a customer (hotspot owner) collects revenue from a consumer (individual WiFi user) on Tomizone's behalf via on-site voucher cash sale the cash receipt by Tomizone from the customer is reflected as net of commission for cash settlement purposes. This payable is then offset against individual customer clearing accounts whereby the net account balance is net settled to Tomizone. This results in lower reported operating cashflow receipts relative to recognised sales revenue.

5.0 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

| | |
|-----|-------------------------|
| 5.1 | Bank balances |
| 5.2 | Call deposits |
| 5.3 | Bank overdrafts |
| 5.4 | Other (provide details) |

| Current quarter \$A'000 | Previous quarter \$A'000 |
|------------------------------------|-------------------------------------|
| 773 | 220 |
| 11 | 11 |
| (83) | (85) |
| - | - |
| 701 | 146 |

Cash and cash equivalents at end of quarter

6.0 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 |

| Current quarter \$A'000 |
|------------------------------------|
| 38 |
| - |

6.3 Explanation necessary for an understanding of the transactions included in 6.1 and 6.2

\$25k - Executive Director salary, \$12.5k Non-Executive Director fees

7.0 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 |

| Current quarter \$A'000 |
|------------------------------------|
| - |
| - |

7.3 Explanation necessary for an understanding of the transactions included in 7.1 and 7.2

NA

8.0 Financing facilities available

| | |
|-----|--|
| 8.1 | Loan facilities |
| 8.2 | Credit standby arrangements |
| 8.3 | Other (Bank overdrafts and Credit Card facilities) |

| Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|---|--|
| 3,360 | 3,360 |
| - | - |
| 139 | 108 |

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.

8.1 Convertible notes secured by first ranking general security interest over all assets of the Company and all its wholly owned subsidiaries. Interest rate 12.5%

8.2. Loans on acquisition of Ironman and Bluesky to FE Investments Limited at interest rates of between 12.5% and 15%. Secured by first ranking security over subsidiary Tomizone Holdings Limited and its assets. Post completion October 2017

8.3 Bank overdrafts and Credit Card facilities with mainstream commercial banks. Interest rates between 18-21%

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9.0

9.1 Estimated cash outflows for the next quarter

9.2 Research and development

9.3 Product manufacturing and operating costs

9.4 Advertising and marketing

9.5 Leased assets

9.6 Staff costs

9.7 Administration and corporate costs

Other (provide details if material)

Interest paid

9.8 Transaction costs related to issue of convertible notes

Total estimated cash outflows

| | \$A'000 |
|--|------------------|
| | - |
| | 60,000 |
| | - |
| | 22,000 |
| | 512,000 |
| | 491,000 |
| | 289,000 |
| | - |
| | 1,374,000 |

10.0

Acquisitions and disposals of business entities

10.1

10.2 Name of entity

10.3 Place of incorporation or registration

10.4 Consideration for acquisition or disposal

10.5 Total net assets

Nature of business

| Acquisitions (Item 2.1(b) above) | Disposals (Item 2.2(b) above) |
|--|---|
| | N/A |

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:



Date: 31 October 2017

Eryn Kestel

Print name:

Company Secretary

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