

## Security without Compromise

A secure revenue stream with good growth and pass-through to earnings

### Recommendation

**BUY, Medium Risk**

### Price

**2.3c**

### Valuation (NPV based, risked)

**5.8c**

### Industry

**Security  
(Monitoring premises,  
personal, consulting)**

- **Threat Protect Australia (TPS) provides multiple security services. It generates revenue from the monitoring of security systems and supply of security personnel.**
- **TPS has a monitoring control room with capacity for over 100,000 customers. TPS is completing 2 acquisitions that will take utilisation to about 20,000 customers, with significant room for further improvements in utilisation.**
- **TPS has developed, but not yet rolled out, an App allowing a mobile phone user to have his / her own personal duress alarm that can be used worldwide, on any mobile phone network.**
- **TPS has a stable and growing revenue stream with a very high flow-through from revenue to earnings.**

### Snapshot

Market Cap	\$13.8m
Cash on hand (pro-forma)	\$2.5m
Net debt	\$0.23m
Shares on Issue	600.6m
52 Week High	3.2c
52 Week Low	0.8c
1 month / 6 month VWAP	2.4c / 2.2c



Security without Compromise

### Threat Protect : Security - the business, and revenue

TPS provides security services, generating a fairly secure earnings stream, as monitoring services are always needed, even more so in tougher economic times.

### Threat Protect has multiple avenues for growth

TPS has a monitoring control room with a capacity of about 100,000 customers. TPS has just completed the bolt on acquisition of 2 businesses, both of which are earnings accretive immediately as they boost utilisation to about 20,000.

TPS has developed an App, that it is yet to roll out, that gives a smart phone user his / her own personal duress alarm monitored remotely on a 24- basis. The app can be used globally, on any mobile phone network.

TPS also resells technology enabling remote monitoring, arming and disarming of the security system, as well as control of lighting or air-conditioning by the App.

### TPS projects a pro-forma EBITDA for FY 16 of \$1.6m

TPS has invested heavily in its growth potential. The prospectus shows that TPS forecasts an EBITDA of \$1.2m for FY16 and that this would be \$1.6m if the acquisitions had been in place from 1 July, and net of \$160k in integration costs and excludes revenue for the app.

### Conclusions

Beer & Co has modelled TPS based on :

- Monitoring about 20,000 customers, plus system growth in standard security services; plus
- A highly probable increase in customers, at the rate of 5,000 a year and a capital cost \$285/customer over 6 years; plus
- More speculative increase in customers in later years.

Our base case valuation is relatively robust, as long as TPS is able to increase utilisation of its monitoring facility.

Threat Protect is a Perth based integrated security provider offering

- Security system monitoring, both commercial and residential;
- CCTV and access control;
- Security personnel;
- Corporate risk consulting.

Threat Protect has developed an app based duress and personal tracking facility.

TPS has significant spare capacity in its monitoring control room and earnings growth will be driven by increased utilisation

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## Threat Protect (TPS)

### East African Resources

Threat Protect was previously East African Resources (EAF.ASX), which had good uranium oxide resource in Tanzania.

However, there is no market interest in U<sub>3</sub>O<sub>8</sub>.

As shown in Figure 1, EAF has 617km<sup>2</sup> of tenement area in Tanzania. Some of the ELs are near Mukuju, then owned by Mantra Resources (MRU.ASX) which was the subject of an AUD 1.6B bid in December 2010.

At that time, MRU had 67.7Mt in Measured and Indicated Resources grading 439ppm U<sub>3</sub>O<sub>8</sub>.

EAF has reported significant drill intercepts, including 7m at 890ppm. However, the low U<sub>3</sub>O<sub>8</sub> price means that equity markets are no longer interested in funding this project.

On 24 April 2015, EAF announced that it had signed an agreement to acquire Threat Protect Australia Pty Ltd, a WA based security services company.

Figure 1 : EAF's operations



Source : MUX presentation, May 2015

### Threat Protect - Description

Threat Protect (TPS.ASX) provides a range of security and protection services.

TPS provides security monitoring services through its East Perth control room.

Prior to listing, Threat Protect provided security, monitoring and risk management solutions to approximately 10,000 domestic and commercial customers through its direct and reseller networks.

Upon listing, TPS exercised options to double its business.

The range of security industry services provided include :

- 24 hour monitoring of electronic security systems using a variety of connection methods;
- Remote viewing of CCTV cameras;
- Vehicle based location tracking services;
- Security personnel services; and
- Corporate risk management consulting

In addition, Threat Protect has developed an app based duress and personal tracking facility.

### Monitored Security Systems

Threat Protect provides electronic security for commercial properties and residences. It supplies and installs alarm systems, CCTV, and access control. Threat Protect operates a Grade A1 control room in East Perth; there are 3 other such rooms registered in WA.

Across Australia, there are 33 control rooms, of which 25 are graded by ASIAL to the A1 level.

Threat Protect's East Perth control room has a service capacity of over 100,000 customers.

Figure 2 shows TPS's East Perth control room.

**TPS's East Perth control room as the capacity to service 100,000 customers.**

**Figure 2 : Threat Protect's Monitoring control room**



Source : <http://www.threatprotect.com.au/>

The control room is equipped to monitor alarm systems that communicate by telephone line (standard dial-up), radio frequency, internet protocol and GPRS (the mobile telephone network). It also provides monitoring of GPS units for vehicle and asset tracking as well as remote viewing of a client's CCTV system for alarm verification or virtual patrols.

Threat Protect also offers security guards who are available to attend upon request.

### Security Personnel

As shown in Figure 3, Threat Protect provides uniformed security officers, in either patrolling or static roles to protect people and property. Many of Threat Protect's officers have military or law enforcement experience. Services are provided for

- Large industrial complexes
- Hospitals
- Mine sites
- Retail chains.

**TPS also provides security personnel**

**Figure 3 : Threat Protect Security Personnel**



Source : <http://www.threatprotect.com.au/>

### Executive Protection

Close Personal Protection (CPP) can be provided to any person who is under threat of intimidation or harm to ensure their safety. Depending on the assignment, the Threat Protect team may vary in size from one operative to a team who are responsible for securing all family members and residences as required.

And a range of other, related security services, including

- Concierge Services
- Secure Transport; and
- Corporate Risk Consulting.

### Concierge Services

Concierge personnel provide a security presence as well as delivering reception services. The range of services provided include :

- access control;
- alarm / emergency response;
- co-ordination of emergency procedures;
- management and supervision of contractors; and
- routine checks and reporting.

### Secure Transport

Secure transport is a personal delivery service performed by a trained security operative with covert military or police experience for intra-state, interstate and international deliveries.

Secure transport services are customarily used for the transport of:

- cash and valuables;
- precious metals;
- restricted pharmaceuticals;
- expensive mining equipment; and
- sensitive information.

### Corporate Risk Consultancy

Threat Protect provides comprehensive investigation services covering .

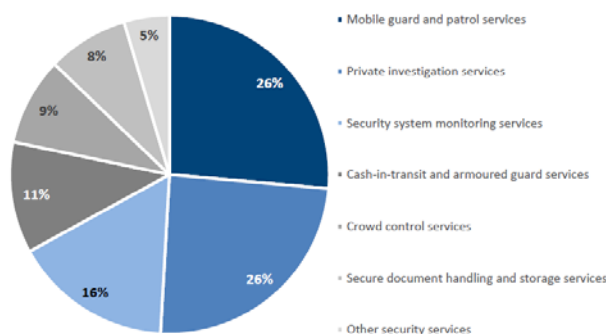
- Counter Surveillance
- Security Audits / Threat & Vulnerability Assessments
- Corporate Investigations
- Corporate Due Diligence
- Surveillance.

## Security Industry Overview

Figure 4 shows IBIS’s view of Australian security industry revenue by segment.

**Figure 4 : Australian security industry revenue**

*Revenue segmentation of the Australian security industry*



Source : TPS Prospectus, July 2105, p29

**According to IBIS, the security market in Australia :**

- **Has revenue of about \$6.3B;**
- **Is expected to grow at a rate in line with GDP;**
- **Alarm monitoring accounts for about \$1.0B, or 16% of the total market;**
- **Has over 6,500 market participants.**

**TPS has a strategy to grow utilisation of its East Perth Control Room.**

**TPS has options to purchase 2 more businesses to roughly double its utilisation.**

**TPS is about to launch an app which will further enhance control room utilisation.**

According to the IBIS World Industry Report #07712, of January 2014, The Australian security industry is forecast to generate approximately \$6,275 million in revenue annually, of which alarm monitoring represents approximately 16.1% or \$1,010 million. As a result of the long term trend for positive economic growth in Australia, over the 5 years through 2018-2019, the security industry is expected to grow at an annualised rate of 2.2%, with total industry revenue forecast to reach \$7 billion by 2019.

The prospectus further quotes IBIS in stating that the industry is highly fragmented, with over 6,500 market participants.

## Threat Protect Growth Strategy

Threat Protect has a well-developed strategic growth plan, focussed upon the further utilisation of its core operating assets. It has 2 major, immediate avenues for growth:

- Improved utilisation of the East Perth control room; and
- An app based duress and personal tracking facility.

This plan will be put into effect upon listing.

### East Perth Control Room

Prior to listing, TPS had around 10,000 customers that it monitors through its existing control room, which has the capacity for over 100,000 lines. Upon listing, TPS exercised options to acquire 2 more businesses that will improve its utilisation to approximately 20,000 customers, or about 20%.

IBIS, in its 2014 reports states *"...once a break-even number of clients is reached, additional clients are almost totally extra profit."*

TPS has the aim of growing top line revenue without significantly increasing its current operating costs.

TPS needs to raise equity to execute the options over these businesses.

### App

TPS will launch across both its existing customer base and to the wider public a Threat Protect monitored 24-hour remote "back to base" monitoring Smart App, which allows a mobile phone user to have their own personal duress alarm that can be used worldwide, on any mobile phone network.

A dedicated marketing plan to the greater Australian and Asian locations is being finalised.

This technology will expand the potential client base from Australian domiciled premises to individuals internationally. It will also provide a security solution that addresses the general trend in Australia for residences ceasing to retain a land line phone and using an internet based communication method as the National Broadband Network gains momentum.

## Financials

### From Prospectus

On 3 July, 2015, EAF lodged with the ASX a Notice of Meeting for the meeting to approve the back-door listing of Threat Protect, through EAF. On 9 July, EAF lodged a prospectus in support of the transaction.

Figure 5 shows both historical financial outcomes for TPS and projected outcomes for FY15 and FY16.

**Figure 5 : Historical and projected financial outcomes for TPS**

In their prospectus, TPS provides forecast NPAT for FY16 of \$837k.

Threat Protect consolidated income statements for the financial periods FY13 – FY16					
(\$'000s)	Historical			Forecast	
	FY13	FY14	Dec-14	Jun-15	FY16
Revenue	4,876	4,907	2,549	2,514	6,944
Other income	0	(4)	29	-	-
Cost of sales	(2,945)	(2,626)	(1,445)	(1,333)	(2,639)
Operating costs*	(2,500)	(3,266)	(1,534)	(1,245)	(3,110)
Other expenses	(56)	(63)	(30)	(28)	(9)
<b>EBITDA**</b>	<b>(625)</b>	<b>(1,052)</b>	<b>(431)</b>	<b>(94)</b>	<b>1,186</b>
Depreciation & amortisation	(91)	(111)	(43)	(28)	(56)
<b>EBIT</b>	<b>(716)</b>	<b>(1,163)</b>	<b>(475)</b>	<b>(121)</b>	<b>1,130</b>
Net interest (expense) income	(171)	(385)	(233)	(199)	(293)
<b>Net profit (loss) before tax***</b>	<b>(887)</b>	<b>(1,548)</b>	<b>(707)</b>	<b>(320)</b>	<b>837</b>
Income tax (expense) benefit	-	248	-	-	-
<b>Adjusted net profit (loss) after tax</b>	<b>(887)</b>	<b>(1,299)</b>	<b>(707)</b>	<b>(320)</b>	<b>837</b>
Impairment	(147)	(1,199)	5	-	0
<b>Reported net profit (loss) after tax</b>	<b>(1,034)</b>	<b>(2,498)</b>	<b>(703)</b>	<b>(320)</b>	<b>837</b>

Source : TPS Prospectus, July 2105, p34

In the prospectus, Directors list 7 general assumptions, basically that there are no adverse changes to business conditions, and 7 specific assumptions. Important specific assumptions relate to the 2 businesses being acquired :

- perform as expected, with total number of clients rising to about 20,000;
- the combination is effective as at 31 August; and
- integration costs are \$160k.

Net of the integration costs and if the businesses were acquired from 1 July, then the pro-forma EBITDA would be \$1.6m (see note to table at p.34 of Prospectus).

Figure 6 is a summary of the balance sheets shown in the prospectus. It shows :

- the write-off of EAF's exploration assets;
- TPS's deficiency in shareholders' funds, consistent with the losses shown in Figure 5.

TPS also state that the normalised EBITDA, if the options to acquire the 2 new businesses had been exercised by 30 June 2015, and net of integration costs, would be \$1.6m.

**Figure 6 : Balance Sheet**

	As at 31 Dec. 2014		
	EAF	TPS	Subsequent
<b>Current Assets</b>			
Cash	\$ 235,328	\$ 70,266	\$ 445,000
Other	\$ 10,167	\$ 815,104	
<b>Total</b>	<b>\$ 245,495</b>	<b>\$ 885,370</b>	<b>\$ 445,000</b>
<b>Non-Current Assets</b>			
Financial Assets	\$ 130		\$ 280,000
Property, P & E	\$ 34,929	\$ 278,610	
Exploration, etc	\$ 2,955,544		(\$2,955,544)
Other			\$ 50,000
<b>Total</b>	<b>\$ 2,990,603</b>	<b>\$ 278,610</b>	<b>(\$2,625,544)</b>
<b>TOTAL ASSETS</b>	<b>\$ 3,236,098</b>	<b>\$ 1,163,980</b>	<b>(\$2,180,544)</b>
<b>Current Liabilities</b>			
Trade & Other	\$ 75,125	\$ 2,258,521	\$ 1,332,534
Provisions		\$ 397,295	
Borrowings		\$ 3,190,216	
<b>Total</b>	<b>\$ 75,125</b>	<b>\$ 5,846,032</b>	<b>\$ 1,332,534</b>
<b>Non-Current liabilities</b>			
Borrowings		\$ 79,793	\$ 590,000
<b>TOTAL LIABILITIES</b>	<b>\$ 75,125</b>	<b>\$ 5,925,825</b>	<b>\$ 1,922,534</b>
<b>NET ASSETS</b>	<b>\$ 3,160,973</b>	<b>(\$4,761,845)</b>	<b>(\$4,103,078)</b>
Issued equity	\$ 48,553,680	\$ 1,347,303	\$ 185,000
Reserves	(\$197,132)		
Accumulated Losses	(\$45,195,575)	(\$6,109,328)	(\$4,278,078)
<b>TOTAL EQUITY</b>	<b>\$ 3,160,973</b>	<b>(\$4,762,025)</b>	<b>(\$4,093,078)</b>

Source : TPS Prospectus, July 2105, p39, Beer & Co

The Directors, at p.35 of the prospectus, give an analysis which is summarised as follows :

- Threat Protect's expenses outstripped operating revenue as Threat Protect has focussed on building capacity to meet growing demand for services on the expectation of both organic growth and growth from acquisitions.
- Threat Protect established a fit for purpose fully accredited control centre in East Perth which can meet the growing demands of the business into the future.
- Threat Protect has also elected to impair goodwill associated with the carrying value of acquired business, intellectual property and other intangible assets.

## Valuation

### Combination

On 5 August 2015, EAF announced that all the resolutions put to the meeting had been approved.

**TPS recently raised \$5.5m in equity**

This included converting notes on issue with a value of \$590,000, shown in Figure 6 as a Subsequent non-current borrowing, being converted into equity at 1,6c each.

Further, the meeting approved the issue of 15,000,000 shares to TPS lenders to satisfy a total debt of \$300,000.

A condition of the acquisition is that EAF raise \$5m in equity, of which

- \$2.9m will be used to exercise the options that TPS has purchased to acquire 2 security monitoring businesses; and
- \$754k expenses of the offer.

On 12 August 2015, EAF announced that the raising was closed, having raised \$5.5 million in a heavily over-subscribed share placement at 2 cents per share.

**This leaved net debt of \$234k.**

On 18 August, 2015, EAF announced that consolidation of its capital, from 359.5m shares on issue to 89.9m had been completed.

Figure 7 shows Beer & Co's analysis that the resulting number of shares on issue is 600m.

**Figure 7 : Shares on Issue**

Resolution No :	Shares issued	Reasons
2	89,865,190	Consolidated
3	165,000,000	to TPS Vendors
4	36,875,000	TPS Noteholders
16	15,000,000	TPS Lenders
14 & 15	15,565,653	TPS Directos
17 - 20	3,333,300	EAF Directors
	<u>275,000,000</u>	Equity raising
<b>Total at end</b>	<b>600,639,143</b>	

Source : EAF 3 July 2015 Notice of Meeting, Beer & Co

Figure 8 shows the resulting balance sheet, taken from the prospectus at p. 39 and including a \$5.5m raising.

It shows that TPS has net debt of \$234k, which is lowly geared.

Figure 7 : Final, pro-forma Balance Sheet

	As at 31 Dec. 2014			
	EAF	TPS	Subsequent	After \$5.5m raise
<b>Current Assets</b>				
Cash	\$ 235,328	\$ 70,266	\$ 445,000	\$ 2,488,956
Other	\$ 10,167	\$ 815,104		\$ 1,089,582
Total	\$ 245,495	\$ 885,370	\$ 445,000	\$ 3,578,538
<b>Non-Current Assets</b>				
Financial Assets	\$ 130		\$ 280,000	\$ 20,180
Property, P & E	\$ 34,929	\$ 278,610		\$ 391,881
Exploration, etc	\$ 2,955,544		(\$2,955,544)	
Intangible assets				\$ 3,379,425
Other			\$ 50,000	
Total	\$ 2,990,603	\$ 278,610	(\$2,625,544)	\$ 3,791,486
TOTAL ASSETS	\$ 3,236,098	\$ 1,163,980	(\$2,180,544)	\$ 7,370,024
<b>Current Liabilities</b>				
Trade & Other	\$ 75,125	\$ 2,258,521	\$ 1,332,534	\$ 2,346,042
Provisions		\$ 397,295		\$ 332,940
Borrowings		\$ 3,190,216		\$ 621,016
Total	\$ 75,125	\$ 5,846,032	\$ 1,332,534	\$ 3,299,998
<b>Non-Current liabilities</b>				
Borrowings		\$ 79,793	\$ 590,000	\$ 2,102,215
TOTAL LIABILITIES	\$ 75,125	\$ 5,925,825	\$ 1,922,534	\$ 5,402,213
NET ASSETS	\$ 3,160,973	(\$4,761,845)	(\$4,103,078)	\$ 1,967,811
Issued equity	\$ 48,553,680	\$ 1,347,303	\$ 185,000	\$ 7,685,630
Reserves	(\$197,132)			\$ 887,000
Accumulated Losses	(\$45,195,575)	(\$6,109,328)	(\$4,278,078)	(\$6,604,819)
TOTAL EQUITY	\$ 3,160,973	(\$4,762,025)	(\$4,093,078)	\$ 1,967,811
Net Cash	\$ 235,328	(\$3,199,743)	(\$145,000)	(\$234,275)

Source : Prospectus, p. 39, Beer &amp; Co

## Analysis

The prospectus states that if the 2 businesses being acquired had been part of TPS from 1 July 2015, then the EBIT would have been \$1.6m, excluding integration costs of \$160k.

Beer & Co estimate that an EBIT of \$1.6m would result in an NPAT of \$1.06m, as shown in Figure 8.

Figure 8 : TPS historical and pro-forma projected P &amp; L

	FY 13	FY 14	FY 15	FY 16	16 adj
Revenue	\$ 4,876k	\$ 4,907k	\$ 5,063k	\$ 6,944k	\$ 7,571k
Other Income	\$ 0k	(\$4k)	\$ 29k	\$ 0k	\$ 0k
Cost of Sales	(\$2,945k)	(\$2,626k)	(\$2,778k)	(\$2,639k)	(\$2,771k)
Operating Costs	(\$2,500k)	(\$3,266k)	(\$2,779k)	(\$3,110k)	(\$3,200k)
Other Expenses	(\$56k)	(\$63k)	(\$58k)	(\$9k)	
E B I T D A	(\$625k)	(\$1,052k)	(\$523k)	\$ 1,186k	\$ 1,600k
Dep'n & Amort'sn	(\$91k)	(\$111k)	(\$71k)	(\$56k)	(\$65k)
Net Interest	(\$171k)	(\$385k)	(\$432k)	(\$293k)	(\$19k)
P B T	(\$887k)	(\$1,548k)	(\$1,026k)	\$ 837k	\$ 1,516k
Impairment	(\$147k)	(\$1,199k)	\$ 5k	\$ 0k	
Tax expense		\$ 248k			(\$455k)
N P A T	(\$1,034k)	(\$2,499k)	(\$1,021k)	\$ 837k	\$ 1,061k

Source : Prospectus, p. 34, Beer &amp; Co estimates

## Growth

TPS has 2 main avenues for expected growth, both of which lead to increased utilisation of the East Perth control room, which has a present capacity of 100,000 customer lines and utilisation of approximately 20,000, after the conclusion of the acquisitions.



## Customer Acquisition

In the notes to the accounts, Note 6 shows Intangible assets of

- \$2.8m for the acquisition of 11,000 customer lines; and
- \$450k for the acquisition of 450 customer lines.

**The cost of an extra 11,450 customers is \$3.25m, or \$284 per customer**

Figure 8 shows that Beer & Co projected revenue growth of \$2.5m due to the acquisition of 11,450 new customer services. This is an average revenue of \$219 per customer line.

The discussion around the P&L gives an increase in operating costs of around 3%, or about \$260k, as shown in Figure 8, which is about \$23 per customer line.

This means that the average net revenue for each additional customer line is \$196, which compares with the average acquisition cost of \$284, heavily weighted to the \$255 per customer line for the much larger acquisition.

**Beer & Co estimate annual revenue of \$219 per customer and marginal cost of \$23 each.**

In other words, a capital outlay of \$284 for a customer line buys annual EBITDA of \$196, or a pay-back period of less than 18 months.

Given the “stickiness” of customers, this indicated an NPV of \$1,672 per additional customer line, if acquisitions can be made on the same basis.

**TPS can continue to increase utilisation steadily with take-up of the app, though it is difficult to guess the rate of take-up**

As an example, if TPS is able to add a further 15,000 customer lines at a net EBITDA of \$196 each, this adds a further \$2.95m to EBITDA.

## App

The other way TPS can enhance utilisation of its East Perth control room is through the sales of the app.

TPS has not yet begun to roll this out, but with the capital raising is now funded to market the app.

Beer & Co is not able to make informed estimates of the potential value of the app, though we can be confident that it should add significant value.

## Beer & Co’s valuation basis

Figure 8 shows pro-forma earnings of \$1.065m.

Figure 7 shows 600.6m shares on issue. In addition TPS will have 100m options on issue with an exercise price of 2.5c by.

The keys to the valuation are :

- The rate at which utilisation of the monitoring room is increased;
- The costs of that increase;
- The rate at which costs increase; and
- The level at which the facility achieves its maximum utilisation.

**Beer & Co has modelled TPS to derive a valuation.**

Our base case has assumed :

- Customers are increased at the rate of 5,000 a year, until the terminal number is reached
  - compared with the cost of \$285 per customer for the businesses under option, we have assumed a cost of \$300 per customer, rising at 3% a year
  - customers may be acquired through the app, through marketing or through corporate activity

**We assume outcomes less favourable than TPS has achieved to date.**

Beer & Co's projections show steadily increasing earnings, despite much higher D&A charges

- Annual revenue of \$200 per customer, increasing at 2% a year, in line with annual inflation;
- There is a significant fixed costs to this business, which is assumed to grow at the rate of 3% a year
  - Variable costs are assumed to be 5% of revenue
- TPS's other business, the physical security presence, is assumed to grow in line with inflation, at 2% a year
  - Costs are assumed to be 75% of revenue

Figure 9 below shows the results of this modelling.

**Figure 9 : Beer & Co's model of ThreatProtect's cashflows**

5.8 c	10%	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Customer Lines	5,000	9,600	18,188	24,175	29,175	34,175	39,175	44,175	49,175	54,175	59,175	64,175	69,175
Average revenue	3.0 %	\$ 180	\$ 200	\$ 204	\$ 208	\$ 212	\$ 216	\$ 221	\$ 225	\$ 230	\$ 234	\$ 239	\$ 244
Monitoring Revenue		1,728	3,638	4,932	6,071	7,253	8,481	9,755	11,076	12,446	13,867	15,339	16,865
Monitoring - fixed costs	3.0 %	(1,448)	(1,491)	(1,536)	(1,582)	(1,629)	(1,678)	(1,729)	(1,780)	(1,834)	(1,889)	(1,945)	(2,004)
- variable costs	5.0 %	(86)	(182)	(247)	(304)	(363)	(424)	(488)	(554)	(622)	(693)	(767)	(843)
Other revenue	2.0 %	3,364	3,307	3,280	3,280	3,346	3,413	3,481	3,550	3,621	3,694	3,768	3,843
- costs		(2,778)	(2,457)	(2,460)	(2,460)	(2,509)	(2,559)	(2,611)	(2,663)	(2,716)	(2,770)	(2,826)	(2,882)
		82.6 %	74.3 %	75.0 %	75.0 %	75.0 %	75.0 %	75.0 %	75.0 %	75.0 %	75.0 %	75.0 %	75.0 %
Corporate Costs	3.0 %	(1,245)	(1,619)	(1,668)	(1,668)	(1,718)	(1,769)	(1,822)	(1,877)	(1,933)	(1,991)	(2,051)	(2,112)
Other Expenses	1.0 %	(58)	(9)	(82)	(94)	(106)	(119)	(132)	(146)	(161)	(176)	(191)	(207)
E B I T D A		(523)	1,186	2,220	3,244	4,274	5,344	6,454	7,606	8,801	10,041	11,327	12,659
Dep'n & Amort'sn		(71)	(56)	(1,365)	(1,674)	(1,992)	(2,320)	(1,494)	(1,680)	(1,729)	(1,780)	(1,832)	(1,846)
Net Interest		(432)	(293)	94	187	371	400	400	400	400	400	400	400
P B T		(1,026)	837	948	1,757	2,653	3,424	5,360	6,326	7,473	8,662	9,895	11,213
Impairment		5	0	0	0	0	0	0	0	0	0	0	0
Tax expense		(1,245)	(311)	(284)	(527)	(796)	(1,027)	(1,608)	(1,898)	(2,242)	(2,598)	(2,968)	(3,364)
N P A T		(2,266)	527	664	1,230	1,857	2,397	3,752	4,429	5,231	6,063	6,926	7,849
e p s		(0.6c)	0.1c	0.1c	0.2c	0.3c	0.3c	0.5c	0.6c	0.7c	0.9c	1.0c	1.1c
Capital		0	0	(1,545)	(1,591)	(1,639)	(1,688)	(1,739)	(1,791)	(1,845)	(1,900)	(1,957)	(2,016)
Net Cashflow		(955)	893	768	1,839	3,007	4,055	5,115	6,215	7,357	8,541	9,769	11,043

Source : Beer & Co estimates

## Beer & Co's valuation

Figure 10 shows the detail of Beer & Co's risked NPV for TPS.

**Figure 10 : Beer & Co's risked base case valuation of TPS**

Beer & Co's risked, base case valuation is 5.8c/share

We risk the short term growth, with a higher risk on longer term growth

discount rate = 10.0 %	risk :	30 June 2015			14-Sep-15
		100%	Product	per share	
Business, as at June 2016	95 %	\$ 14.8m	\$ 14.0m	2.0c	2.0c
Franking credits	57%	\$ 2.4m	\$ 1.4m	0.2c	0.2c
Growth to 50,000 customers	80 %	\$ 31.8m	\$ 25.5m	3.6c	3.7c
Franking credits	48%	\$ 7.5m	\$ 3.6m	0.5c	0.5c
Growth beyond	50 %	\$ 21.0m	\$ 10.5m	1.5c	1.5c
Franking credits	30%	\$ 5.9m	\$ 1.8m	0.3c	0.3c
Corporate Costs	100 %	(\$16.9m)	(\$16.9m)	(2.4c)	(2.4c)
Equity Raised	100 %		\$ 0.0m	0.0c	0.0c
Cash Balance	100 %	(\$0.2m)	(\$0.2m)	(0.0c)	0.0c
<b>TOTAL</b>		\$ 66m	\$ 40m	5.7 c	5.8 c
Shares on issue		600.6m	FPO shares	100.9m	options
		0m	new equity	100.0m	op. ex'd

Source : Beer & Co estimates

Figure 10 shows that Beer & Co has used a higher risking for higher utilisation.

Also, our balance sheet data is the pro-forma in the IER to the Notice of Meeting, rather than the actual 30 June 2015; the pro-forma is based on the equity having been issued.

## Sensitivity Analyses

Figure 11 shows that on the basis of Beer & Co's modelling, TPS needs to increase its utilisation of the monitoring centre.

**Figure 11a : Sensitivity, using 10% d.r.**

Annual Increase	Peak Customers			
	25,000	50,000	75,000	100,000
2,500	0.4c	3.3c	3.6c	3.6c
<b>5,000</b>	0.4c	4.4c	<b>5.8c</b>	6.5c
7,500	0.4c	3.3c	5.4c	6.7c
10,000	0.4c	3.4c	6.7c	7.5c

Source : Beer & Co estimates

**Figure 11b : Sensitivity, using 12% d.r.**

Annual Increase	Peak Customers			
	25,000	50,000	75,000	100,000
2,500	0.4c	2.7c	2.9c	2.9c
<b>5,000</b>	0.3c	3.6c	<b>4.7c</b>	5.2c
7,500	0.4c	2.8c	4.4c	5.5c
10,000	0.4c	2.8c	4.7c	6.1c

Source : Beer & Co estimates

**Our sensitivity analysis shows that modest growth is needed, with very high leverage to further growth**

However, Figure 11 also shows that our conclusions are not very sensitive to the extent of the increase in utilisation.

Our results are sensitive to the discount rate assumed. Note that our analysis is in nominal terms, so 10% is about the market rate.

However, TPS has a relatively secure revenue stream, balancing the potential small company penalty.

**TPS has a relatively secure revenue stream and significant, valuable growth potential.**

TPS has a relatively secure revenue stream and significant, valuable growth potential.

**Beer & Co's risked base case valuation is 5.8c/share.**

Beer & Co's risked base case valuation is 5.8c/share. This requires increased utilisation of the monitoring centre.

**Beer & Co has a BUY, Medium Risk, recommendation on TPS.**

Beer & Co is comfortable with this assumption, especially given the app developed by TPS.

Beer & Co initiates research on TPS with a BUY, Medium Risk, recommendation.

## Conclusions

## Beer &amp; Co Research

Threat Protect (TPS.ASX)

September 2015

Year ended June	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	
<b>Section 1 - P&amp;L</b>								
Sales revenue	\$A m	5.1	6.9	8.2	9.4	10.6	11.9	13.2
Interest revenue	\$A m	0.0	0.0	0.1	0.2	0.4	0.4	0.4
Other revenue	\$A m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Revenue</b>	<b>\$A m</b>	<b>5.1</b>	<b>6.9</b>	<b>8.3</b>	<b>9.5</b>	<b>11.0</b>	<b>12.3</b>	<b>13.6</b>
Cost of Sales	\$A m	(2.8)	(2.6)	(1.9)	(2.0)	(2.1)	(2.2)	(2.3)
Operating Costs	\$A m	(2.8)	(3.1)	(4.0)	(4.0)	(4.1)	(4.2)	(4.3)
Corporate Costs	\$A m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Operating Expenses	\$A m	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
<b>Total Operating Expenses</b>	<b>\$A m</b>	<b>(5.6)</b>	<b>(5.8)</b>	<b>(6.0)</b>	<b>(6.1)</b>	<b>(6.3)</b>	<b>(6.5)</b>	<b>(6.8)</b>
<b>EBITDA</b>	<b>\$A m</b>	<b>(0.5)</b>	<b>1.2</b>	<b>2.3</b>	<b>3.4</b>	<b>4.6</b>	<b>5.7</b>	<b>6.9</b>
Dep'n & Amort'n	\$A m	(0.1)	(0.1)	(1.4)	(1.7)	(2.0)	(2.3)	(1.5)
<b>EBIT</b>	<b>\$A m</b>	<b>(0.6)</b>	<b>1.1</b>	<b>0.9</b>	<b>1.8</b>	<b>2.7</b>	<b>3.4</b>	<b>5.4</b>
Interest Expense	\$A m	(0.4)	(0.3)	0.0	0.0	0.0	0.0	0.0
Other	\$A m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Pre-Tax Profit</b>	<b>\$A m</b>	<b>(1.0)</b>	<b>0.8</b>	<b>0.9</b>	<b>1.8</b>	<b>2.7</b>	<b>3.4</b>	<b>5.4</b>
Tax Expense	\$A m	(1.2)	(0.3)	(0.3)	(0.5)	(0.8)	(1.0)	(1.6)
<b>NPAT</b>	<b>\$A m</b>	<b>(2.3)</b>	<b>0.5</b>	<b>0.7</b>	<b>1.2</b>	<b>1.9</b>	<b>2.4</b>	<b>3.8</b>
<b>Reported NPAT</b>	<b>\$A m</b>	<b>(2.3)</b>	<b>0.5</b>	<b>0.7</b>	<b>1.2</b>	<b>1.9</b>	<b>2.4</b>	<b>3.8</b>

## Section 2 - Key Data

Ordinary shares - year end	m	359.5	600.6	600.6	600.6	700.6	700.6	700.6
Fully diluted shares on issue	m	359.5	600.6	600.6	600.6	700.6	700.6	700.6
Weighted # shares	m	359.5	472.9	600.6	600.6	700.6	700.6	700.6
options on issue		0.0	100.9	100.9	100.9	0.0	0.0	0.0
Earnings per Share		(0.6c)	0.1 c	0.1 c	0.2 c	0.3 c	0.3 c	0.5 c
Dividends Per Share		0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c

## Section 3 - Balance Sheet

Cash	\$A m	2.5	1.0	1.7	3.6	9.1	12.5	16.2
Receivables	\$A m	0.9	0.6	0.6	0.7	0.8	0.9	1.0
Other	\$A m	0.2	0.4	0.4	0.5	0.5	0.6	0.7
<b>CURRENT ASSETS</b>	<b>\$A m</b>	<b>3.6</b>	<b>1.9</b>	<b>2.8</b>	<b>4.8</b>	<b>10.5</b>	<b>14.0</b>	<b>17.9</b>
Receivables	\$A m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
P, P & E	\$A m	0.4	0.4	0.3	0.3	0.2	0.2	0.2
Mining Properties / Exploration	\$A m	3.4	5.5	4.1	4.1	3.7	3.0	3.3
Other	\$A m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>NON-CURRENT ASSETS</b>	<b>\$A m</b>	<b>3.8</b>	<b>5.8</b>	<b>4.5</b>	<b>4.3</b>	<b>3.9</b>	<b>3.2</b>	<b>3.4</b>
<b>TOTAL ASSETS</b>	<b>\$A m</b>	<b>7.4</b>	<b>7.7</b>	<b>7.3</b>	<b>9.1</b>	<b>14.4</b>	<b>17.3</b>	<b>21.3</b>
Payables	\$A m	2.3	0.3	0.3	0.3	0.3	0.3	0.3
Debt	\$A m	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Other	\$A m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>CURRENT LIABILITIES</b>	<b>\$A m</b>	<b>3.0</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
Long Term Debt	\$A m	2.1	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Tax Liability	\$A m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	\$A m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	\$A m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>NON-CURRENT LIABILITIES</b>	<b>\$A m</b>	<b>2.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>TOTAL LIABILITIES</b>	<b>\$A m</b>	<b>5.1</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
<b>NET ASSETS</b>	<b>\$A m</b>	<b>2.3</b>	<b>7.4</b>	<b>7.0</b>	<b>8.8</b>	<b>14.1</b>	<b>17.0</b>	<b>21.0</b>
Accumulated Profit (Loss)	\$A m	(6.6)	(6.1)	(5.4)	(4.2)	(2.3)	0.1	3.8
Reserves	\$A m	0.9	5.8	4.7	5.3	8.7	9.2	9.5
Contributed Equity	\$A m	7.7	7.7	7.7	7.7	7.7	7.7	7.7
<b>Total Equity</b>	<b>\$A m</b>	<b>2.0</b>	<b>7.4</b>	<b>7.0</b>	<b>8.8</b>	<b>14.1</b>	<b>17.0</b>	<b>21.0</b>

## Sensitivities

rate of annual increase	Terminal Number of Customers			
	25,000	50,000	75,000	100,000
2,500	0.4c	3.3c	3.6c	3.6c
<b>5,000</b>	0.4c	4.4c	<b>5.8c</b>	6.5c
7,500	0.4c	3.3c	5.4c	6.7c
10,000	0.4c	3.4c	6.7c	7.5c

## Monitoring

Year ended June	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	
Customer Numbers	9,600	18,188	24,175	29,175	34,175	39,175	
Av. Revenue	AUD/head	180	200	204	208	212	216
Revenue	AUD m	1.7	3.6	4.9	6.1	7.3	8.5
Total Costs	AUD m	(1.5)	(1.7)	(1.8)	(1.9)	(2.0)	(2.1)

## Other

Revenue	AUD m	3.4	3.3	3.3	3.3	3.3	3.4
Costs	AUD m	(2.8)	(2.5)	(2.5)	(2.5)	(2.5)	(2.6)
Corporate & Other	AUD m	(1.3)	(1.6)	(1.7)	(1.8)	(1.8)	(1.9)

## Asset based Valuation

discount rate = 10.0 %	risk :	30 June 2015		18-Sep-15	
		100%	Product per share		
Business, as at June 2016	<b>95 %</b>	\$ 15m	\$ 14m	2.0 c	2.0 c
Franking credits	<b>57 %</b>	\$ 2m	\$ 1m	0.2 c	0.2 c
Growth to 50,000 customers	<b>80 %</b>	\$ 32m	\$ 25m	3.6 c	3.7 c
Franking credits	<b>48 %</b>	\$ 8m	\$ 4m	0.5 c	0.5 c
Growth beyond	<b>50 %</b>	\$ 21m	\$ 10m	1.5 c	1.5 c
Franking credits	<b>30 %</b>	\$ 6m	\$ 2m	0.3 c	0.3 c
Corporate Costs	<b>100 %</b>	(\$17m)	(\$17m)	(2.4c)	(2.4c)
Equity Raised	<b>100 %</b>	\$0m	\$0m	0.0 c	0.0 c
Cash Balance	<b>100 %</b>	(\$0m)	(\$0m)	(0.0c)	0.0 c
<b>TOTAL</b>		<b>\$ 66m</b>	<b>\$ 40m</b>	<b>5.7 c</b>	<b>5.8 c</b>
Shares on issue		600.6m	FPO shares issued FY15	100.9m	options op. ex'd

## Financial Ratios

Year ended June	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	
Revenue	\$A m	7	8	10	11	12	14
EBITDA	\$A m	(1)	1	2	3	5	6
EBIT	\$A m	(1)	1	1	2	3	3
NPAT (reported)	\$A m	(2)	1	1	1	2	2
Adjusted EPS (cps)		(0.6c)	0.1 c	0.1 c	0.2 c	0.3 c	0.3 c
EPS Growth (%)			114 %	26 %	85 %	29 %	29 %
DPS (c)		0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c
Dividend Yield (%)		0 %	0 %	0 %	0 %	0 %	0 %
PE adj. (x)	x	(3)	23	18	10	8	6
EV / EBITDA (x)	x	(14)	9	4	2	1	0
EV / EBIT (x)	x	(12)	10	11	5	2	0
Gearing (%)		0 %	0 %	0 %	0 %	0 %	0 %
Return on Assets		15 %	13 %	19 %	18 %	20 %	25 %
Return on Equity		7 %	10 %	14 %	13 %	14 %	18 %
EBITDA Margin (%)		(10%)	17 %	28 %	37 %	44 %	48 %
Interest Cover (x)	x	(1.4)	3.9	n/a	n/a	n/a	n/a

## Section 4 - Cashflow

Net Cashflow from operations	\$A m	0.8	2.8	4.0	5.0	6.1	7.2
Net Interest Paid	\$A m	(0.4)	0.0	0.1	0.2	0.4	0.4
Taxes Paid	\$A m	0.0	0.0	0.0	0.0	0.0	(0.6)
Change in Working Capital	\$A m	0.0	(1.7)	(0.1)	(0.1)	(0.1)	(0.1)
<b>OPERATING CASHFLOW</b>	<b>\$A m</b>	<b>0.3</b>	<b>1.1</b>	<b>4.0</b>	<b>5.1</b>	<b>6.4</b>	<b>6.9</b>
PPE Acquisitions	\$A m	0.0	0.0	0.0	0.0	0.0	0.0
Investment in Intangibles	\$A m	0.0	3.3	1.5	1.6	1.6	1.7
PPE Divestments	\$A m	0.0	0.0	0.0	0.0	0.0	0.0
Other divestments	\$A m	0.0	0.0	0.0	0.0	0.0	0.0
<b>INVESTING CASHFLOW</b>	<b>\$A m</b>	<b>0.0</b>	<b>3.3</b>	<b>1.5</b>	<b>1.6</b>	<b>1.6</b>	<b>1.7</b>
Change in Equity	\$A m	0.0	6.5	0.0	0.0	0.0	0.0
Dividends Paid	\$A m	0.0	0.0	0.0	0.0	0.0	0.0
Change in Debt	\$A m	0.0	(1.2)	(0.8)	(1.8)	(5.5)	(3.4)
<b>FINANCING CASHFLOW</b>	<b>\$A m</b>	<b>0.0</b>	<b>5.3</b>	<b>(0.8)</b>	<b>(1.8)</b>	<b>(5.5)</b>	<b>(3.4)</b>
<b>Free Cashflow</b>	<b>\$A m</b>	<b>0.3</b>	<b>4.3</b>	<b>5.5</b>	<b>6.7</b>	<b>8.0</b>	<b>8.6</b>
<b>Net Cashflow</b>	<b>\$A m</b>	<b>0.3</b>	<b>9.7</b>	<b>4.8</b>	<b>4.9</b>	<b>2.5</b>	<b>5.2</b>

## Shareholdings

T P S Directors	15.566m	3.3% shares	15.000m	options	2.5 c	1/09/2018
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The analyst responsible for this research report certifies that all of the views expressed reflect his personal views about the securities and the issuer.

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