

TICKER

SCT

PRICE

\$0.28

TARGET

\$0.92

Scout Security: Strong sales as partnerships increase

Scout Security (ASX:SCT) is at the forefront of the DIY home security industry, having developed both wireless home security hardware and a software/service platform. The company has released a positive quarterly report, highlights of which include the following.

- Quarterly revenue – \$0.70 million (increasing 124% Q-o-Q).
- Cash receipts – \$0.32 million (increasing 11% Q-o-Q (normalised)).
- Zego (formerly CasalQ) orders another 1,000 smart-home security hubs, bringing total orders from that company to 2,000 plus.
- First purchase orders from Amazon processed since IPO completion.
- Deal signed with retail growth consultant Scale2Shelf.
- Partnership agreed with Yale Real Living to offer integration and add to hardware sales.

Analyst comment: this was a productive quarter for Scout, with the company continuing to expand its distribution network through multiple channels in the US.

Importantly, the quality of those distribution partnerships has remained high and continues to translate into more sales, with Zego – a leading US provider of smart-home device and service packages – ordering another 1,000 units. Zego has previously indicated they intend to order between 5,000 and 10,000 systems during the first 12 months of its sales partnership with Scout, which was announced in October 2017.

Meanwhile Amazon, one of Scout's largest shareholders, received its first shipment of hardware since the IPO, allowing it to restock Scout products. Since that restocking, and despite a limited marketing campaign that will be enhanced moving forward, purchase orders are reportedly strong.

That said, given its stage of development and the terms in place with its distribution partners, as well as the nature of the industry itself, Scout has to produce and sell its suite of security products (inventory) prior to revenue being received. This has led to clustering rather than normalising of cash flow, meaning that right now more is going out than coming in.

We estimate that Scout's product development has resulted in between 2,000 and 4,000 units in inventory and expect product development will be reduced in the coming quarters, while sales and – more importantly – cash receipts will rise compared to the last quarter.

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Valuation: we maintain our valuation for Scout at **\$0.94 /share (share price \$0.28/share).**

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