

28 February 2019

ASX Announcement

ETHERSTACK PLC [ASX:ESK]
("Etherstack" or the "Company")

Full Year 2018 results

Etherstack plc, the developer, manufacturer and licensor of mission critical radio technologies across the globe, is pleased to announce results for the year ended 31 December 2018.

Results Highlights

- **Revenue of US \$5.366 million is an increase of US \$1.127 million from 2017 revenues of US \$4.239 million, primarily due to continued growth of the recurring revenue streams and project activity on major contracts**
- **Return to profitability: small NPAT of US \$53,000 is a significant improvement over 2017 NPAT loss of US \$1.546 million**
- **EBITDA has significantly improved to US \$1.863 million from US \$0.92 million in 2017**
- **Successful delivery of:**
 - **AUD \$1 million order announced in November 2017 for the Australian Government**
 - **Stage 2 of the Canadian utility project completed in January 2018**
 - **Two new defence sector wins totalling US \$2.1 million were substantially completed in 2018.**
- **11.5% increase in recurring revenues driven by cumulative long term support contracts**
- **First sales of the ground-breaking in vehicle repeater product, IVX, and a healthy pipeline of opportunities for this new product**
- **Operating cash inflow of US \$1.528 million during 2018 compared to an outflow of US\$0.599 million in 2017**
- **Significantly increased R&D investment and expenditure particularly in the areas of defence and satellite communications**
- **Reduction in long term debt through loan repayments**

Revenue increase of 26.6%

All amounts are in USD \$000 unless otherwise indicated.

Etherstack achieved significant revenue growth of 26.6% in 2018 primarily due to:

- Continued growth of the recurring revenue streams. Each additional network deployment contributes to revenue in the year of deployment and, crucially, also adds to the recurring revenue base for several years following deployment, in the form of support revenues.
- Project activity on major contracts producing:
 - AUD \$1 million order announced in November 2017 for the Australian Government was delivered in 2018
 - Two new defence sector wins totalling US \$2.1 million were substantially completed in 2018 and hence contributed to 2018 revenue

Etherstack project related revenues can be volatile due to the inherent nature of the projects and customers, where delays on a small number of individually large projects/contracts, frequently for government funded customers, can lead to revenues in a financial period being materially impacted.

In 2017 and again in 2018 Etherstack achieved important contract wins and repeat business in the government radio communications for public safety and electric utility sectors in Australia, USA and Canada. Etherstack's global reach proved its ability to win and deploy complex communications networks around the world that form part of the essential services of all communities.

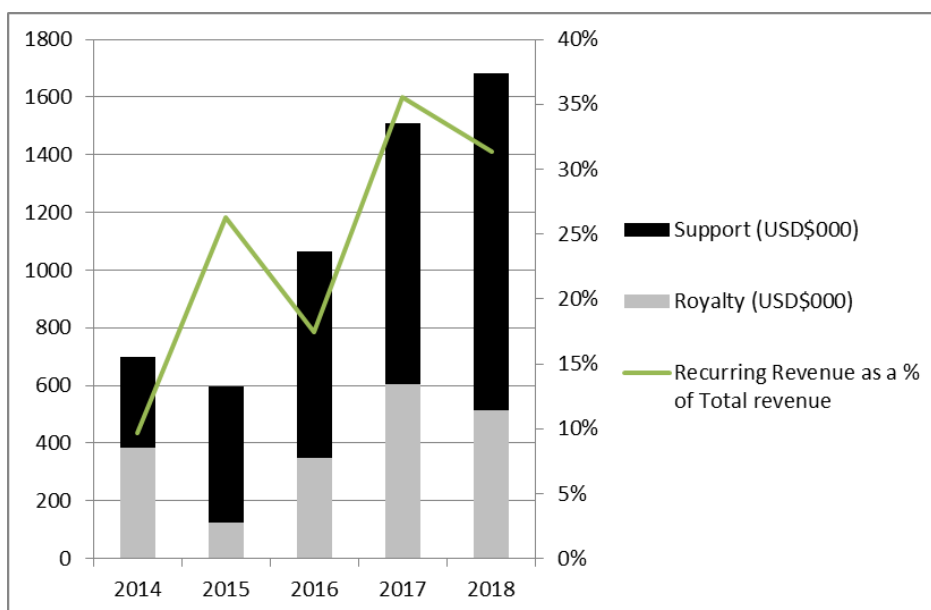
The Company also signed new technology licensing deals that allow the company to derive license fees and royalties from its' substantial intellectual property portfolio developed over the past two decades.

Recurring revenues:

Aggregate recurring revenues comprising Royalties and Support revenue streams are \$1,682 for 2018 compared to \$1,508 in 2017. The increase in 2018 represents an 11.5% increase over 2017 and, as outlined below, this KPI has increased 141% over the 4 year period from \$697 in 2014 to \$1,682 in 2018.

These recurring revenues contributed 31% of total revenue in 2018. This contribution can fluctuate depending on volatility in the royalty component however, over the medium term, the recurring revenues have grown in both \$ terms, \$697 in 2014 through to \$1,682 in 2018 and, as a percentage of total revenue, 10% in 2014 through to 31% in 2018.

These recurring revenue streams reduce overall revenue volatility and cash flow volatility and reduce dependence upon a small number of large contracts where the scale of the project and nature of the end users means timing of revenue recognition is difficult to accurately predict.



Graph 1 - Recurring revenues from Support contracts and Royalty agreements 2014 to 2018 shown in USD and as a percentage of Total revenue

Royalties are generated from licence agreements whereby equipment manufacturers pay Etherstack a licence fee per item manufactured, for the use of Etherstack technology in their products, such as base stations and handsets.

Royalty revenues declined in 2018 from \$605 to \$514 following a substantial increase (74.4 %) in 2017. The royalties earned by Etherstack follow the increase or decrease in sales achieved by manufacturers whose products include Etherstack technology. The general increase over the recent 4 year period is due to the maturity of these products, in particular sales of an emerging digital radio standard known as DMR however there remains some volatility which has caused a revenue decrease in 2018.

Support revenues

Support revenues increased in 2018 to \$1,168 from \$903 in 2017 following the rollout of digital radio networks in 2017 and 2018, as well as incremental growth to other supported networks. The Group currently supports four large digital radio networks in the North American electric utility market. The Group also supports a major utility network in Queensland, Australia and an Australian Government network commissioned in 2018. There are currently network deployments in progress with further deployments expected in 2019 which will provide revenue directly connected to the expansion plus additional support revenues for several years thereafter.

Etherstack

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About Etherstack plc (ASX:ESK):

Etherstack is a wireless technology company specialising in licensing mission critical radio technologies to equipment manufacturers and network operators around the globe. With a particular focus in the public safety, defence, utilities, transportation and resource sectors, Etherstack's technology can be found in radio communications equipment used in the most demanding situations. The company has R&D facilities in London, Sydney, New York and Yokohama.

Appendix 4E

Preliminary final report

Name of Entity: Etherstack plc

ARBN: 156 640 532

1. Reporting Period ("current period"): Year ended 31 December 2018
Previous corresponding period: Year ended 31 December 2017

2. Results for announcement to the market

		\$	%		31 Dec 2018 USD \$000	31 Dec 2017 USD \$000
Revenue	Up	1,127	27%	to	5,366	4,239
Statutory Profit/(Loss) from ordinary activities after tax attributable to members	Up	1,599	103%	to	53	(1,546)
EBITDA (Note 1)	Up	1,771	1,925 %	to	1,863	92

Note 1: EBITDA is statutory net profit before tax adjusted to remove net finance costs, depreciation and amortisation.

Results Summary and Commentary - all amounts are in USD \$000 unless otherwise indicated.

2018 Highlights

- Revenue of US \$5.366 million is an increase of US \$1.127 million from 2017 revenues of US \$4.239 million, primarily due to continued growth of the recurring revenue streams and project activity on major contracts ,
- Return to profitability: small NPAT of US \$0.053 million is a significant improvement on 2017 NPAT loss of \$1.546 million
- EBITDA has significantly improved to US \$1.863 million from US \$0.92 million in 2017
- First US DHS Customs & Border Patrol (CBP) order for communications equipment and services
- Operating cash inflow of US \$1.528 million during 2018 compared to an outflow of US\$0.599 million in 2017

Increased revenue

The Market Announcement “Results Release: 2018 Full Year financial results” dated 28 February 2019 forms part of and should be read in conjunction with this preliminary Final Report (Appendix 4E).

This Announcement outlines the 2018 revenue increase and the revenue sources and underlying reasons producing this increase.

Result for 2018

Net profit after tax of \$53 is a \$1,599 improvement over 2017 Net loss after tax of \$1,546.

This result has been achieved due to:

- Increased revenues, as noted above
- Changed revenue mix and project mix leading to improved gross margin. Gross margins can vary significantly depending upon the nature of the projects which may differ markedly between periods. In addition, the gross margin can vary dependent upon the mix of Etherstack products, where relatively high margins reflect the value of our intellectual property, compared to third party products where the margin earned is much lower. For example, margin recognised on royalties is 100% which can be compared to project and product margins which are lower and in some cases as low as 10-15% where the Group resells third party products. The changed mix in 2018 has led to an increase in gross margin percentage.
- Reduced administrative expenses lead to a reduction of \$574 relative to 2017. Included in this reduction is a reduced amortisation charge on the Group’s intellectual property assets. The 2018 charge is \$1,489 compared to \$2,042 in 2017 representing 27.1% decrease. A number of the Group’s intellectual property assets have become fully amortised and the amortisation charge for 2019 is expected to show a further reduction from the 2018 charge.
- The group has operations in Australia, United States, United Kingdom and Japan and as a consequence is exposed gains and losses from to foreign currency fluctuations between the reporting currency USD and the other currencies in which transactions are undertaken; Australian dollar, Yen, Euro and GBP. In 2018 there was a currency translation benefit of \$321 compared to a loss of \$100 in 2017.
- Revaluation of the embedded derivative net of amortisation has led to a profit and loss account charge of \$214 compared to a credit in 2017 of \$262. The revaluation is based on a Black Scholes model and uses inputs including the prevailing share price, interest rates and the remaining life of the option embedded within the convertible note.
- The net tax credit has decreased from \$354 to \$127 predominantly as a result of a reduction in the UK Research and Development incentive claim.

EBITDA

EBITDA has significantly improved to \$1,863 from \$92 in 2017. The major reason for the increase is the improved gross profit performance. The reasons underlying the improved gross profit result have been outlined above.

Intellectual property development

The Group remains committed to developing new technology and intellectual property assets as well as refreshing, maintaining and enhancing its existing suite of intellectual property assets.

Accordingly, the Group continues to invest in intellectual property development and has invested \$1,255 in the current year compared to \$757 in 2017.

The Group maintains the engineering skillsets and capacities to complete the developments in progress and to develop new technology to respond to opportunities in the future.

The Group is actively recruiting engineers across its four research and development locations in support of increased activity and a strong order book and pipeline.

Dividends

No dividends are proposed.

Record date for determining entitlements to the dividends

Not applicable.

3. Consolidated statement of comprehensive income

	2018 USD \$000	2017 USD \$000
Revenue	5,366	4,239
Cost of sales	(1,668)	(1,857)
Gross profit	<u>3,698</u>	<u>2,382</u>
Other administrative expenses	(3,675)	(4,249)
Foreign exchange gains/ (losses)	321	(100)
Total administrative expenses	<u>(3,354)</u>	<u>(4,349)</u>
Gross operating profit/(loss) from continuing operations	344	(1,967)
Embedded derivatives revaluation and amortisation (net)	(214)	262
Finance income-interest	1	1
Finance expense-borrowing costs	(205)	(196)
Net finance income (expense)	<u>(418)</u>	<u>67</u>
Loss before tax	(74)	(1,900)
Income tax benefit	127	354
Profit/(Loss) for the period	<u>53</u>	<u>(1,546)</u>
Other Comprehensive Income		
Items that will be classified to profit and loss:		
Foreign currency translation	(125)	(147)
Total comprehensive loss attributable to owners of the parent	<u>(72)</u>	<u>(1,693)</u>
Earnings (loss) per share		
Basic (in cents)	0.05	(1.40)
Diluted (in cents)	0.05	(1.40)

Revenue

	2018	2017
	USD \$000	USD \$000
Licence Fees, product and solution sales of Wireless Technology	3,582	2,634
Support	1,168	903
Royalties	514	605
Grant income	102	97
	5,366	4,239

Expenses

	2018	2017
	USD \$000	USD \$000
Depreciation	29	17
Operating lease costs	356	363
Amortisation of intangible assets	1,489	2,042
Foreign exchange (gains)/losses	(321)	100
Finance costs – interest on loans and Convertible notes	205	196



4. Condensed consolidated balance sheet

		2018 USD \$000	2017 USD \$000
Non-Current assets			
Intangible assets	10	3,705	3,967
Property, plant and equipment	11	43	64
Trade and other receivables	9	-	196
		<u>3,748</u>	<u>4,227</u>
Current Assets			
Inventories	8	214	146
Trade and other receivables	9	2,721	2,551
Cash and bank balances		51	41
		<u>2,986</u>	<u>2,738</u>
Total assets		<u>6,734</u>	<u>6,965</u>
Non-Current liabilities			
Deferred tax liability		66	103
Deferred revenue		104	116
Borrowings		-	246
Trade and other payables	12	30	27
		<u>200</u>	<u>492</u>
Current Liabilities			
Trade and other payables	12	3,501	3,787
Borrowings		1,967	1,757
Current tax liabilities		27	52
Deferred revenue		1,072	838
		<u>6,567</u>	<u>6,434</u>
Total Liabilities		<u>6,767</u>	<u>6,926</u>
Net Assets/(Liabilities)		<u>(33)</u>	<u>39</u>
Equity			
Share capital	13	645	645
Share premium account		7,742	7,742
Merger reserve		3,497	3,497
Share based payment reserve		609	609
Foreign currency translation reserve		(2,733)	(2,608)
Retained earnings		(9,793)	(9,846)
Total equity		<u>(33)</u>	<u>39</u>

5. Condensed consolidated statement of cash flows

	2018	2017
	USD \$000	USD \$000
Cash from operating activities	1,528	(599)
Investing activities		
Additions to intangible assets	(1,255)	(757)
Purchases of property plant and equipment	(12)	(62)
Net cash used in investing activities	(1,267)	(819)
Financing activities		
Proceeds from loan notes	245	1,305
Repayment of loan	(374)	-
Interest paid	(117)	-
Net cash from financing activities	(246)	1,305
 Net increase/(decrease) in cash and cash equivalents	 15	 (113)
 Cash and cash equivalents at beginning of year	 41	 236
Effect of foreign exchange rate differences	(5)	(82)
 Cash and cash equivalents at end of year	 <u>51</u>	 <u>41</u>

6. Reconciliation of cash from operating activities

	2018	2017
	USD \$000	USD \$000
Operating loss after tax	53	(1,546)
Adjustments for:		
Amortisation of intangible assets	1,489	2,042
Embedded derivatives revaluation and amortisation (net)	214	(262)
Depreciation of property, plant & equipment	29	17
Unrealised foreign exchange gains	(369)	-
Dilapidation expense	-	(11)
Interest expenses	205	-
Operating cash flows before movements in working capital	1,621	240
(Increase)/Decrease in inventories	(80)	129
(Increase) in receivables	(96)	(703)
(Decrease) in payables	(271)	(211)
Increase in Deferred Income	296	94
Increase/(Decrease) in income tax payable	115	(152)
Interest paid	(57)	4
Net cash generated by/ (used in) operating activities	1,528	(599)

7. Statement of changes in equity

	Share Capital USD \$000	Share Premium USD \$000	Share Based payment USD \$000	Merger reserve USD \$000	Foreign Currency Translation reserve USD \$000	Retained earnings USD \$000	Total USD \$000
Balance at 1 January 2017	645	7,742	609	3,497	(2,461)	(8,300)	1,732
Loss for the year	-	-	-	-	-	(1,546)	(1,546)
Other Comprehensive income	-	-	-	-	(147)	-	(147)
Total Comprehensive income	-	-	-	-	(147)	(1,546)	(1,693)
Balance at 31 December 2017	645	7,742	609	3,497	(2,608)	(9,846)	39
Loss for the year	-	-	-	-	-	53	53
Other Comprehensive loss	-	-	-	-	(125)	-	(125)
Total Comprehensive income	-	-	-	-	(125)	53	(72)
At 31 December 2018	645	7,742	609	3,497	(2,733)	(9,793)	(33)

8. Inventories

	2018 USD \$000	2017 USD \$000
Finished goods and work in progress	414	346
Slow moving stock provision	(200)	(200)
Total stock at hand	214	146

9. Trade and other receivables

	2018 USD \$000	2017 USD \$000
Current		
Trade debtors	1,521	1,194
Accrued income from contracts in progress	549	290
Other debtors	651	1,067
	<u>2,721</u>	<u>2,551</u>
Non-Current		
Accrued income from contracts in progress	-	90
Other debtors	-	106
	<u>-</u>	<u>196</u>

10. Intangible Assets

	Capitalisation of development costs USD \$000	Engineering software USD \$000	Customer contract intangible USD \$000	Goodwill USD \$000	Total USD \$000
Cost					
At 1 January 2017	17,649	697	797	353	19,496
Additions	757	-	-	-	757
Exchange differences	-	-	96	-	96
At 31 December 2017	<u>18,406</u>	<u>697</u>	<u>893</u>	<u>353</u>	<u>20,349</u>
Additions	1,208	47	-	-	1,255
Disposals	-	(313)	-	-	(313)
Exchange differences	-	-	(85)	-	(85)
At 31 December 2018	<u>19,614</u>	<u>431</u>	<u>808</u>	<u>353</u>	<u>21,206</u>
Accumulated amortisation					
At 1 January 2018	14,856	653	520	353	16,382
Charge for the year	1,358	28	103	-	1,489
Disposals	-	(313)	-	-	(313)
Exchange differences	-	-	(57)	-	(57)
At 31 December 2018	<u>16,214</u>	<u>368</u>	<u>566</u>	<u>353</u>	<u>17,501</u>
Carrying amount					
At 31 December 2018	<u>3,400</u>	<u>63</u>	<u>242</u>	<u>-</u>	<u>3,705</u>
At 31 December 2017	<u>3,550</u>	<u>44</u>	<u>373</u>	<u>-</u>	<u>3,967</u>

11. Property, Plant and equipment

	Leasehold property USD \$000	Furniture and equipment USD \$000	Computer equipment USD \$000	Total USD \$000
Cost				
At 1 January 2018	29	138	326	493
Additions	-	-	12	12
Disposals	-	(3)	-	(3)
Exchange differences	(2)	(8)	(21)	(31)
At 31 December 2018	27	127	317	471
Accumulated depreciation				
At 1 January 2018	28	127	274	429
Charge for the year	-	3	26	29
Disposals	-	(3)	-	(3)
Exchange differences	(2)	(7)	(18)	(27)
At 31 December 2018	26	120	282	428
Carrying amount				
At 31 December 2018	1	7	35	43
At 31 December 2017	1	11	52	64

12. Trade and other payables

	2018 USD \$000	2017 USD \$000
Current		
Trade creditors and accruals	1,574	1,480
Other creditors	1,579	1,585
Other taxes and social security costs	348	722
	3,501	3,787
Non-current		
Long service leave	30	27
	30	27

13. Share capital

	2018	2017
	USD \$000	USD \$000
Called up, allotted and fully paid 111,685,313 ordinary shares of 0.4p each	645	645

14. Earnings per share

Details of basic and diluted EPS are as follows:

	2018	2017
	USD \$000	USD \$000
Profit/(Loss) for the year	53	(1,546)
	Number	Number
Weighted average number of ordinary shares for basic and diluted earnings per share	111,685,313	111,685,313

15. Dividends

There are no dividends paid or proposed in respect of the current period or the prior period.

16. Dividend Reinvestment Plans

There are no dividend or distribution reinvestment plans in operation.

17. Net tangible assets

	2018	2017
	USD Cents	USD Cents
Net tangible asset backing per ordinary share	(3.35)	(3.52)

18. Details of entities over which control has been gained or lost

There are no entities over which control was gained or lost in the current period.

19. Details of associates and joint venture entities

Not applicable.

20. Any other significant information

Not applicable.



21. Accounting standards

The preliminary final report has been prepared in accordance with ASX listing rule 4.3A and has been derived from the unaudited financial report. The financial report has been prepared in accordance with measurement and recognition (but not disclosure) requirements of International Financial Reporting Standards (IFRS).

As such, this preliminary final report does not include all the notes of the type included in an annual financial report.

The preliminary final report is presented in United States Dollars (USD).

22. Contingent liabilities

There are no Contingent liabilities.

23. The report is based on accounts which are in the process of being audited.

Similar to the auditor's report for the 2017 financial statements, the auditor's report for the 2018 financial statements may contain an emphasis of matter paragraph in respect of the adoption of the going concern basis of accounting.