

27 February 2020

ASX Announcement

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

FY2019 Preliminary Results and Appendix 4E

Etherstack plc, the developer, manufacturer and licensor of mission critical radio technologies across the globe, is pleased to announce preliminary results for the year ended 31 December 2019.

Results Highlights

- **Positive EBITDA:** US \$1.1 million EBITDA on revenue of US \$4.8 million, following FY2018 EBITDA US \$1.9 million. Revenue was down 9% from 2018 revenues of \$5.3 million primarily due to timing on major contract deliveries that shifted into Q1 2020
- **Strong Positive Cashflow:** Net operating cash inflow of US \$1.4 million in 2019 following strong operating cash inflow of US \$1.5 million in 2018
- **Continued Recurring Revenue Growth:** Recurring revenues (support and royalty revenue) increased a further 9% in 2019, driven by long term support contracts. Further recurring revenue growth is expected in 2020 based on support revenues associated with contracted network deliveries
- **Strategic Business Wins:** Significant federal policing network supply contract to Royal Canadian Mounted Police. Initial award of CAD \$1.7 million to deploy redundant digital core network and 26 digital radio sites. Expected support contract and expansion follow on awards in 2020 and 2021. First US Department of State contract award
- **Expansion Business Wins:** Further network expansion orders for Australian and Canadian electric utility networks demonstrating customer satisfaction with Etherstack solutions
- **Working Capital Improvement & Reduced Borrowing Costs:** Working capital strengthened through AU\$0.30 convertible note raise of US \$1.398 million (AU \$2.0 million) at more favourable coupon rates in August 2019 and through conversion of old convertible notes in December 2019 into equity of US \$0.262 million.

Despite the strong EBITDA result, the timing of revenues on major projects impacted end of year revenues and profits resulting in a loss after income tax of US \$0.87 million. The Company continued significant Research & Development investment, particularly in the areas of defence and satellite communications expending US\$1.2 million during 2019.

As in the prior periods, amortisation charges totalling US \$1.6 million on intangible assets weighed heavily on the Company's profitability after tax despite another solid EBITDA and net operating cash inflow result, in turn affecting the Company's balance sheet.

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

The significant revenue growth Etherstack achieved in 2018 (26.6%) was not sustained and revenue decreased 9.0% to \$4,792 (2019 revenue is 15.7% higher than 2017 revenues which were \$4,142). Project revenues comprising Licence fees, installation/integration and supply of wireless communications technology were \$2,954 in 2019 compared to \$3,582 in 2018. Overall, the 2019 revenue decrease is primarily due to reduced activity on major contracts offset by growth in recurring revenues. Project/contract revenues can be volatile as these revenues are derived from a small number of individually large projects/contracts. Any delay or change to project schedules can cause revenue volatility between periods.

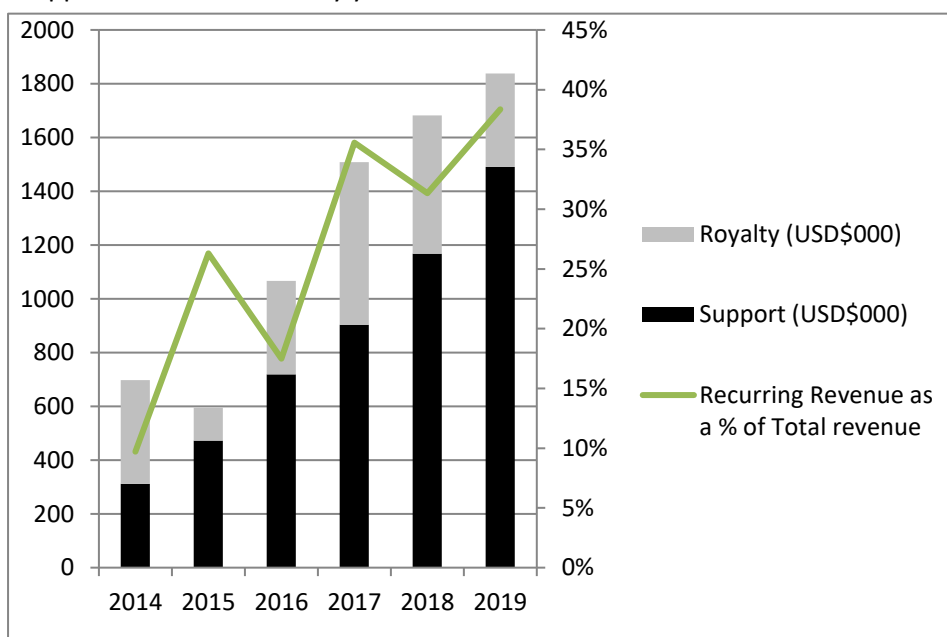
2019 has seen continued growth of our recurring revenue streams. Aggregate recurring revenues comprising Royalties and Support revenue streams are \$1,838 for 2019 compared to \$1,682 in 2018. The increase in 2019 represents a 9.3% increase over 2018. This KPI has increased 164% over the 5 years from \$697 in 2014 to \$1,838 in 2019.

These recurring revenues contributed 38% of total revenue in 2019 (2018: 32%). This contribution can fluctuate, however, over the medium term, recurring revenues have grown in both absolute terms, from \$697 in 2014 through to \$1,838 in 2019 and, as a percentage of total revenue, 10% in 2014 through to 38% in 2019.

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.

Support revenues increased in 2019 to \$1,490 from \$1,168 in 2018 following the rollout of digital radio networks in 2019 as well as incremental growth to other supported networks. Support revenues have increased from \$312 in 2014 to \$1,490 in 2019. This is a compound annual growth rate of 36.7%.

Etherstack currently supports four large digital radio networks in the North American electric utility market. Etherstack also supports a major utility network in Queensland, Australia and an Australian Government network commissioned in 2018. There are currently contracted network deployments in progress which will provide revenue directly connected to the expansion plus additional long-term support revenues for many years thereafter.



Graph 1 - Recurring revenues from Support contracts and Royalty agreements 2014 to 2019 shown in USD and as a percentage of Total revenue

Royalty revenues 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 2019 from \$514 to \$348. The royalties earned by Etherstack follow the increase or decrease in sales achieved by manufacturers whose products include Etherstack technology.

In 2019 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.

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 2019
Previous corresponding period: Year ended 31 December 2018

2. Results for announcement to the market

		\$	%		31 Dec 2019 USD \$000	31 Dec 2018 USD \$000
Revenue	decreased	472	9	to	4,792	5,264
Statutory (Loss)/Profit from ordinary activities after tax attributable to members	decreased	924	1,743	to	(871)	53
EBITDA (Note 1)	decreased	770	41	to	1,093	1,863

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

2019 Results Summary and Commentary - all amounts are in USD \$000 unless otherwise indicated.

Highlights

- Revenue of US \$ 4.792 million is a decrease of US \$0.472 million or 9% from 2018 revenues of US \$5.264 million which in turn was a 27% increase over 2017. This 2019 decrease is primarily due to timing on major contracts offset by continued growth of the recurring revenue streams
- A further 9 % increase in recurring revenues driven by long term support contracts
- EBITDA is US \$1.093 million compared to US \$1.863 million in 2018
- Loss after income tax of US \$0.871 million compared to Net profit after tax of US \$0.053 million in 2018
- Successful delivery of:
 - Electric utility expansion orders to Ergon Energy in Queensland, Australia and ATCO Electric in Alberta, Canada
 - First US State Department order

- Australian state police force orders
- Public safety network in Idaho, US
- Net operating cash inflow of US \$1.364 million during 2019 compared to an inflow of US \$1.528 million in 2018
- Continued significant Research & Development investment and expenditure particularly in the areas of defence and satellite communications
- Working capital strengthened through convertible note raise of US \$1.398 million (AU \$2.0 million) in August 2019 and through conversion of convertible notes in December 2019 into equity of US \$0.262 million
- Strategic new contracts; Network deployment project for Royal Canadian Mounted Police

Reduced revenue

The Market Announcement “FY2019 Preliminary Results and Appendix 4E” dated 27 February 2020 forms part of and should be read in conjunction with this preliminary Final Report (Appendix 4E).

This Announcement outlines the 2019 revenue decrease and the revenue sources and underlying reasons and trends producing this decrease.

Result for 2019

Loss after income tax of \$871 compared to Net profit after tax of \$53 in 2018.

This result is due to:

- Decreased revenues, as outlined above. The significant revenue growth Etherstack achieved in 2018 (26.6%) was not sustained and revenue decreased 9.0% to \$4.792 million
- Slight increase in administrative expenses of \$193 relative to 2018. Included in this increase is a increased amortisation charge on Etherstack’s intellectual property assets. The 2019 charge is \$1,613 compared to \$1,489 in 2018 representing a \$124 or 8.3% increase.
- The Etherstack group has operations in Australia, United States, United Kingdom and Japan and as a consequence is exposed to gains and losses from foreign currency fluctuations between the reporting currency USD and the other currencies in which transactions are undertaken; Australian dollar, Yen, Euro and GBP. In 2019 there was a currency translation loss of \$180 compared to a benefit of \$321 in 2018.
- Revaluation of the embedded derivative net of amortisation has led to a profit & loss account charge of \$16 compared to a \$214 in 2018. 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.

EBITDA

EBITDA has decreased to \$1,093 from \$1,863 in 2018 however EBITDA has remained positive despite the loss after tax of \$871 predominantly due to the add back of the amortisation charge of \$1,613.

Intellectual property development

Etherstack 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, Etherstack continues to invest in intellectual property development and has invested \$1,205 in the current year compared to \$1,255 in 2018. Etherstack has now invested in excess of \$20,000 into its portfolio of intellectual property assets.

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

Etherstack 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

	2019 USD \$000	2018 USD \$000
Revenue from Contracts with Customers	4,792	5,264
Cost of sales	<u>(1,507)</u>	<u>(1,668)</u>
Gross profit	3,285	3,596
Other income; research & development incentives	100	102
Other administrative expenses	(3,868)	(3,675)
Net foreign exchange (losses)/gains	<u>(180)</u>	<u>321</u>
Total administrative expenses	<u>(4,048)</u>	<u>(3,354)</u>
Gross operating (loss)/profit from continuing operations	(663)	344
Embedded derivatives revaluation and amortisation (net)	(16)	(214)
Finance income-interest	-	1
Finance expense-borrowing costs	<u>(321)</u>	<u>(205)</u>
Net finance expense	<u>(337)</u>	<u>(418)</u>
Loss before taxation	(1,000)	(74)
Income tax benefit	<u>129</u>	<u>127</u>
(Loss)/ Profit after taxation for the period attributable to the equity holders of the parent	<u>(871)</u>	<u>53</u>
Other Comprehensive Income/(Loss)		
Items that will be classified to profit and loss:		
Exchange differences on translation of foreign operations	35	(125)
Total comprehensive loss for the period attributable to the equity holders of the parent	<u>(836)</u>	<u>(72)</u>
Earnings (loss) per share		
Basic (in cents)	(0.78)	0.05
Diluted (in cents)	(0.78)	0.05

Revenue

	2019 USD \$000	2018 USD \$000
Revenue from Contracts with Customers		
Licence fees, installation/integration and supply of wireless communications technology	2,954	3,582
Support services	1,490	1,168
Royalties	348	514
	4,792	5,264
Grant receipts – research and development incentives	100	102

Expenses

	2019 USD \$000	2018 USD \$000
Included within expenses are the following:		
Depreciation of property, plant and machinery	25	29
Depreciation of Right-of-use assets	118	-
Operating lease costs	184	356
Amortisation of intangible assets	1,613	1,489
Net foreign exchange losses/(gains)	180	(321)
Finance costs – interest on loans and Convertible notes	279	205
Finance costs – interest on leased assets	42	-



4. Condensed consolidated balance sheet

		2019 USD \$000	2018 USD \$000
Current assets			
Cash and cash equivalents		931	51
Trade and other receivables	9	1,870	2,721
Inventories	8	155	214
		<u>2,956</u>	<u>2,986</u>
Non-Current Assets			
Property, plant and equipment	11	35	43
Intangible assets	10	3,295	3,705
Right-of-use assets		176	-
		<u>3,506</u>	<u>3,748</u>
Total assets		<u>6,462</u>	<u>6,734</u>
Current liabilities			
Trade and other payables	12	2,467	3,006
Current tax liabilities		46	27
Deferred revenue		1,248	1,072
Employee entitlements		236	495
Lease liabilities		109	-
Convertible notes		-	601
Borrowings		1,262	1,366
		<u>5,368</u>	<u>6,567</u>
Non-Current Liabilities			
Deferred tax liability		40	66
Deferred revenue		84	104
Employee entitlements		43	30
Lease liabilities		130	-
Convertible notes		1,417	-
		<u>1,714</u>	<u>200</u>
Total Liabilities		<u>7,082</u>	<u>6,767</u>
Net Liabilities		<u>(620)</u>	<u>(33)</u>
Equity			
Share capital	13	652	645
Share premium account		7,998	7,742
Merger reserve		3,497	3,497
Share based payment reserve		609	609
Foreign currency translation reserve		(2,698)	(2,733)
Retained earnings		(10,678)	(9,793)
Total equity		<u>(620)</u>	<u>(33)</u>

5. Condensed consolidated statement of cash flows

	2019	2018
	USD \$000	USD \$000
Cash from operating activities	1,364	1,528
Investing activities		
Additions to intangible assets	(1,205)	(1,255)
Purchases of property plant and equipment	(18)	(12)
Net cash (used in) investing activities	(1,223)	(1,267)
Financing activities		
Proceeds from loans	-	245
Proceeds from convertible notes issue	1,398	-
Principal element of lease payments	(110)	-
Repayments of loan	(534)	(374)
Interest paid	(15)	(117)
Net cash from/(used in) financing activities	739	(246)
Net increase in cash and cash equivalents	880	15
Cash and cash equivalents at beginning of year	51	41
Effect of foreign exchange rate differences	-	(5)
Cash and cash equivalents at end of year	931	51

6. Reconciliation of cash from operating activities

	2019	2018
	USD \$000	USD \$000
Operating (loss)/profit after tax	(871)	53
Adjustments for:		
Amortisation of intangible assets	1,613	1,489
Embedded derivatives revaluation and amortisation (net)	16	214
Depreciation of right-of-use assets	118	-
Depreciation of property, plant & equipment	25	29
Unrealised foreign exchange losses/(gains)	134	(369)
Interest expenses	321	205
Operating cash flows before movements in working capital	1,356	1,621
Decrease /(Increase) in inventories	58	(80)
Decrease/(Increase) in receivables	834	(96)
(Decrease) in payables	(803)	(271)
Increase in Deferred Income	162	296
(Decrease)/Increase in income tax payable	(91)	115
Interest paid	(152)	(57)
Net cash generated by operating activities	1,364	1,528

7. Statement of changes in equity

	Share Capital	Share Premium	Share Based payment	Merger reserve	Foreign Currency Translation reserve	Retained earnings	Total
	USD \$000	USD \$000	USD \$000	USD \$000	USD \$000	USD \$000	USD \$000
Balance at 1 January 2018	645	7,742	609	3,497	(2,608)	(9,846)	39
Profit for the year	-	-	-	-	-	53	53
Other Comprehensive Income – (losses)	-	-	-	-	(125)	-	(125)
Total Comprehensive income	-	-	-	-	(125)	53	(72)
Balance at 31 December 2018	645	7,742	609	3,497	(2,733)	(9,793)	(33)
Change in accounting policy	-	-	-	-	-	(14)	(14)
Restated equity at 1 January 2019	645	7,742	609	3,497	(2,733)	(9,807)	(47)
Loss for the year	-	-	-	-	-	(871)	(871)
Other Comprehensive Income -gains	-	-	-	-	35	-	35
Total Comprehensive income	-	-	-	-	35	(871)	(836)
Issue of Share Capital	7	256	-	-	-	-	263
Transactions with owners	7	256	-	-	-	-	263
At 31 December 2019	652	7,998	609	3,497	(2,698)	(10,678)	(620)

8. Inventories

	2019 USD \$000	2018 USD \$000
Finished goods and work in progress	417	414
Slow moving stock provision	(262)	(200)
Total stock at hand	155	214

9. Trade and other receivables

	2019 USD \$000	2018 USD \$000
Current		
Trade debtors	1,249	1,521
Accrued income from contracts in progress	121	549
Other debtors	500	651
	1,870	2,721
	1,870	2,721

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 2018	18,406	697	893	353	20,349
Additions	1,208	47	-	-	1,255
Disposal	-	(313)	-	-	(313)
Exchange differences	-	-	(85)	-	(85)
At 31 December 2018	19,614	431	808	353	21,206
Additions	1,205	-	-	-	1,205
Impairment	(90)	-	-	-	(90)
Exchange differences	-	-	(6)	-	(6)
At 31 December 2019	20,729	431	802	353	22,315
Accumulated amortisation					
At 1 January 2018	14,856	653	520	353	16,382
Charge for the year	1,358	28	103	-	1,489
Disposal	-	(313)	-	-	(313)
Exchange differences	-	-	(57)	-	(57)
At 31 December 2018	16,214	368	566	353	17,501
Charge for the year	1,490	27	96	-	1,613
Impairment	(90)	-	-	-	(90)
Exchange differences	-	-	(4)	-	(4)
At 31 December 2019	17,614	395	658	353	19,020
Carrying amount					
At 31 December 2019	3,115	36	144	-	3,295
At 31 December 2018	3,400	63	242	-	3,705

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 2019	27	127	317	471
Additions	-	-	18	18
Disposals	-	-	-	-
Exchange differences	(1)	2	7	8
At 31 December 2019	26	129	342	497
Accumulated depreciation				
At 1 January 2019	26	120	282	428
Charge for the year	-	2	23	25
Disposals	-	-	-	-
Exchange differences	-	2	7	9
At 31 December 2019	26	124	312	462
Carrying amount				
At 31 December 2019	-	5	30	35
At 31 December 2018	1	7	35	43

12. Trade and other payables

	2019 USD \$000	2018 USD \$000
Current		
Trade creditors and accruals	609	1,079
Other creditors	1,596	1,579
Other taxes and social security costs	262	348
	2,467	3,006

13. Share capital

	2019 USD \$000	2018 USD \$000
Called up, allotted and fully paid 112,975,636 (2018: 111,685,313) ordinary shares of 0.4p	652	645

14. Earnings per share

Details of basic and diluted EPS are as follows:

	2019	2018
	USD \$000	USD \$000
Profit/(Loss) for the year	(871)	53
	Number	Number
Weighted average number of ordinary shares for basic and diluted earnings per share	111,688,848	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

	2019	2018
	USD Cents	USD Cents
Net tangible asset backing per ordinary share	(3.50)	(3.35)

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

After the balance date, agreement was reached with a Convertible Note holder whereby the liability of \$325 for matured Convertible notes and interest was settled by:

- a) The issue of 516,129 new shares for consideration of \$104
- b) Cash repayment of \$104; and
- c) The issue of 499,377 new Convertible notes with the following key terms:
 - AUD .30 face value and convertible into 499,377 fully paid ordinary shares
 - Maturity is 22 August 2021
 - The notes are convertible at the note holders' option at any time prior to maturity
 - The notes may be repaid prior to maturity within 12 months of issue with the agreement of the Company and the note holder, or after 12 months at the option of the Company.



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.

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 2018 financial statements, the auditor's report for the 2019 financial statements may contain a material uncertainty relating to going concern paragraph.