

Appendix 4E (Preliminary Final Report)

Highlights

- Revenue of US \$9.419 million down 2.7% versus FY2022
- FY2023 EBITDA of US \$2.349 million down from US \$3.468 million in FY22
- FY2023 NPAT of US\$ 262,000 vs FY 2022 of US\$2.376 million
- Sustained positive operating cashflow, 6th successive year
- Progress in all three business markets:

Mission Critical Push To Talk (MCPTT)

- Key software release of 3GPP MCX Interworking Function (IWF) product provided to Samsung for the AT&T FirstNet® project for US public safety agencies
- Direct contract with Telstra to trial of Etherstack's 3GPP MCX IWF for future Australian Public Safety Mobile Broadband (PSMB) initiatives
- Second MCX IWF license sale to Samsung

Digital LMR (Land Mobile Radio)

- US \$2.3 million agreement, following the US \$1.35 million agreement in FY2020, to supply Codan business unit in North America
- Further deliveries to Rio Tinto projects
- Follow-on Australian federal government contracts to multiple departments

Defence & Government

- Significant progress on Etherstack's NATO Narrowband Waveform development
- Deployment of Etherstack's secure push-to-talk over satellite solution to another Commonwealth nation's defence force
- AUD \$1.5 million project announced

Etherstack plc (ASX: ESK) ("Etherstack" or the "Company") is pleased to present the Appendix 4E (Preliminary final report) for the year ended 31 December 2023.

David Deacon, Etherstack CEO noted, "Etherstack finished 2023 strongly from a revenue perspective and has made progress on many fronts. The revenue slippage, impacting the first half when revenue was US \$2.916 million, was largely recovered in the second half when we generated US \$6.503 million, meaning the full year revenue of US \$9.419 million is just 2.7% below FY 2022 revenue of US \$9.681 million. Importantly, the step change in revenue in FY 2021 in which revenue increased from US \$4.699 million to US \$8.504 million has been sustained in FY 2022 (US \$9.681 m) and FY 2023 (US \$9.419 m). FY 2024 is already off to a very strong start.

We delivered on key projects. Most notably, Etherstack delivered a major software release to Samsung for deployment of Etherstack's MCX-IWF technology to AT&T in the United States. There are further stages of this project currently underway as Etherstack, Samsung and AT&T prepare to on-board the first public safety agency in 2024.

Etherstack continues to work with Samsung in pursuing further opportunities for the MCX-IWF product and delivered a second MCX-IWF license to Samsung in FY2023. Additionally, Etherstack is building an opportunity pipeline containing top-tier global communications companies through working with partners such as Samsung but also through direct opportunities such as the Telstra trial in Australia.

It is important to note Etherstack's traditional digital LMR business centred on P25 network products has continued to perform strongly and is an important revenue and profit driver for the business.

Etherstack continued to invest significant funds into our portfolio of intellectual property assets. In FY2023, we invested a further US\$ 2.743 million into developing and enhancing the intellectual property assets which produce future revenues. This is the largest investment Etherstack plc has made in a single financial year and is driven primarily by the MCX-IWF programme. To date, Etherstack has invested over US \$ 30 million in intellectual property assets.

To strengthen working capital, in support of ongoing operations as well as directed product development collaboration between the companies, Etherstack entered a 4-year loan agreement with its long-term strategic partner in Japan, borrowing US\$2.5 million at a competitive interest rate of 6.5% per annum.

While the decrease in revenue and other factors such as currency movements have contributed to reduced profitability in the current year, the work done in FY 2023 is contributing to a healthy long-term future. Etherstack has built an opportunity pipeline, sustained investment in our intellectual property portfolio and developed highly skilled engineering and sales teams. With these fundamentals in place, management believe the Company is well placed for further growth in FY 2024 and beyond."

Authorised for release by David Carter, Company Secretary.

English Registered Company No. 7951056 | ARBN 156 640 532

London (GMT)
P: +44 207 734 0200
info.eu@etherstack.com

Sydney (GMT +10)
P: + 61 2 8399 7500
Info.au@etherstack.com

Yokohama (GMT +9)
P: +81 45 342 9050
info.jp@etherstack.com

New York (GMT-5)
P: +1 917 661 4110
info.na@etherstack.com

Enquiries


Etherstack
David Carter, Chief Financial Officer
T: +61 2 8399 7500
investor.relations@etherstack.com


Investor Relations
Melanie Singh
T: +61 439 748 819
melanie@nwrcommunications.com.au

About Etherstack plc (ASX:ESK)

Etherstack is a wireless technology company specialising in developing, manufacturing and licensing mission critical radio technologies for wireless 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 and solutions 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.

For more information

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Appendix 4E

Preliminary final report

Name of Entity: **Etherstack plc**

ARBN: **156 640 532**

1. Reporting Period (“current period”): **Year ended 31 December 2023**
Previous corresponding period: *Year ended 31 December 2022*

2. Results for announcement to the market

		USD \$000	%		31 Dec 2023 USD \$000	31 Dec 2022 USD \$000 Note 2
Revenue from ordinary activities	decreased	262	2.7	to	9,419	9,681
EBITDA <small>(Note 1)</small>	decreased	1,119	32.3	to	2,349	3,468
Statutory net profit from ordinary activities after tax attributable to members	decreased	2,114	89.0	to	262	2,376
Statutory net profit for the period attributable to members	decreased	2,114	89.0	to	262	2,376

Note 1. EBITDA is a non-IFRS measure used by management of the company to assess the operating performance of the business. Non-IFRS measures are not subject to audit.

EBITDA is statutory net profit before tax adjusted to remove net finance costs, income tax, depreciation and amortisation. EBITDA is reconciled to Statutory profit after tax on page 8 of this report.

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

Note 2. Comparative financial information has been restated as outlined in Note 3 on page 10.

2023 Results Summary and Commentary - all amounts are in **USD** unless otherwise indicated.

Results Highlights



Revenue of US \$9.419 million down 2.7% from FY2022

- The revenue slippage in the first half of FY 2023 was largely recovered in the second half with US \$6.503 million generated in H2 meaning the full year revenue result is just 2.7% below FY 2022.
- Importantly, the step change in revenue in FY 2021 in which revenue increased from US \$4.699 million to US \$8.504 million has been sustained in FY 2022 (US 9.681 million) and FY 2023 (US \$9.419 million).



FY2023 EBITDA of US \$2.349 million down from US \$3.468 million



FY2023 NPAT of US\$ 262 vs FY 2022 of US\$2.376 million

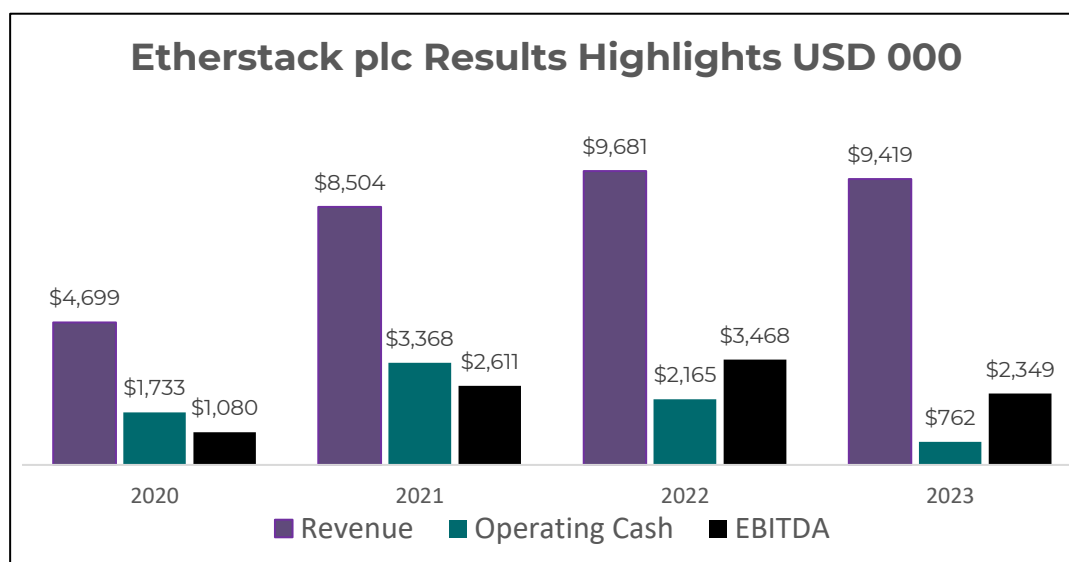


Sustained Positive Operating Cashflow: Net operating cash inflow of \$0.762 million (2022 US \$2.165 million). Sixth consecutive year of positive operating cashflow.



Strategic Business development

- Samsung
- Telstra
- Icom
- Codan
- Australian Government



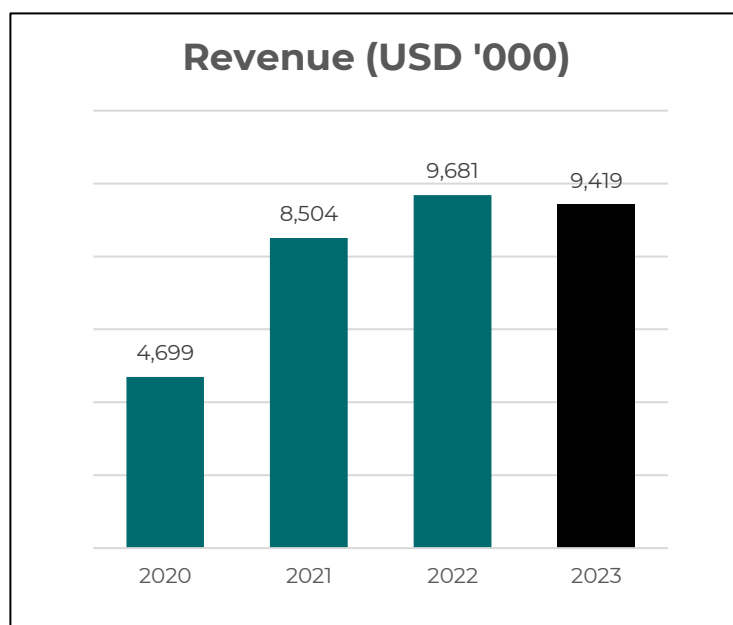
Revenue (All amounts are in USD and \$000 unless otherwise indicated)

FY 2023 Revenue is \$9,419. This is a 2.7% decrease over FY 2022 revenue of \$9,681.

The revenue slippage, impacting the first half when revenue was US \$2,916, was largely recovered in the second half when Etherstack generated US \$6,503, meaning the full year revenue of US \$9,419 is just 2.7% below FY 2022 revenue of US \$9,681.

Project related revenues increased slightly but were offset by reduced Support and Royalty revenues (as outlined below).

	2023	2022	
Projects	7,486	7,413	▲
Support	1,800	1,876	▼
Royalties	133	392	▼
	9,419	9,681	▼



Project Revenues

Project revenues comprising License fees, installation/integration and supply of wireless communications technology were \$7,486 in FY 2023 compared to \$7,413 in FY 2022, an increase of \$73 or 1%.

As shown in the above graph, FY 2021 saw a step change in revenue driven by project revenues. This step change has been sustained in 2022 and 2023. The main project revenues in 2023 were:

- MCX-IWF revenues in particular those related to the Samsung AT&T FirstNet project
- Supplying Codan in North America
- Federal government projects.

Recurring revenues

Aggregate recurring revenues comprising royalties and support revenue streams are \$1,933 for FY 2023 compared to \$2,268 for FY 2022. Within this aggregate recurring revenue amount:

- Support revenues decreased from \$1,876 in FY 2022 to \$1,800 in FY 2023. This is a \$76 or 4% decrease; and
- Royalty revenues decreased from \$392 in FY 2022 to \$133 in FY 2023.

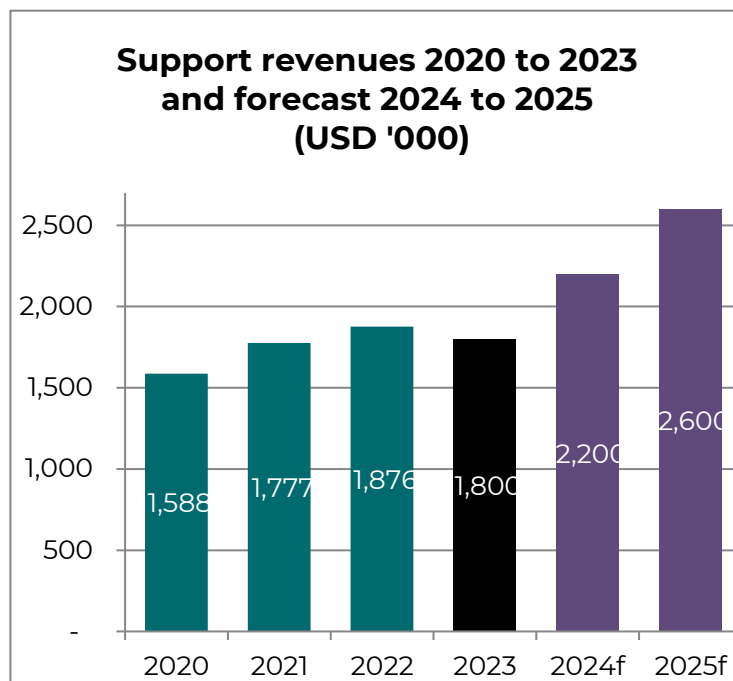
Recurring revenues reduce both overall revenue volatility and cash flow volatility. Furthermore, they reduce dependence upon a small number of large contracts where

timing of revenue recognition is difficult to accurately forecast given the scale and nature of the projects and end users.

Support revenues

Support revenues decreased in FY 2023 to \$1,800 from \$1,876 in FY 2022. The net decrease is the outcome four offsetting factors (a) one contract not renewing; (b) a change in the AUD/USD exchange rate reducing revenue in FY 2023 by \$47; (c) increased revenue following the rollout of additional digital radio networks; and (d) CPI based price increases.

On the basis of projects in progress for which support revenues will commence on completion in 2024 and 2025, the company is forecasting additional support revenue of \$400 in FY 2024 and \$400 in FY 2025.



Result for 2023

Statutory profit after income tax is \$262 compared to a profit after income tax of \$2,376 in FY 2022.

The FY 2023 decrease in statutory profit after tax is due to the combined effects of;

- Decreased revenues, as outlined above.
- Gross margin decreased from 67% in FY 2022 to 55% in FY 2023. Gross margin can vary significantly depending on the mix of Etherstack hardware, software and services content, which are at a higher margin, and third-party products where the margins are lower. In FY 2023:
 - Reduced support and royalty revenues have negatively impacted the gross margin percentage.
 - Cost of sales includes the amortisation charge on the intangible assets. In FY 2023 the amortisation charge increased from \$850 in FY 2022 to \$1,651 thereby decreasing the gross margin percentage (Etherstack amortises intangibles over a conservative 6 year straight line basis).
 - Change in product mix meant additional costs for third party products has reduced the overall gross margin percentage.
- Sales and Marketing Costs have decreased by \$33 to \$1,220 in FY 2023 over FY 2022.
- Administrative costs increased in FY 2023 by \$142 or 4.2% to \$3,487

- The Etherstack group has operations in Australia, Europe, Japan, United Kingdom and the United States, 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 FY 2023 there was a currency loss of \$315 compared to a gain of \$160 in FY 2022.
- Decreased Income tax benefit from Research & Development incentives: the net income tax credit in FY 2023 is \$193 versus \$278 in FY 2022.

EBITDA

The Company considers EBITDA to be a useful measure of performance as it excludes the significant non-cash amortisation expense.

EBITDA has decreased to \$2,349 from \$3,468 in FY 2022. The key reasons for the decreased EBITDA being reduced revenues and changed gross margin are summarised above.

	2023	2022
Statutory profit after tax	262	2,376
After tax effect of:		
Depreciation	237	184
Depreciation of right-of-use assets	212	235
Amortisation	1,651	850
Interest and other finance cost	180	101
Income tax	(193)	(278)
EBITDA	2,349	3,468

Sustained investment into Intellectual property assets

Etherstack continued to invest significant funds into its portfolio of intellectual property assets. In FY2023, the Company invested US\$ 2,743 (FY 2022 US \$2,556) into developing and enhancing the intellectual property assets which produce future revenues. This is the largest investment Etherstack plc has made in a financial year and is driven by the MCX-IWF programme. To date, Etherstack has now invested over US \$ 30 million in intellectual property assets.

4 Year Funding agreement

In FY 2023, Etherstack entered a 4-year loan agreement with its long-term strategic partner in Japan to borrow US\$2.5m to strengthen working capital in support of ongoing operations as well as directed product development collaboration between the companies.

2023 Overall

Etherstack is generating positive operating cash, EBITDA and net profit after tax. The company is demonstrating the ability to consistently generate positive economic results over the longer term and its ability to balance cash resources, debt and investment spending within tight boundaries.

The financial metrics of the business remain vulnerable to some volatility given the dependence on a small number of individually large projects, however with a healthy opportunity pipeline, sustained investment in our intellectual property portfolio and highly skilled engineering and sales teams, management believe the Company is poised for further growth in FY 2024 and beyond.

Dividends

No dividends are proposed. The company intends to commence payment of dividends after achieving positive retained earnings in future years.

Record date for determining entitlements to the dividends: Not applicable.

3. Consolidated statement of comprehensive income

	2023 USD \$000	2022 USD \$000 Restated see Note (3)
Revenue from Contracts with Customers	9,419	9,681
Cost of sales	<u>(4,263)</u>	<u>(3,170)</u>
Gross profit	5,156	6,511
Other income	115	126
Sales and Marketing expenses	(1,220)	(1,253)
Administrative expenses	(3,487)	(3,345)
Net foreign exchange (losses) / gains	<u>(315)</u>	<u>160</u>
Gross operating profit from continuing operations	<u>249</u>	<u>2,199</u>
Finance income-interest	5	4
Finance expense-borrowing costs	<u>(185)</u>	<u>(105)</u>
Net finance expense	<u>(180)</u>	<u>(101)</u>
Profit before taxation	69	2,098
Income tax benefit	<u>193</u>	<u>278</u>
Profit after taxation attributable to the equity holders of the parent	<u>262</u>	<u>2,376</u>
Other Comprehensive Income/(Loss)		
Items that will be classified to profit and loss:		
Exchange differences on translation of foreign operations	231	(317)
Total comprehensive profit attributable to the equity holders of the parent	<u>493</u>	<u>2,059</u>
Earnings per share		
Basic (in US cents)	0.20	1.82
Diluted (in US cents)	0.19	1.76

Note (3): Comparative financial information has been restated to correct an error impacting the income tax refund estimate. The estimate was understated by \$183. The impact of correction is to:

- (a) increase 2022 income tax benefit (and therefore increase profit after tax) by \$183; and
- (b) increase the amount recorded as receivable by \$183 (and therefore increase net assets).

The error has been corrected by restating 2022 comparative financial information.

	2023 USD \$000	2022 USD \$000
Revenue from Contracts with Customers		
Licence fees, installation/integration and supply of wireless communications technology	7,486	7,413
Support services	1,800	1,876
Royalties	133	392
	9,419	9,681
Other income		
Grant receipts – research and development incentives	115	126
Expenses		
Included within expenses are the following:		
Depreciation of property, plant and machinery	237	184
Depreciation of Right-of-use assets	212	235
Rental expenses	98	143
Amortisation of intangible assets	1,651	850
Finance costs – interest on loans	122	23
Finance costs – interest on leased assets	55	82

4. Condensed consolidated balance sheet

		2023	2022
		USD	USD
		\$000	\$000
			Restated see Note (3) on page 10
Current assets			
Cash and cash equivalents		2,061	1,918
Trade and other receivables	8	4,279	3,492
Inventories	7	293	431
		<u>6,633</u>	<u>5,841</u>
Non-Current Assets			
Property, plant and equipment	10	414	544
Intangible assets	9	8,156	7,064
Trade and other receivables	8	969	172
Right-of-use assets		188	403
		<u>9,727</u>	<u>8,183</u>
Total assets		<u>16,360</u>	<u>14,024</u>
Current liabilities			
Trade and other payables	11	1,890	2,362
Current tax liabilities		93	113
Unearned revenue		1,016	1,356
Employee entitlements		659	585
Lease liabilities		223	233
		<u>3,881</u>	<u>4,649</u>
Non-Current Liabilities			
Unearned revenue		321	249
Employee entitlements		39	20
Lease liabilities		50	273
Borrowings	12	2,425	-
		<u>2,835</u>	<u>542</u>
Total Liabilities		<u>6,716</u>	<u>5,191</u>
Net Assets		<u>9,644</u>	<u>8,833</u>
Equity			
Share capital	13	751	745
Share premium account		15,721	15,696
Other Equity		84	-
Merger reserve		3,497	3,497
Share based payment reserve		1,131	928
Foreign currency translation reserve		(2,655)	(2,886)
Retained earnings		(8,885)	(9,147)
Total equity		<u>9,644</u>	<u>8,833</u>

5. Condensed consolidated statement of cash flows

	2023 USD \$000	2022 USD \$000
Cash flows from operating activities		
Receipts from customers	7,466	8,162
Payments to suppliers and employees	(7,160)	(6,346)
Interest paid	(90)	(105)
Government grants and tax incentives	651	573
Income tax paid	(105)	(119)
Net cash generated from operating activities	<u>762</u>	<u>2,165</u>
Cash flows from Investing activities		
Additions to intangible assets	(2,743)	(2,556)
Purchases of property plant and equipment	(106)	(146)
Net cash (used in) investing activities	<u>(2,849)</u>	<u>(2,702)</u>
Cash flows from Financing activities		
Proceeds from issue of shares	32	-
Share issue costs	(4)	(1)
Principal element of lease payments	(228)	(265)
Proceeds from loans	3,122	-
Repayments of loan	(622)	(148)
Interest paid	(87)	-
Net cash from/(used in) financing activities	<u>2,213</u>	<u>(414)</u>
Net increase/(decrease) in cash and cash equivalents	<u>126</u>	<u>(951)</u>
Cash and cash equivalents at beginning of year	1,918	3,038
Effect of foreign exchange rate differences	17	(169)
Cash and cash equivalents at end of year	<u><u>2,061</u></u>	<u><u>1,918</u></u>

6. Statement of changes in equity

	Share Capital	Share Premium	Other Equity	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	USD \$000
Balance at 1 January 2022	745	15,686	-	676	3,497	(2,569)	(11,523)	6,512
Profit for the year	-	-	-	-	-	-	2,376	2,376
Other Comprehensive Income – (losses)	-	-	-	-	-	(317)	-	(317)
Total Comprehensive income	-	-	-	-	-	(317)	2,376	2,059
Issue of Share Capital	-	10	-	-	-	-	-	10
Share based payments	-	-	-	252	-	-	-	252
Transactions with owners	-	10	-	252	-	-	-	262
At 31 December 2022	745	15,696	-	928	3,497	(2,886)	(9,147)	8,833
Profit for the year	-	-	-	-	-	-	262	262
Other Comprehensive Income – gain	-	-	-	-	-	231	-	231
Total Comprehensive income	-	-	-	-	-	231	262	493
Issue of Share Capital	6	25	-	-	-	-	-	31
Value of conversion rights	-	-	84	-	-	-	-	84
Share based payments	-	-	-	203	-	-	-	203
Transactions with owners	6	25	84	203	-	-	-	318
At 31 December 2023	751	15,721	84	1,131	3,497	(2,655)	(8,885)	9,644

7. Inventories

	2022 USD \$000	2021 USD \$000
Work in progress	293	431

8. Trade and other receivables

	2023	2022
	USD \$000	USD \$000
Current		
Trade debtors	3,201	1,273
Contract asset	210	1,213
Other debtors (restated refer note 3 on page 10)	868	1,006
	4,279	3,492
Non current		
Contract asset	969	172

9. 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 2022	24,898	656	830	353	26,737
Additions	2,459	97	-	-	2,556
Disposals	-	(4)	-	-	(4)
At 31 December 2022	27,357	749	830	353	29,289
Additions	2,650	93	-	-	2,743
Disposals	-	-	830	353	(1,183)
At 31 December 2023	30,007	842	-	-	30,849
Accumulated amortisation and impairment					
At 1 January 2022	19,739	457	830	353	21,379
Charge for the year	767	83	-	-	850
Exchange differences	-	(4)	-	-	(4)
At 31 December 2022	20,506	536	830	353	22,225
Charge for the year	1,569	82	-	-	1,651
Disposals	-	-	830	353	(1,183)
At 31 December 2023	22,075	618	-	-	22,693
Carrying amount					
At 31 December 2023	7,932	224	-	-	8,156
At 31 December 2022	6,851	213	-	-	7,064

10. Property, Plant and equipment

	Leasehold property	Furniture and equipment	Computer equipment	WIP Lease improvement	Total USD \$000
Cost	USD \$000	USD \$000	USD \$000	USD \$000	USD \$000
At 1 January 2022	27	274	541	351	1,193
Additions	-	44	67	35	146
Reclassification	370	-	-	(370)	-
Exchange differences	(11)	(18)	(46)	(16)	(91)
At 31 December 2022	386	300	562	-	1,248
Additions	-	84	22	-	106
Disposal	-	(2)	-	-	(2)
Exchange differences	4	3	18	-	25
At 31 December 2023	390	385	602	-	1,377
Accumulated depreciation					
At 1 January 2022	27	158	389	-	574
Charge for the year	86	33	65	-	184
Exchange differences	(4)	(14)	(36)	-	(54)
At 31 December 2022	109	177	418	-	704
Charge for the year	123	45	69	-	237
Disposal	-	(2)	-	-	(2)
Exchange differences	5	3	16	-	24
At 31 December 2023	237	223	503	-	963
Carrying amount					
At 31 December 2023	153	162	99	-	414
At 31 December 2022	277	123	144	-	544

11. Trade and other payables

	2023 USD \$000	2022 USD \$000
Current		
Trade creditors and accruals	416	452
Other creditors	1,164	1,358
Other taxes and social security costs	310	552
	<u>1,890</u>	<u>2,362</u>

12. Borrowings

	2023 USD \$000	2022 USD \$000
Non-Current		
Borrowings at amortised cost	<u>2,425</u>	<u>-</u>

Borrowings are a funding agreement which commenced on 29 June 2023. Key terms are as follows:

- Principal is USD 2,500;
- Unsecured;
- 6.5% interest payable quarterly in arrears;
- Maturity date is 29 June 2027;
- Associated option agreement allows the lender, at any time prior to maturity, to exercise the option for the issue of 6,491,228 fully paid ordinary Etherstack plc shares in full settlement of the debt; and
- Etherstack may repay the debt in full at any time prior to maturity on 30 days written notice to the lender.

13. Share capital

	2023 USD \$000	2022 USD \$000
Called up, allotted and fully paid 131,907,002 (2022: 130,759,502) ordinary shares of 0.4p	<u>751</u>	<u>745</u>

14. Dividends

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

15. Dividend Reinvestment Plans

There are no dividend or distribution reinvestment plans in operation.

16. Net tangible assets

	2023	2022
	USD cents	USD cents
Net tangible assets per ordinary share	1.0	1.0

17. 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.

18. Details of associates and joint venture entities

Not applicable.

19. 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.

20. Segment Reporting

The Group operates and reports as a single segment. The principal activities of the Group are design, development and deployment of wireless communications software, products and networks.

21. Contingent liabilities

There are no Contingent liabilities.

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