Etherstack (ESK)

1H26 Result Review

Etherstack has delivered a record first half as reported in May: 1H26 revenue of US$8.5m rose 40% and is already 84% of FY25 revenue. Reported EBITDA of US$2.1m was ~US$2.4m underlying after ~US$0.4m of one-off personnel costs. Guidance of US$17.2-18.9m was reaffirmed; these two forecasts are unchanged: FY26 revenue of US$18.2m and normalised NPAT of US$2.6m. We have split out the one-off costs (US$0.4m), rebased cash collection into FY27 and retain our BUY rating, our price target is unchanged at $0.91 per share.

- **Record Half, Better mix:** Revenue of US$8.5m (+40%) was 12% ahead of our US$7.6m 1H26 forecast, combining US$5.8m of project delivery (+23%) with support/recurring revenue more than doubling to US$2.7m. ARR reached US$5.5m (FY25: US$3.7m).
- **EBITDA:** Reported EBITDA of US$2.1m beat our US$1.5m 1H26 forecast, with NPAT of US$0.4m in line; the 19% YoY decline reflects the upfront AT&T licence recognition that flattered 1H25. Sequentially, EBITDA swung from a US$0.5m 2H25 loss to US$2.4m (normalised), with US$3.2m forecast for 2H26.
- **2H26 Substantially Contracted:** Guidance implies ~US$9.7m of 2H revenue, its largest yet, supported by the US$50m+ order book: the A$9m Home Affairs contract, ~US$3m of MCX recurring streams, Rio Tinto work and US$1m+ of LMR hardware deals.
- **Cash Collection:** Operating cash flow of US$0.8m lagged EBITDA as receivables built to US$4.5m due to a buildup of working capital. We assume the build only partially unwinds by December, trimming FY26 operating cash flow to US$6.0m with cash rebuilding from US$0.7m to US$3.0m by December ahead of the FY27 inflows.
- **Forecast Change:** Our FY26 normalised EBITDA (Figure 1) rises 3.6% to US$5.7m on the stronger support/recurring mix, with US$0.4m of one-off personnel costs excluded (restructuring). D&A lifts to US$3.0m (from US$2.8m) as completed platforms enter service – normalised NPAT is unchanged at US$2.6m.
- **Fair value of $0.91 per share (unchanged):** An equal-weighted blend of 12.5x FY27 EV/EBITDA, sum-of-the-parts and 8x FY28 EV/ARR, cross-checked by DCF and on normalised earnings; convertible dilution is broadly value-neutral. Implied total return is 50%. We continue to recommend a BUY.

Figure 1: Forecast Changes

Forecast changes	Old		New		Change	
US$m	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue	18.2	25.0	18.2	25.0	0.0%	0%
EBITDA (norm)	5.5	7.7	5.7	7.7	3.6%	0%
NPAT (norm)	2.6	4.6	2.6	4.6	0.0%	0%

Source: Company Data, Veritas Estimates

ESK.ASX BUY

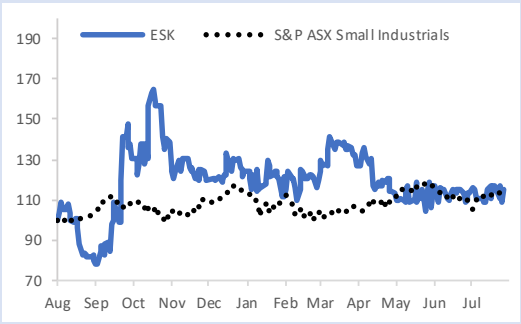
Thursday, 27 August 2026

Share Price AUD	$0.61
Price Target AUD	$0.91
Valuation Method	DCF/EV/EBITDA/ARR
Market capitalisation AUD	$86m
Enterprise value AUD	$87m
Sector	Communications Software
12 month price range AUD	0.36-0.82
Ave.vol - 250 days	85,333
Shares On Issue (m)	141.5
Top 20 holders	79%
Previous rating	BUY

Year ended Dec. 31		FY25A	FY26E	FY27E	FY28E
Sales	US$m	10.1	18.2	25.0	32.0
Growth	%	70.1	80.4	37.1	28.3
EBITDA (norm)	US$m	2.0	5.7	7.7	10.6
Margin (norm)	%	20.0	31.1	31.0	33.0
NPAT (norm)	US$m	(0.6)	2.6	4.6	7.3
EPS (norm)	A¢ps	(0.7)	2.7	4.6	7.3
CFPS	A¢ps	3.2	6.0	8.2	7.4
FCFPS	A¢ps	(2.1)	0.4	2.6	1.8
PER	x	N/A	23.0	13.2	8.3
EV/EBITDA	x	30.2	10.8	7.9	5.8
EV/ARR	x	16.4	11.1	8.0	5.9
Net Cash	US$m	(0.6)	0.6	3.9	6.6
Book value per share	A¢ps	9.2	11.5	16.1	23.4

***All figures in this report are in US Dollars unless specified**

ESK vs. ASX Small Industrials



Source: Factset, Veritas

Etherstack is a communications technology and software company specialising in developing and licensing mission-critical radio technologies for wireless equipment manufacturers and network operators around the globe.

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Etherstack

Share Price: $0.61 ps **Valuation: $0.91 ps**

Financial Performance (US$M)

Year Ended December 31	FY25A	FY26E	FY27E	FY28E
Sales	**10.1**	**18.2**	**25.0**	**32.0**
Operating costs	(8.1)	(12.5)	(17.2)	(21.4)
EBITDA (norm)	**2.0**	**5.7**	**7.7**	**10.6**
EBITDA (reported)	**2.0**	**5.3**	**7.7**	**10.6**
D&A	(2.3)	(3.0)	(3.2)	(3.5)
EBIT	**(0.3)**	**2.7**	**4.5**	**7.1**
Net interest	(0.2)	(0.0)	0.0	0.2
Pre-tax Profit	**(0.6)**	**2.6**	**4.6**	**7.3**
Tax	(0.1)	0.0	0.0	0.0
NPAT (norm)	**(0.6)**	**2.6**	**4.6**	**7.3**
One off items (post-tax)	(0.1)	(0.4)	0.0	0.0
NPAT (reported)	**(0.7)**	**2.3**	**4.6**	**7.3**

Cash Flow Statement (US$M)

Year Ended December 31	FY25A	FY26E	FY27E	FY28E
Operating EBITDA	**2.0**	**5.7**	**7.7**	**10.6**
Int/Tax Paid/rent/other*	(2.6)	(3.0)	(3.2)	(3.3)
Working Cap./other	3.8	3.3	3.6	0.1
Cashflow from ops	**3.2**	**6.0**	**8.2**	**7.4**
Maintenance Capex	(1.3)	(1.9)	(2.1)	(1.9)
Acquisitions(s)/R&D Cap.	(2.6)	(2.8)	(2.8)	(2.8)
Investing Cashflow	**(3.9)**	**(4.7)**	**(4.9)**	**(4.7)**
Dividends	0.0	0.0	0.0	0.0
Debt/other	(0.6)	(0.5)	(2.4)	0.0
Equity	3.4	0.0	0.0	0.0
Financing Cashflow	**2.8**	**(0.5)**	**(2.4)**	**0.0**
Net Increase/(decrease)	**2.1**	**0.8**	**0.9**	**2.7**

*Includes $0.628m UK R&D Incentive

Balance Sheet (US$M)

Year Ended December 31	FY25A	FY26E	FY27E	FY28E
Cash	2.3	3.0	3.9	6.6
Receivables	2.5	3.3	4.7	7.4
Contract assets	0.2	0.2	0.2	3.0
Current Assets	**4.9**	**6.5**	**8.9**	**17.0**
PP&E	1.3	2.7	4.0	4.8
Intangibles	9.4	9.7	10.2	10.6
Other non current assets	0.8	1.2	1.6	2.1
Non Current Assets	**11.5**	**13.7**	**15.8**	**17.5**
Total Assets	**16.5**	**20.1**	**24.7**	**34.4**
Payables	1.2	2.0	2.7	3.5
Provisions	0.2	0.4	0.6	0.7
Borrowings	2.8	2.4	0.0	0.0
Other liabilities*	3.1	4.0	5.4	7.0
Total Liabilities	**7.4**	**8.8**	**8.8**	**11.2**
Shareholder Funds	**9.1**	**11.4**	**15.9**	**23.2**

*Other Liabilitites - Includes employee entitlements, lease liabilities

Directors & Key Management Personnel	Position	Shares	Holding
Mr Peter Stephens	Chair	10.8m	7.6%
Mr David Deacon	MD & CEO	48.6m	34.3%
Mr Paul Barnes	NED	6.9m	4.8%
Mr Scott Minehane	NED	0.1m	0.1%
Mr Adam Hoey	CFO		
Mr Ryan Burchnell	Group COO		

Major Shareholders	Shares	Holding
Mr David Deacon	48.6m	34.3%
Mr Peter Stephens	10.8m	7.6%
Mr Paul Barnes	6.9m	4.8%
Ms Veronica Stephens	3.5m	2.5%
Total	**69.7m**	**49.2%**

Source: Company data, Veritas Securities Research

Valuation Metrics	Valuation	Premium
Price Target (ps) - AUD	$0.91	50%
Share Price (ps) - AUD	$0.61	
USDAUD	0.70	
FY26 EV/EBITDA (x)	10.8	
Implied FY26 EV/EBITDA (x)	16.1	
Implied FY27 EV/EBITDA (x)	11.8	
Market Capitalisation (A$M)	86.3	
Enterprise Value (A$M)	87.2	
Share count (m)	141.5	

Valuation Multiples AUD

Year Ended December 31	FY25A	FY26E	FY27E	FY28E
P/E (x)	N/A	23.0	13.2	8.3
Price/Cash Flow (x)	18.9	10.1	7.4	8.2
EV/EBITDA (x)	30.2	10.8	7.9	5.8
EV/EBIT (x)	N/A	23.0	13.4	8.6
EV/Sales (x)	6.0	3.4	2.4	1.9
Equity FCF yield (%)	-3.4	0.6	4.2	2.9
Price to book value (x)	6.6	5.3	3.8	2.6
EV/ARR	16.4	11.1	8.0	5.9

Per Share Data AUD

Year Ended December 31	FY25A	FY26E	FY27E	FY28E
EPS diluted (norm) (¢ps)	**(0.7)**	**2.7**	**4.6**	**7.3**
EPS diluted (¢ps)	(0.7)	2.3	4.6	7.3
Cash flow per share (¢ps)	3.2	6.0	8.2	7.4
Free cash flow per share (¢ps)	(2.1)	0.4	2.6	1.8
Cash (¢ps)	2.3	3.0	3.9	6.6
Book value (¢ps)	9.2	11.5	16.1	23.4
Shares on issue - avg. basic (m)	141.5	141.6	141.6	141.6
Shares on issue - avg. diluted (m)	141.5	141.6	141.6	141.6

Drivers (US$M)

Year Ended December 31	FY25A	FY26E	FY27E	FY28E
Projects	6.2	12.5	17.1	21.3
Suppport	3.7	5.5	7.7	10.4
Royalties	0.2	0.2	0.2	0.3
Total revenue	**10.1**	**18.2**	**25.0**	**32.0**
Normalised EBITDA	**2.0**	**5.7**	**7.7**	**10.6**

Half Year Performance (US$M)

Half Ended June 30	1H25A	1H26A	2H26E
Sales	6.1	8.5	9.7
EBITDA (reported)	2.5	2.1	3.2
NPAT (reported)	1.3	0.4	1.8

Performance Ratios

Year Ended December 31	FY25A	FY26E	FY27E	FY28E
Change in sales (US$m)	4.2	8.1	6.8	7.1
Change in EBITDA (norm) (US$m)	3.2	3.7	2.1	2.8
Operating leverage (%)	74.8	45.1	30.8	40.1
EBITDA Margin (norm) (%)	19.8	31.1	31.0	33.0
ROE (%)	(7.7)	23.1	28.7	31.3

Balance Sheet Ratios	FY25A	FY26E	FY27E	FY28E
Net cash/(debt) (US$M)	(0.6)	0.6	3.9	6.6

Date of guidance	Aug-26
FY26 revenue	US$17.2m-$18.9m

Amendments To Forecasts

In the Investor Presentation, management's enumerated drivers sum to approximately US$9m, fully covering the implied 2H revenue.

Management have stated they expect to be FCF positive in FY26, "without question".

Recurring revenue builds from US$5.5m to US$10.4m over FY26-FY28 – each successive year depends less on winning new project work.

Management has explicitly flagged a stronger second half – this is in line with the stark improvement from 2H25, with revenue doubling and EBITDA inflecting.

With recurring streams commenced, contract milestones delivered on time and the reweighted engineering organisation now fully productive on a fixed cost base.

The UK Home Office programme also moved from external consultants to permanent in-house staff – a one-off cost that lowers the ongoing cost of delivery.

Etherstack capitalises development spend; amortisation begins only once each asset reaches customer acceptance, so completed platforms entering service lift the FY26 charge.

The 1H26 result is consistent with the May trading update, and our forecasts are essentially unchanged: revenue is held at US$18.2m, normalised EBITDA edges up ~4% and normalised NPAT is unchanged in every year of the forecast period (Figure 1). The two changes sit at the edges of the P&L rather than within it. First, we now separate ~US$0.4m of one-off personnel costs incurred in 1H26 from the underlying cost base, so FY26 reported earnings will print below the normalised figures we value the business on. Second, we have rebased the timing of cash collection: milestone invoices raised late in the calendar year we conservatively assume will be collected in early FY27, which modestly lowers FY26 operating cash flow and holds December 2026 net cash to a modest ~US$0.6m before a pronounced FY27 inflow.

Revenue: We hold FY26 at US$18.2m, in the upper half of the reaffirmed US$17.2-18.9m guidance range and ~80% above FY25. The 1H26 revenue of US$8.5m came in at the top of the US$7.6-$8.5m range flagged in May and already covers 84% of FY25 revenue; the implied 2H of ~US$9.7m would be the largest half in the company's history, but it is well supported by milestone billing on contracted work: the A$9m Department of Home Affairs contract, ~US$3m of contracted MCX recurring streams, the Rio Tinto deployment and US$1m+ of LMR hardware deals are all scheduled, with two further customer signings expected. FY27 (US$25.0m) and FY28 (US$32.0m) are unchanged.

Earnings: FY26 normalised EBITDA rises ~4% to US$5.7m, a 31% margin, with the upgrade reflecting the stronger support and recurring mix delivered in the half rather than any change to the cost base. The half itself carried ~US$0.4m of costs we treat as one-off. Etherstack has reweighted its engineering organisation toward the US and UK, closer to where the customer portfolio now sits, and the June Half absorbed the associated relocation costs, redundancy payments, ~US$0.1m of recruitment fees. Underlying 1H26 EBITDA was therefore ~US$2.4m against US$2.1m reported, and the same distinction flows through the full year: we forecast reported FY26 EBITDA of ~US$5.3m and normalised EBITDA of US$5.7m. The margin holds at ~31% in FY27 before stepping to 33% in FY28 – straightforward operating leverage: the engineering cost base is largely fixed, so incremental revenue – particularly recurring revenue at ~70% incremental margins on our estimates – falls disproportionately to earnings.

Amortisation: We have lifted FY26 D&A modestly to US$3.0m (from US$2.8m). With the Annapolis operations centre complete and the AT&T MCX platform now in service, slightly more of the asset base amortises from FY26 than we previously carried. The higher charge is fully offset at the earnings line by the EBITDA upgrade, so normalised NPAT is unchanged at US$2.6m (FY26), US$4.6m (FY27) and US$7.3m (FY28). Reported FY26 NPAT of ~US$2.3m sits below the normalised figure only because of the one-off costs above – with no tax payable, the US$0.4m flows straight through – and the gap closes entirely from FY27.

Financing and tax: Net interest is a negligible ~US$0.03m expense in FY26, turning to modest income as cash rebuilds. We continue to carry the US$2.5m convertible note (conversion price ~A$0.55, June 2027 maturity) as debt retired at par within the forecast period; conversion instead would add ~6.5m shares (~4.6% of the register) and retain the cash – broadly value-neutral either way. Tax remains nil across the forecast period: with US$12.9m of accumulated losses, we do not expect Etherstack to pay cash tax through at least FY28.

Growth consumes cash before it returns it – each year of revenue growth is part-funded by a larger receivables book.

Cash Flow and Balance Sheet: 1H26 operating cash flow of US$0.8m lagged EBITDA because receivables built to US$4.5m against US$0.7m of cash – a function of milestone billing on large government and carrier contracts: revenue is recognised as work is delivered, but cash arrives only when milestones are invoiced and paid.

But the shape of the billing calendar matters – invoices raised in November and December could potentially be collected in early FY27 – so we conservatively carry December 2026 receivables at US$3.3m (18% of sales, against ~25% at FY25) and trim FY26 operating cash flow to US$6.0m (from US$6.5m). With the convertible carried to its June 2027 maturity, cash rebuilds to ~US$3.0m (net cash ~US$0.6m) by December 2026 before the catch-up arrives: FY27 operating cash flow of US$8.2m lifts net cash to US$3.9m even after retiring the convertible note at par, and US$6.6m by FY28.

Valuation

Comparable mission-critical software businesses trade well above these multiples once recurring revenue dominates the mix.

Our price target is unchanged at $0.91 per share, an equal-weighted blend of three approaches: 12.5x FY27 EV/EBITDA (US$0.68), a sum-of-the-parts that values the recurring carrier-as-a-service earnings at 14x and project earnings at 7.5x (US$0.65), and 8x FY28 EV/ARR (US$0.59). The blend of US$0.64 converts to A$0.91 at a US$0.70 exchange rate. A discounted cash flow cross-check produces US$0.63 – within ~2% of the blend.

For our valuation, we use normalised earnings and don't assume convertible dilution, using 141.6m shares on issue throughout. At $0.61 the shares trade on 10.8x FY26 and 7.9x FY27 EV/EBITDA and 11.1x FY26 EV/ARR, falling to 5.8x EV/EBITDA by FY28. Our target implies 16.1x FY26 and 11.8x FY27 EV/EBITDA – full multiples, but ones we consider defensible for a business compounding revenue at ~33% with recurring revenue almost doubling over the forecast period. The implied total shareholder return is 50%.

Order Book Momentum

Large carrier customers are difficult to win but tend to grow once the vendor is embedded – the AT&T scope expansion is the pattern we wanted to see.

The AT&T contract remains the anchor: a US$20m+, seven-year arrangement signed in August 2025 to deliver mission-critical push-to-talk infrastructure for FirstNet, the US public-safety network. Delivery is running to plan – the Annapolis network and security operations centre was completed in the half and has transitioned into its support phase, with Etherstack winning additional project work beyond the original scope.

Each new logo matters disproportionately: deployments seed multi-year support and hosting revenue – the 120% support-revenue growth this half matters more to our thesis than the project line.

The contracted order book stands at US$50m+ against ~US$18.2m of FY26 revenue – revenue visibility uncommon for a company of this size. Beyond AT&T, the book spans the UK Home Office, Home Affairs and Rio Tinto work; one new customer was signed in the half and management expects two more in 2H26.

We would frame the order book as an ARR pipeline rather than a simple revenue backlog. Mission-critical radio networks are decade-length infrastructure with high switching costs: once Etherstack's software is embedded in a carrier or government network, the support, hosting and upgrade revenue that follows is highly persistent.

The MCX Transition

MCX carries voice, video and data with the priority and resilience emergency users require; the global LMR installed base is expected to migrate over the next decade.

Etherstack's structural opportunity is the migration of land mobile radio (LMR) – the private two-way radio networks used by police, fire, utilities and mining operators – onto 4G/5G cellular networks under the 3GPP mission-critical (MCX) standards. Each migration needs carrier-grade software that bridges legacy radio protocols and modern cellular cores – precisely the layer Etherstack owns.

Partner Streamwide (ALSTW.PAR, ~€227m market cap) powers AT&T's Fusion platform – the pair sit across complementary layers of the same networks.

The AT&T FirstNet win is the proof point: one of the world's largest carriers selected Etherstack for the most demanding public-safety application. Reference customers of this quality lower the sales barrier for every subsequent carrier and government negotiation.

Our ARR forecasts of US$7.7m (FY27) and US$10.4m (FY28) are consistent with management's US$10m target but not ahead of it.

Commercially, the transition converts Etherstack from a project house into a recurring software business. Each MCX deployment is delivered as hosted, carrier-as-a-service infrastructure with annual recurring fees: ARR has grown from US$2.3m (FY24) to US$3.7m (FY25) to US$5.5m at June, and management targets US$10m.

Europe: The EUCCS Opportunity

Germany alone has earmarked ~€450m for its public-safety network transition.

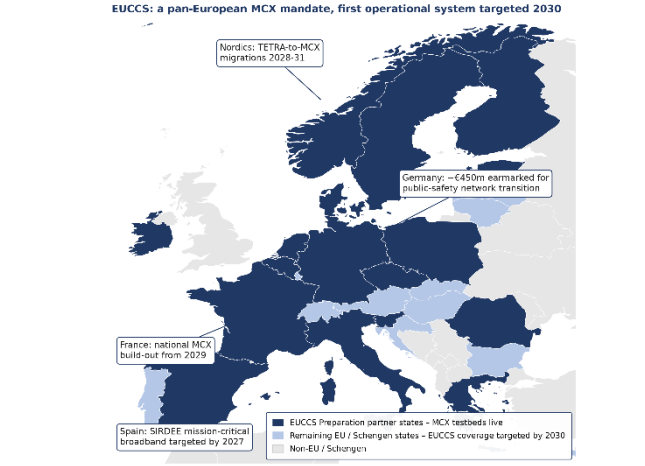
The EU Critical Communications System (EUCCS) programme mandates 3GPP MCX standards for pan-European public-safety networks, and member states have begun committing funding (Figure 2). This is the same standards-driven migration that produced the FirstNet opportunity in the US, at continental scale.

CEO David Deacon during the earnings call encouraged all investors to continue reading about this programme.

Etherstack is not yet monetising Europe materially and our forecasts include no EUCCS revenue – this is deliberate: procurement cycles for sovereign public-safety networks are long and politically complex; any European carrier or government win would be incremental to our numbers and at this stage, we believe, to management's US$10m ARR target.

Figure 2: EUCCS Opportunity

Open borders in the EU (Figure 2) means criminals can cross mainland Europe freely while police radios stop at each frontier (1985 Schengen Agreement) – a significant security gap that Etherstack's translation software solves.



Source: Veritas Research

FAA – Federal Aviation Administration, US government agency that regulates civil aviation.

UAV - Unmanned Aerial Vehicle (technical term for a drone or the aircraft itself)

BVLOS – Beyond Visual Line Of Sight

Public-safety agencies increasingly fly drone-as-first-responder (DFR) fleets: the FAA cleared over 1,000 US agencies in the ten months to February 2026 – more than the previous seven years combined. Once a UAV flies beyond its pilot's sight (BVLOS), video and command links typically travel over cellular networks – and public safety drones need the guaranteed priority only mission-critical broadband provides. Drones are therefore another workload pushing governments to build MCX networks like EUCCS – the type of networks Etherstack sells into.

The Strategic & Capital Management Review

The strategic and capital management review concludes in September 2026. One item under consideration is the restructuring of the UK parent's capital to create distributable reserves through a reduction of capital – under UK law, this is the necessary precondition for paying dividends or buying back stock. Our view is that a company is unlikely to undertake this work without contemplating distributions, and doing so signals the board now views cash generation as durable.

Risks

Include (but are not limited to): project delivery delays, cost overruns; client concentration and loss of key contracts; timely payment of receivables; exchange-rate movements; competition from larger communications vendors; government budget cycles; retention of specialist engineering talent; cybersecurity and security-clearance obligations; and intellectual property disputes.

Summary

We rate Etherstack as a BUY:

- **Revenue Visibility:** FY26 guidance of US$17.2-18.9m was reaffirmed with 84% of FY25 revenue already delivered in 1H; the US$50m+ contracted order book covers a multiple of FY26 revenue, with ~US$9m already called out for H2.
- **Recurring Revenue Inflection:** ARR rose 48% to US$5.5m and support revenue grew 120% in the half; management's US$10m ARR target would roughly double the recurring base by FY28, transforming earnings quality.
- **Structural Tailwind:** The decade-long migration of public-safety and industrial radio networks to 4G/5G MCX standards – validated by AT&T/FirstNet and now funded in Europe through EUCCS – gives Etherstack a long runway for growth.
- **Operating Leverage:** A substantially fixed engineering cost base holds EBITDA margins at ~31% before a step to 33% in FY28; US$12.9m of accumulated tax losses mean no cash tax through the forecast period.
- **Valuation:** Our $0.91 price target implies 50% total shareholder return; at $0.61 the shares trade on 7.9x FY27 EV/EBITDA, with revenue compounding at ~33%.

Etherstack – Description

Etherstack is a communications technology and software company specialising in developing and licensing mission-critical radio technologies for wireless equipment manufacturers and network operators. Listed on the ASX, the company serves carriers, government agencies, utilities and resources operators across North America, Europe and Asia-Pacific.

The business model has two engines. Project and licensing revenue arises from designing, deploying and integrating radio and MCX networks – typically milestone-billed government and carrier contracts. Support and recurring revenue follows each deployment: hosted carrier-as-a-service infrastructure, long-term support agreements and annually renewing licences. As the installed base grows, the recurring engine compounds. The strategic focus is the LMR-to-MCX transition in public safety and critical industries. AT&T FirstNet anchors the US business, the UK Home Office and Australian government contracts anchor the other core markets, and EUCCS provides the next structural opportunity.

Disclaimer and Rating Information

RATING

BUY – anticipated stock return is greater than 10%

SELL – anticipated stock return is less than -10%

HOLD – anticipated stock return is between -10% and +10%

SPECULATIVE – high risk with stock price likely to fluctuate by 50% or more.

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