EQUITY RESEARCH

Etherstack (ESK)

Growing into a High-Margin CaaS Compounder

We are initiating coverage with a BUY rating and a target price of A$0.91.

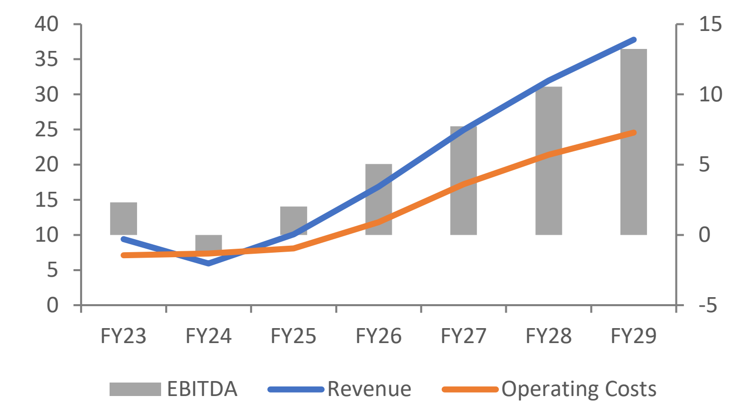
Etherstack has strong fundamentals:

- Etherstack builds the mission-critical software embedded in the world's most sensitive radio networks – the systems that first responders depend on when mobile phones fail.
- The Interworking Function (IWF) is the first proven bridge between legacy radio and 4G/5G, validated at a national scale on the two dominant global standards (TETRA and P25), and no competitor has replicated its production at a national scale.
- Governments cannot switch off ageing emergency radio without a working bridge to the new network – coverage gaps can be catastrophic – critical voice traffic must stay clear during modernisation of legacy systems.
- We forecast recurring support, CaaS and ARR to more than double from US$3.7m in FY25 to US$10.4m by FY28 and exceed 30% of total revenue, transforming the business from a project-based business into an annuity-style, high-margin platform.
- Sunk R&D and a largely fixed engineering cost base means incremental revenue is now dropping through to EBITDA by 30-40%, with EBITDA margins increasing to 20% in FY25 and stabilising at 30-35% from FY26E onwards, as seen in Figure 1.

Valuation Commentary: Investing In Front Of Demand

- Trading at 10.9x FY26E EV/EBTIDA and 7.1x FY27E EV/EBTIDA - the market prices this as a micro-cap project business, not a high-margin compounder – creating a significant valuation opportunity before re-rating occurs over the next 12 months.

Figure 1: Revenue/Costs (LHS, US$M) vs EBITDA (RHS, US$M)



Source: Veritas Research/Company Reports

Risks include (but are not limited to): project delays, exchange rates, competition, client economic conditions, project failure, timely payment, security risks, material litigation, talent retention, loss of contracts, cybersecurity, government changes, client concentration, IP disputes.

ESK.ASX BUY

Wednesday, 25 March 2026

Share Price AUD	$0.55
Price Target AUD	$0.91
Valuation Method	DCF/EV/EBITDA/ARR
Market capitalisation AUD	$78m
Enterprise value AUD	$79m
Sector	Communications Software
12 month price range AUD	0.17-0.76
Ave.vol - 250 days	76,318
Shares On Issue (m)	141.5
Top 20 holders	81%
Previous rating	Initiation

Year ended Dec. 31		FY25A	FY26E	FY27E	FY28E
Sales	US$m	10.1	16.9	25.0	32.0
Growth	%	70.1	67.0	48.2	28.0
EBITDA	US$m	2.0	5.1	7.7	10.5
Margin	%	20.0	30.0	31.0	33.0
NPAT	US$m	(0.7)	2.3	4.6	7.2
EPS (norm)	A¢ps	(0.7)	2.3	4.6	7.3
CFPS	A¢ps	3.2	6.0	7.5	6.9
FCFPS	A¢ps	(2.1)	0.3	1.9	1.3
PER	x	N/A	24.2	11.9	7.6
EV/EBITDA	x	27.2	10.9	7.1	5.2
EV/ARR	x	14.8	10.7	7.1	5.3
Net Cash	US$m	(0.6)	0.8	3.2	5.4
Book value per share	A¢ps	9.2	11.5	16.1	23.3

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

ESK vs. ASX Small Industrials

Source: Factset, Veritas

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

See Page 14 for a Glossary Of Terms

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Etherstack

Share Price: $0.55 ps **Valuation: $0.91 ps**

Financial Performance (US$M)

Year Ended December 31	FY25A	FY26E	FY27E	FY28E
Sales	**10.1**	**16.9**	**25.0**	**32.0**
Operating costs	(8.1)	(11.8)	(17.2)	(21.4)
EBITDA	**2.0**	**5.1**	**7.7**	**10.5**
D&A	(2.3)	(2.8)	(3.2)	(3.5)
EBIT	**(0.3)**	**2.3**	**4.5**	**7.1**
Net interest	(0.2)	(0.0)	0.0	0.2
Pre-tax Profit	**(0.6)**	**2.3**	**4.6**	**7.2**
Tax	(0.1)	0.0	0.0	0.0
NPAT	**(0.6)**	**2.3**	**4.6**	**7.2**
One off items (post-tax)	(0.1)	0.0	0.0	0.0
Reported profit	**(0.7)**	**2.3**	**4.6**	**7.2**

Cash Flow Statement (US$M)

Year Ended December 31	FY25A	FY26E	FY27E	FY28E
Operating EBITDA	**2.0**	**5.1**	**7.7**	**10.5**
Int/Tax Paid/rent/other*	(2.6)	(2.8)	(3.2)	(3.3)
Working Cap./other	3.8	3.7	2.9	(0.4)
Cashflow from ops	**3.2**	**5.9**	**7.5**	**6.9**
Maintenance Capex	(1.3)	(1.7)	(2.3)	(1.9)
Acquisitions(s)/R&D Cap.	(2.6)	(2.8)	(2.8)	(2.8)
Investing Cashflow	**(3.9)**	**(4.5)**	**(5.1)**	**(4.7)**
Dividends	0.0	0.0	0.0	0.0
Debt/other	(0.6)	(2.8)	0.0	0.0
Equity	3.4	0.0	0.0	0.0
Financing Cashflow	**2.8**	**(2.8)**	**0.0**	**0.0**
Net Increase/(decrease)	**2.1**	**(1.4)**	**2.4**	**2.2**

*Includes $0.628m UK R&D Incentive

Balance Sheet (US$M)

Year Ended December 31	FY25A	FY26E	FY27E	FY28E
Cash	2.3	0.8	3.2	5.4
Receivables	2.5	2.5	5.0	8.0
Contract assets	0.2	0.2	0.2	3.0
Current Assets	**4.9**	**3.5**	**8.5**	**16.4**
PP&E	1.3	2.5	4.0	4.8
Intangibles	9.4	9.9	10.3	10.7
Other non current assets	0.8	1.1	1.6	2.1
Non Current Assets	**11.5**	**13.6**	**16.0**	**17.6**
Total Assets	**16.5**	**17.1**	**24.4**	**34.0**
Payables	1.2	1.7	2.5	3.2
Provisions	0.2	0.4	0.6	0.7
Borrowings	2.8	0.0	0.0	0.0
Other liabilities*	3.1	3.7	5.4	7.0
Total Liabilities	**7.4**	**5.7**	**8.5**	**10.9**
Shareholder Funds	**9.1**	**11.3**	**15.9**	**23.1**

*Other Liabilitites - Includes employee entitlements, lease liabilities

Directors and Key Management Personnel	Position	Shares	Holding
Mr Peter Stephens	Chair	10.7m	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 Martin Duff	Snr Exec		

Major Shareholders	Shares	Holding
Mr David Deacon	48.6m	34.3%
Mr Peter Stephens	10.7m	7.6%
HSBC Noms	9.2m	6.5%
Mr Paul Barnes	6.9m	4.8%
Total	**95.7m**	**53.2%**

Source: Company data, Veritas Securities Research

Valuation Metrics	Valuation	Premium
Price Target (ps) - AUD	$0.91	66%
Share Price (ps) - AUD	$0.55	
USDAUD	0.70	
FY26 EV/EBITDA (x)	10.9	
Implied FY26 EV/EBITDA (x)	18.0	
Implied FY27 EV/EBITDA (x)	11.8	
Market Capitalisation (A$M)	77.9	
Enterprise Value (A$M)	78.7	
Share count (m)	141.5	

Valuation Multiples AUD

Year Ended December 31	FY25A	FY26E	FY27E	FY28E
P/E (x)	N/A	24.2	11.9	7.6
Price/Cash Flow (x)	17.0	9.2	7.3	7.9
EV/EBITDA (x)	27.2	10.9	7.1	5.2
EV/EBIT (x)	N/A	24.2	12.2	7.8
EV/Sales (x)	5.5	3.3	2.2	1.7
Equity FCF yield (%)	-3.8	0.6	3.4	2.3
Price to book value (x)	6.0	4.8	3.4	2.4
EV/ARR	14.8	10.7	7.1	5.3

Per Share Data AUD

Year Ended December 31	FY25A	FY26E	FY27E	FY28E
EPS diluted - adjusted (¢ps)	**(0.7)**	**2.3**	**4.6**	**7.3**
EPS diluted (¢ps)	(0.7)	2.3	4.6	7.3
Cash flow per share (¢ps)	3.2	6.0	7.5	6.9
Free cash flow per share (¢ps)	(2.1)	0.3	1.9	1.3
Cash (¢ps)	2.3	0.8	3.3	5.4
Book value (¢ps)	9.2	11.5	16.1	23.3
Shares on issue - avg. basic (m)	141.5	141.5	141.5	141.5
Shares on issue - avg. diluted (m)	141.5	141.5	141.5	141.5

Drivers (US$M)

Year Ended December 31	FY25A	FY26E	FY27E	FY28E
Project/SI/supply	6.2	11.5	17.0	21.3
Support (1)	3.7	5.2	7.7	10.4
Royalties	0.2	0.2	0.2	0.3
Total revenue	**10.1**	**16.9**	**25.0**	**32.0**
Normalised EBITDA	**2.0**	**5.1**	**7.7**	**10.5**

Half Year Performance (US$M)

Half Ended June 30	1H25A	1H26E	2H26E
Sales	6.1	7.6	9.2
EBITDA	2.5	1.5	3.5
NPAT	1.3	0.4	1.9

Performance Ratios

Year Ended December 31	FY25A	FY26E	FY27E	FY28E
Change in sales (US$m)	4.2	6.8	8.1	7.0
Change in EBITDA (US$m)	3.2	3.1	2.7	2.8
Operating leverage (%)	74.8	45.2	33.1	40.1
EBITDA Margin (%)	19.8	30.0	31.0	33.0
ROE (%)	(7.7)	19.8	28.7	31.2

Balance Sheet Ratios	FY25A	FY26E	FY27E	FY28E
Net cash/(debt) (US$M)	(0.6)	0.8	3.2	5.4

Date of guidance	Feb 2026
FY26 revenue	US$16.2m-$17.5m

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Investment Thesis (summary)

The existing order book underpins circa 65-70% revenue growth in FY26 as per management guidance (midpoint of US$16.2-17.5m).

Contract wins enable further customer acquisition through a network effect of providing critical infrastructure.

The emergency communication market is now in the deployment "go" phase after years of planning. Contract(s) are being awarded – work is underway.

On the 2nd of March, the company confirmed its first major milestone was delivered on time, contributing ~US$1.5m to H1FY26 revenues, with the project expected to contribute over US$6m to full year FY26.

We forecast increased defence spending to contribute to modernising essential communication infrastructure.

On the 24th of March, management announced additional professional services revenue to contribute beneficially to FY27 through its primary project in the UK.

The world's emergency services are in the early stages of a once-in-a-generation upgrade from legacy radio to 4G/5G networks – and Etherstack owns the critical software "bridge" that makes this migration possible. Etherstack's Interworking Function (IWF) technology enables seamless, standards-compliant connectivity between existing land mobile radio (LMR) systems and next generation mission-critical LTE/5G networks, positioning the company at the nexus of this global transition.

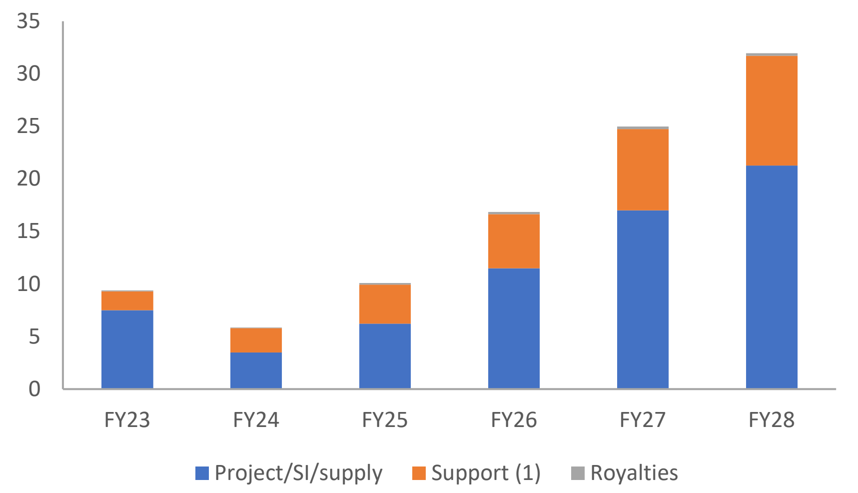
In FY25, Etherstack delivered record revenue of US$10.1m, **representing 70% year-on-year growth**. In the second half alone, the company announced more than US$40m of new contract wins to be recognised progressively over the next five years. **Management has guided FY26 revenue of US$16.2-17.5m**, implying a further 65% uplift (midpoint), underpinned by contracted projects.

Two landmark contracts provide the foundation for this step-change:

- **AT&T/FirstNet (US$21m+, 7-year term)** – Etherstack's IWF is now integrated into FirstNet, the largest mission critical public safety network in the world, serving essentially all US first responders. The agreement includes a minimum US$2.5m per annum, indexed, with additional subscriber-based revenue that is not fully reflected in headline contract values. The solutions have completed beta testing, are in live operation, and are already generating revenue.
- **UK Home Office/ESN (£14.2m/~A$30m, 5-year term)** – Following a competitive tender, Etherstack was selected to deploy its IWF into the UK Emergency Services Network, which underpins communications for police, fire, ambulance and more than 400 government and public safety agencies. The majority of the £14.2m contract value is expected to be recognised within the first 24 months, with a subsequent support and service tail.

These contracts are strategically significant not only for their size but because they represent the world's first and second national scale deployments of a 3GPP compliant LMR-IWF. Together they validate Etherstack's technology across both major digital radio standards; APCO P25 (prevalent in the Americas, Australia, New Zealand, Malaysia, and Indonesia) and TETRA (dominant in Europe and parts of Asia and the Middle East). This dual standard proof point is the key enabling milestone for broader global adoptions and security clearance for future government contracts.

Figure 2: Revenue Mix



Source: Veritas Research/Company Reports

Management estimates that up to 200 national or regional carriers will ultimately require similar IWF capability as they migrate legacy radio systems to 4G/5G. This transition is driven by regulatory and practical imperatives arising from 9/11, bushfire and other disaster inquiries, making reliable, interoperable emergency communications a mandated infrastructure priority rather than a discretionary spend.

InterWorking Function (IWF)

Land Mobile Radio (LMR)

Communications-as-a-Service (CaaS)

Against this backdrop, Etherstack now owns the two reference deployments against which subsequent jurisdictions are likely to benchmark their own projects, creating a powerful incumbency and credibility advantage that should strengthen with each additional win. Crucially, any further contract awards in FY26 would represent genuine upside to an already contracted and highly visible revenue base seen in Figure 2. Using the contracted revenue profile as a foundation, it is reasonable to model a conservative but meaningful improvement in EBITDA margins from FY25 to FY28. The AT&T agreement alone supports a doubling of revenue, with margins inflecting from a loss in FY24 to 20% in FY25, underpinning strong free cash flow conversion as scale benefits flow through the cost base.

FY24 Underperformance: A Valuation Opportunity

FY24 created a bearish market perception that has promulgated the underlying market discount to fair value, despite underlying fundamentals remaining strong. The loss of US$3.9m, a 37% revenue decline and gross margin collapse from 55% to 24% led to a sharp share price decline. This was despite cash receipts growing 4%, operating cash flow remaining positive and two delayed projects creating timing issues, rather than a decrease in the revenue base:

FY24's timing-driven loss created a mispricing that unwinds over 12 months as contracted deployments convert to recurring revenue, inflecting profitability and cash flow.

- The deferral of deliverables was not due to any inability to deliver on the part of Etherstack; this was due to the AT&T FirstNet pre-production milestones and an Australian federal government project – both of which involve complex multi-party integrations where Etherstack is one component in a much larger system, and the deployment timeline is dictated by the prime contractor government agency.
- The FY24 contracted backlog meant Etherstack was dependent on a handful of uncontracted project milestones that could slip. Today however, the company has a US$40m+ signed order book to be realised over FY26 and the subsequent five years, anchored by the 7-year AT&T MSA (US$21m+ lifetime, US$2.5m pa minimum) and the 5-year UK Home Office ESN contract (US$14.2m initial term).
- **The disconnect between fundamentals and market perception is what currently positions Etherstack as a great mispricing opportunity. Recent FY25 results in Figure 3 point to operational momentum building that will close this valuation gap as the company transitions to compounding high margin annuity growth.**

Figure 3: Financial Highlights 2025

Total Revenue + 70%	**Record Year** Revenue >US$10m	**EBITDA Margin** 20%
ARR Revenue +62%	**Record US Deal** US$20m AT&T	**Record UK Deal** £14.2m UK Home Office
Department Of Defence A$2.5m contract award	**FY26 Revenue Guidance** +60% growth	**FY28 ARR Guidance** US$10m+

Source: Veritas Research/Company Presentation

Products & Service

Around the world, first responders and key personnel across a range of sectors (Figure 4) rely on specialised push-to-talk radio networks rather than ordinary mobile phones because these systems are always available, cannot be congested by public traffic during a crisis, provide strong encryption and deliver instant, group-based communication.

Etherstack writes the code embedded in many radios and in the underlying network infrastructure, defining how devices communicate with each other and with the network. It also supplies the switching software that carriers such as AT&T and Telstra deploy in their data centres to operate mission-critical services at a national scale. This mission critical communications technology and solutions are deployed across three core markets:

Traditional: Digital Land Mobile Radio (LMR) Networks.

- **Digital Land Mobile Radio (LMR) Networks**: Digital wireless communication networks, technology licensing to equipment vendors, cryptographic and defence solutions. With an increasing number of network deployments across public safety, resources and utilities, this market supports SaaS like high margin support revenue.

Emerging: Mission Critical Push To Talk (MCPTX) Over Cellular Networks (4G & 5G).

- **Mission Critical Push To Talk (MCPTX) Over Cellular Networks (4G & 5G):** Mission Critical Push To Talk (MCPTX) over LTE for new 4G &5G networks – world leader in 3GPP MCPTX IWF technology – bridging the past and future. This market has brought multiple contract wins through AT&T, UK Home Office and a global partnership with Samsung.

Defence Tactical: Satellite Push To Talk (PTT) and Defence Systems.

- **Satellite Push To Talk (PTT) and Defence Systems:** Developing secure wireless communications software for Satellite over many years, opportunity to incorporate Etherstack into satellite communications suppliers – significant defence projects underway.

IP Moat: Over US$36m invested in intellectual property across 20+ years; US$9.4m on the balance sheet – deep, compounding R&D advantage.

Etherstack's highest-growth product is its LMR-IWF – a 3GPP standards-compliant software switching platform deployed inside carrier data centres that bridges legacy radio networks to 4G/5G broadband, enabling hybrid operation during the multi-decade narrowband-to-broadband migration.

Licensing Reach: Technology licensed to 20 global OEMS (Samsung, Nokia, Thales, Icom) generating royalty revenues alongside direct sales.

Beyond IWF, Etherstack develops military-grade cryptographic systems for defence (A$15m in Australian Commonwealth contracts since 2021) is pursuing satellite push-to-talk integration for beyond terrestrial coverage, manufactures XBR digital repeaters for public safety, and owns Auria Wireless – a Sydney based integrator with nine P25 networks deployed into Rio Tinto mine sites and statewide utility networks like Energy Queensland.

Each product line follows a J-curve; heavy upfront project investment followed by conversion to high-margin recurring CaaS and support fees. Public safety IWF deployments are now cresting that curve, with the resulting operating cash flow designed to self-fund development of rail MCPTX applications over the next 24 months.

Figure 4: Customer Mix

Source: Veritas Research/Company Presentation

Structural Demand

By offering advanced mission-critical software and services that Etherstack provides, the government/emergency services get better equipment in the move to 4G/5G.

Demand for Etherstack's products is driven by a simple, non-discretionary reality: the world's emergency communication networks are ageing, and governments have no choice but to replace them. Most countries still rely on digital radio systems built in the 1990s and 2000s to connect police, fire and ambulance services. These networks are reliable for voice, but they cannot carry data, video or modern applications and are approaching the end of life. At the same time, 4G and 5G mobile networks now provide the bandwidth and capabilities needed for advanced emergency services, including real-time location tracking, live video and prioritised voice at a national scale.

This ability to offer an advanced service bundle helps differentiate the major telco equipment providers when they are seeking to upsell 4G/5G equipment/services.

However, no jurisdiction can simply switch off the old system and turn on the new one overnight. Hundreds of thousands of radios are already deployed, billions have been invested in legacy infrastructure, and any gap in coverage – even for minutes – can be catastrophic. Etherstack's Interworking Function (IWF) sits precisely in this transition layer; it allows legacy radio and new 4G/5G networks to operate in parallel and interoperate seamlessly, enabling a phased migration over many years rather than a straight cutover.

Annual global spending on public safety LTE/5G infrastructure reached US$5 billion in 2025 and is forecast to exceed US$6.3 billion by 2028 (8% CAGR), with "multiple contracts recently awarded for both gateway-enabled interoperability solutions and standards-based IWF technology" – SNS Telecom January 2026 Whitepaper.

This is not a theoretical opportunity awaiting funding; programmes are active and underway. The United States built FirstNet, the world's largest public safety broadband network, in direct response to communication failures during the 9/11 attacks, where incompatible radio systems contributed to first responders missing evacuation orders. The UK's Emergency Services Network has been more than a decade in planning and is now moving into deployment, covering police, fire, ambulance and over 400 government and public agencies. Australia's bushfire inquiries have reached similar conclusions; public mobile networks fail under stress, and dedicated emergency systems must be modernised.

Demand is also expanding beyond public safety into adjacent mission critical sectors. Mining companies such as Rio Tinto are rolling out private digital radio networks across remote operations with no commercial mobile coverage. Electric utilities in the US, Canada and Australia use comparable systems to manage power grids. Defence forces are upgrading tactical communications to counter jamming and improve interoperability across allied nations. Each of these use cases relies on the same core capability Etherstack provides; secure, always on, mission-critical voice and data that remain operational when ordinary networks cannot.

Management likens the current phase to the early rollout of SMS or voicemail in carrier networks; a new, globally standardised network element that ultimately hundreds of national and regional carriers will need to adopt. The deployment cycle is only just beginning.

With structural demand clear, Etherstack captures this through the following competitive advantages:

A neutral business model in a room of competing powers ensures Etherstack is the only IWF vendor every ecosystem partner can safely adopt.

- **Only vendor with live national-scale IWF on both global standards.** AT&T's FirstNet (P25, 30,000+ agencies) and the UK Home Office ESN (TETRA) are the first and second standards-compliant IWF deployments anywhere in the world.
- **Neutral middleware, not a threat**. Etherstack doesn't sell radios, handsets or core network — it's software and technology stacks that slot between OEMs like Samsung, Nokia and StreamWIDE. Competitors like Hytera, Leonardo and Teltronic push end-to-end proprietary stacks, which limits their addressable market because carriers won't adopt IWF from a rival infrastructure vendor.
- **Competitors are still in the lab.** Rohill has passed ETSI plugtests with six MCX vendors but has zero disclosed national deployments. Hytera's HyTalk MC 6.0 relies partly on proprietary protocols. Teltronic advertises MCX capability with no published IWF contract win.
- **Reference-driven procurement creates a compounding moat.** Government buyers are risk-averse — they select proven deployments over technically capable alternatives. Every new Etherstack win makes the next one easier; every year without a competitor deployment makes the gap harder to close.

Financial Analysis

We forecast Etherstack to grow revenue from US$10.1m in FY25 to US$32m by FY28 – a 3.2x increase – driven by the monetisation of contracted IWF deployments and the structural compounding of recurring CaaS and support revenues. EBITDA shifts from –(US$1.2m) in FY24 to US$10.5m over the same period, and the balance sheet transitions from net debt of US$0.6m to net cash of US$5.4m by FY28 via internal funding.

The company's US$33m of cumulative R&D investment, dual-standard validation, and embedded position within AT&T and Samsung's ecosystems mean it can reuse the same core IP for each new national deployment at near zero incremental development cost. The financial consequence is a business now structurally transitioning from lumpy, project-dependent revenues towards recurring, high-margin income streams – and the operating leverage embedded in that transition is significant.

Revenue Streams

Our FY26 revenue forecast of US$16.9m is built from identifiable, contract sources and the midpoint of management guidance. The traditional base business – project/supply, support and royalties – contributes a steady foundation, essentially flat to FY25 as this mature book ticks along. AT&T/FirstNet adds project deployment revenue plus CaaS/support fees under the 7-year master service agreement with a minimum US$2.5m per annum floor, scaling as the platform exits beta and begins recognising subscriber-based fees.

Etherstack's business model is best understood as the monetisation of a structural demand cycle still in its infancy.

The UK Home Office ESN contract is the largest single driver, with management confirming in March 2026 that the first major milestone was delivered on time, contributing US$1.5m to H1 FY26 revenues, and the project is expected to contribute over US$6.0m to FY26 full year revenues. The majority of the £14.2m contract value is expected to be recognised within 24 months (FY26-FY27), with the remainder spread across the following three years. Australian Defence contributes further, with the November 2025 A$2.5m award expected to be mostly recognised in FY26, and further material awards flagged by management.

We have modelled minimal revenue from new, unannounced contracts in FY26 – any major wins represent pure upside. Revenue growth decelerates from +67% in FY26 to +48% in FY27 and +28% in FY28 – but the quality of each dollar earned improves materially. The key dynamic is the UK contract lifecycle: UK deployment revenue peaks in FY26-FY27 as Etherstack builds and integrates the IWF into the ESN network, then tapers once the deployment phase concludes. However, this is offset by UK CaaS revenues stepping up significantly from FY28 when the ESN goes live and Etherstack begins earning recurring fees from the operational network.

AT&T CaaS/Support grows similarly as subscriber volumes scale across FirstNet. We introduce modest new project wins from FY27 – a conservative placeholder given management estimates up to 200 national or regional carriers will ultimately adopt IWF technology, and Etherstack holds the only two national-scale, production 3GPP IWF deployments in the world – one on each of the two dominant global LMR standards, P25 and TETRA.

The net result is that support and CaaS revenues grow from US$3.7m in FY25, representing 37% of revenue, to an estimated US$10.4m by FY28, representing 33% of a much larger revenue base of US$32m. This shift is the single most important financial development for the business – it replaces lumpy, timing dependent project revenue with contracted, annuity style that carries SaaS-like margins and fundamentally reduces earnings volatility.

Operating Leverage

Etherstack capitalised US$2.641m of development expenditure in FY25 – up from US$2.6m in FY24 – sustaining its cumulative IP investment at over US$33m at cost.

Etherstack's cost base is predominantly fixed. The major expense is engineering talent – the company grew from approximately 40 employees in FY24 to 64 specialists across 7 countries by FY25 year-end, with the step-up driven by headcount additions in the UK, US, and Australia to service the AT&T and Home Office contracts. Total administrative costs grew from US$3.7m in FY24 to US$4.3m in FY25, reflecting this expansion, while sales and marketing costs fell from US$1.4m to US$1.1m as the business shifted from market development to contract execution.

Etherstack owns its core code outright, pays no royalties to third parties, and has tax credits from both Australia and the UK R&D incentive scheme. Due to the location of the engineering base in Australia – this is where most of the tax credit is derived from. We forecast total operating costs rising from US$8.1m in FY25 to US$21.4m by FY28 – the increase driven by headcount expansion to service the UK ESN deployment and eventual OECD market pursuits, plus higher amortisation of capitalised IP.

Management has explicitly identified global rail deployments as a future application of IWF technology alongside utilities networks.

Against this, revenue grows faster; EBITDA expands from US$5.1m in FY26 to US$10.5m by FY28, with margins stepping from 20% in FY25 to 30% in FY26 and stabilising at 31-33% through FY27-28. This margin normalises as the company invests incrementally in headcount and operations, notably the UK expansion confirmed by the opening of a second London facility in early 2026.

By FY28-29, both the public safety and rail platforms will have passed the deployment phase and entered long-duration support contracts – generating high margin recurring revenue that requires almost no incremental cost to maintain.

Gross margin is the key variable. When Etherstack sells its own software and services, gross margins reach ~80%. When a project requires pass-through third-party hardware, margins compress to 20-30%. This mix effect explains the shift from 55% gross margin in FY23 to 24% in FY24 (a hardware-heavy, low-revenue year) and back to 64% in H1 FY25 as software-rich IWF revenues dominated. As CaaS and support become structurally larger, the gross margin floor rises, and the P&L becomes far less susceptible to cyclical project-based earnings.

That compounding cash flow creates the internal capacity to self-fund the defence division, which has longer sales cycles and higher barriers to entry, but rewards patience with long-term contracts.

Etherstack's business model operates as a sequenced CaaS/SaaS flywheel. As public safety IWF contracts (AT&T, UK Home Office) transition from deployment to recurring CaaS and support revenue through FY27, the high-margin cash flows generated fund development of rail MCPTX products – the next J-Curve.

Profitability Inflection

EBIT turns positive in FY26 at US$2.3m — the first time the business fully covers its amortisation charge from operating earnings. Etherstack typically capitalises R&D as intangible assets are amortised over a six year straight-line; cumulative costs stood at US$33.5m by mid-FY25, with the carrying value at US$9.4m. We model R&D capitalisation at US$2.8m p.a. from FY26 onwards, accounting for engineer salaries capitalised into software IP, dominated by the MCX-IWF programme.

Balance Sheet and Free Cash Flow

The balance sheet moves in two phases. FY26–27 is the "deployment build": receivables scale from US$2.5m to US$5m as milestones are billed, with working capital contributing US$3.7m in FY26 as government receipts run ahead of revenue recognition. FY28 marks the "cash conversion" phase as CaaS revenues scale and billings become recurring.

Operating cash flow has been positive for eight consecutive years. FY25 produced US$3.2m in operating cash flow on US$12.0m receipts against US$10.1m reported revenue — even as the P&L reported a US$0.7m loss. Cash flow scales to US$5.9m in FY26 and US$7.5m in FY27. The FY26 model assumes full cash repayment of the US$2.8m in borrowings (US$2.5m at 6.5% unsecured, June 2027 maturity, with a conversion option over 6.5m shares — the more dilutive assumption for shareholders). Tax is effectively zero: US$12.9m in accumulated losses shelters UK contract revenues. ROE recovers from -7.7% to 31.2% by FY28.

Peer Valuation Evidence

The peer set in Figure 5 compares Etherstack to a mix of Australian and International communications companies operating within adjacent sectors.

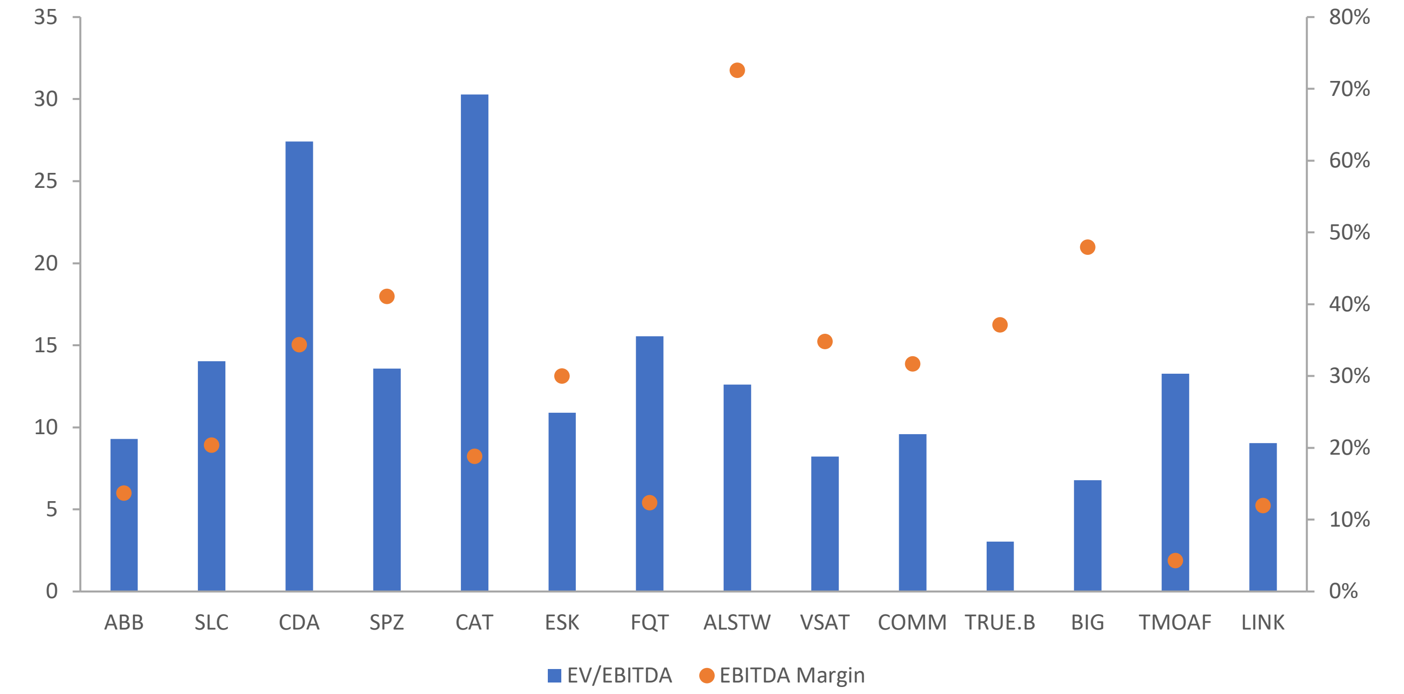
Figure 5: Australian and International Small-Cap Comparable Analysis

	Code	Price	Mkt Cap	EV	EV/EBITDA (x)				EBITDA Margins (%)			
Australian		LC	$m	$m	FY25A	FY26E	FY27E	FY28E	FY25A	FY26E	FY27E	FY28E
Aussie Broadband Ltd.	ABB-ASX	4.73	1,384	1,512	10.9	9.3	7.7	6.9	13.8	13.7	15.1	14.9
Superloop Ltd.	SLC-ASX	3.10	1,596	1,577	17.1	14.0	11.8	10.4	21.9	20.4	20.3	20.1
Electro Optic Systems Holdings Limited	EOS-ASX	8.96	1,729	1,754			63.7	42.0			22.7	17.1
Codan Limited	CDA-ASX	34.27	6,233	6,354	34.6	27.4	23.5	20.9	33.4	34.4	34.3	34.7
Smart Parking Limited	SPZ-ASX	1.08	443	432	21.1	13.6	10.9	8.9	37.5	41.1	36.1	38.4
Catapult Sports Ltd.	CAT-ASX	3.38	1,032	1,030	36.4	30.3	21.1	15.2	18.8	18.9	22.8	26.6
Average					**24.0**	**18.9**	**23.1**	**17.4**	**25.1**	**25.7**	**25.2**	**25.3**
Median					**21.1**	**14.0**	**16.5**	**12.8**	**21.9**	**20.4**	**22.7**	**23.3**
Etherstack	**ESK-ASX**	**$ 0.55**	**78**	**79**	**27.2**	**10.9**	**7.1**	**5.2**	**19.8**	**30.0**	**31.0**	**33.0**

	Code	Price	Mkt Cap	EV	EV/EBITDA (x)				EBITDA Margins (%)			
International		LC	LCm	LCm	FY25A	FY26E	FY27E	FY28E	FY25A	FY26E	FY27E	FY28E
Frequentis AG	FQT-WBO	72.0	956	925	17.1	15.5	13.7	11.8	12.7	12.4	12.3	12.6
StreamWIDE	ALSTW-FR	70.0	196	192	16.3	12.6	11.1	9.5	60.5	72.6	66.6	69.1
Icom Incorporated	6820-JP	3010.0	44,699	17,595								
ViaSat, Inc.	VSAT-US	52.1	7,050	12,953	8.4	8.2	8.0	7.7	36.1	34.8	34.5	35.0
OKI Electric Industry Company, Limited	6703-JP	2671.0	232,958	301,900								
CommScope Holding Co., Inc.	COMM-US	17.8	3,950	12,769	16.9	9.6	8.4	7.7	11.3	31.7	27.8	35.3
EZconn Corp.	6442-TW	2005.0	155,073	153,371								
Truecaller AB Class B	TRUE.B-SE	11.0	3,325	2,101	3.1	3.0	2.6	2.0	39.6	37.2	42.0	47.1
Big Technologies PLC	BIG-LON	87.0	257	164	6.1	6.8	6.5	6.0	48.9	48.0	51.4	53.4
TomTom NV	TMOAF-USA	4.5	556	328	16.5	13.3	5.9	4.7	3.4	4.3	9.9	12.5
LINK Mobility Group Holding ASA	LINK-OSL	21.9	6,556	7,586	10.6	9.0	6.4	5.8	11.1	12.0	16.5	14.8
Average					**11.9**	**9.8**	**7.8**	**6.9**	**27.9**	**31.6**	**32.6**	**35.0**
Median					**13.4**	**9.3**	**7.3**	**6.8**	**24.4**	**33.3**	**31.2**	**35.2**

Source: Factset/Veritas Research

Figure 6: EV/EBITDA (X, LHS) vs EBITDA Margin (%, RHS)



Source: Factset/Veritas Research

Etherstack trades at a 10.9x FY26E EV/EBITDA on a 30% margin — below the Australian peer median of 14x on 20.4%, and roughly in line with the international median of 9.3x on 33.3%. Etherstack also trades at a 7.1x FY27E EV/EBITDA on a 31% margin – below the Australian peer median of 16.5x on 22.7% and in line with the international median of 7.3x on 31.2%. We believe the market valuation discount applied in Figures 5 & 6 will be corrected as the SaaS/CaaS business model compounds.

Most companies in this peer valuation grow revenue by spending more money. Aussie Broadband (ABB, not covered) and Superloop (SLC, not covered) need to build a physical network to win customers. Codan sells hardware where margins are capped by component costs and manufacturing. These are decent businesses, but their cost bases are inherently variable — margins expand slowly because each new dollar of revenue brings real incremental cost with it.

Etherstack however has spent US$33.0m over a decade building proprietary IWF software that is now finished, production-grade, and validated on both global radio standards. When it wins the next national deployment — whether that's Germany, Belgium or Canada — Etherstack ships the same code. The UK Home Office and AT&T contracts aren't the beginning of a new R&D cycle; they're the start of a replication cycle where the heavy lifting is already done. With a SaaS/CaaS model now deployed to leverage structural government demand, margins are forecast to move from 20% to 33% over three years while most peers in this table present flat trajectories, as Etherstack moves into a functioning SaaS flywheel in Figure 7.

Then there's the mix shift. As deployments convert to live operational networks, Etherstack starts earning CaaS fees — subscriber-based, ~80% gross margin, contracted for 5–7 years with annual price escalators. Frequentis and CommScope remain project-dependent, while StreamWIDE already has high margins but trades at 12.6x, demonstrating the market's re-rating potential of SaaS/CaaS business models in this communications vertical.

In summary, a reusable IP, a fixed cost base absorbing 67% forecasted revenue growth in FY26 (45% operating leverage), and a structural pivot to contracted annuity income from sovereign counterparties, means that a business heading to 33% EBITDA margins on recurring government revenue should trade at a premium to a 14x peer median, not a 28% discount.

Figure 7: SaaS Flywheel

Source: Veritas Research

Valuation

We have used a traditional, Sum-Of-The-Parts EV/EBITDA and EV/ARR valuation using a conservative peer multiple.

Figure 8: Traditional EV/EBITDA, SoP EV/EBITDA and EV/ARR Valuation

USD Segment / $m	FY27 EBITDA	Multiple (x)	Value $m
Group EBITDA	7.7	12.5	96.8
Enterprise Value			97
Less FY25 (net debt)/cash			(0.6)
Equity Value			96
No. Shares (diluted) FY26			141.5
Value per USD$/share		$	0.68

USD Segment / $m	FY27 EBITDA	Multiple (x)	Value $m
CaaS EBITDA	5.4	14.0	75.7
Project EBITDA	2.3	7.5	17.5
Enterprise Value			93
Less FY25 (net debt)/cash			(0.6)
Equity Value			93
No. Shares (diluted) - FY26			141.5
Value per USD$/share		$	0.65

USD Segment / $m	FY28	Multiple (x)	Value $m
ARR	10.4	8.0	83
Valuation			83
Equity Value			83
No. Shares (diluted) - FY26			141.5
Value per USD$/share		$	0.59

Source: Veritas Research

Although not included in the blended valuation, we have performed a DCF valuation for reference.

Figure 9: DCF

Free Cash Flow Valuation			Cost of Equity	
Valuation year:		FY1	Risk Free Rate	5.0%
PV of FCF		15.6	Beta	1.20
PV of Terminal Value		76.5	ERP	6.0%
Add: JV - /other		-	Cost of Equity	12.2%
Enterprise Value		92.2		
Less: Net debt		(0.6)	Cost of Debt	7.0%
Less: Preference capital		-	Debt Weight	6%
Less: Minority Interest		-	Equity Weight	94%
Equity Value		91.6		
Yr end adjustment		0.917		
Equity value adjusted		84.0		
Issued shares m		141.5		
Value per share	$	0.59		
Convert to AUD	$	0.85		
Assumptions				
LT Growth		3.0%	USD/AUD	0.70
WACC		11.9%		
RONIC after Yr 5		15.0%		

Source: Veritas Research

We use a combination valuation to derive our price target of A$0.91.

Figure 10: Blended Valuation

Blended Valuation		Value $	Weight
EV/EDITDA X	$	0.68	33.3%
SoP EV/EBITDA	$	0.65	33.3%
EV/ARR - FY28	$	0.59	33.3%
Blended (1) USD valuation	$	0.639	
USDAUD FX rate (2)		0.70	
AUD valuation (1 div 2)	$	0.91	
Current Price	$	0.55	
Difference		66.0%	
TSR		66.0%	

Source: Veritas Research

Summary

We rate Etherstack as a BUY with a target price of A$0.91.

- **Valuation Opportunity**: Trading at a 10.9x FY26 EV/EBTIDA with 30% margins - the market prices this as a micro-cap project business, not a recurring revenue software compounder. Our price target sits at a 66% premium to the current share price.
- **Structural Demand:** Governments must replace ageing radio networks — this isn't discretionary IT spend; it's mandated critical infrastructure.
- **Execution Proven:** AT&T FirstNet and UK Home Office — the world's first two national-scale IWF deployments — are live, on-time and generating revenue.
- **Guidance:** FY26 revenue of US$16.2–17.5m is 65–70% growth underpinned by a signed order book — any new wins are pure upside to forecasts.
- **Competitive Advantage:** Hytera, Rohill and Teltronic remain in lab or plug test phases — Etherstack's dual-standard reference deployments are years ahead.
- **Operating Leverage:** US$33m of sunk R&D is redeployed per jurisdiction at near-zero incremental cost — margins expand from 20% to 33% as revenue triples.
- **J-Curve:** Project deployments convert to 80%-margin CaaS recurring revenue on 5–7 year terms.
- **Earnings Inflection:** We forecast EBITDA to shift significantly from a US$1.2m loss in FY24 to US$5.1m in FY26.

Risks include (but are not limited to):

Project delays due to exogenous variables, exchange rates, demand for communication services, competition, rivalry technology, client economic conditions, winning too much work at once, project failure, timely payment, security risks, IP disputes, loss of key staff, patent infringement, material litigation, talent retention, loss of contracts, cost risk, decision delays, procurement/supply risk, client failure, adverse government changes, safety failure, cyber security, client concentration and product warranty claims.

Glossary Of Terms

3GPP – The global standards body that defines how 4G/5G networks work – including how IWF and MCX are built.

APCO P25 – The dominant legacy radio standard used by emergency services in the US, Australia, Canada and parts of Asia-Pacific.

ARR - Annual Recurring Revenue.

CaaS (Communications as a Service) – Etherstack's recurring subscription revenue model – customers pay ongoing fees per agency or per user, like SaaS.

ESN (Emergency Services Network) – The UK's national programme replacing its old TETRA radio system with a 4G/5G broadband network.

FirstNet – The US national public safety broadband network, built by AT&T after 9/11 communication failures.

IWF (InterWorking Function) – The software bridge that lets old radios talk to new 4G/5G networks during the migration – Etherstack's core product.

LMR (Land Mobile Radio) – The existing radio networks police, fire and ambulance use today – the "old" system is being replaced.

MCPTT/MCPTX (Mission Critical Push-To-Talk) – 'Walkie-talkie' instant voice service with MCX – press a button, talk to your group instantly.

OEM (Original Equipment Manufacturer) – Companies like Samsung, Nokia and Thales that build the actual radios and network hardware.

PTT (Push-To-Talk) – Instant group voice communication activated by pressing a button, the core function of all emergency radios.

RAN (Radio Access Network) – The physical cell towers and antennas that provide wireless coverage – Etherstack does not sell this.

SaaS (Software as a Service) – Software sold as an ongoing subscription rather than a one-off purchase – customers pay recurring fees to access and use it.

TETRA – The dominant legacy radio standard used by emergency services across Europe, the Middle East and parts of Asia.

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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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Stephen Scott and his family own shares in Etherstack.

Miles Crowe and his family do not own Etherstack.

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