

29 January 2021

ASX Announcement

ETHERSTACK PLC [ASX:ESK]

("Etherstack" or the "Company")

Etherstack plc Trading Update & Appendix 4C

Etherstack is pleased to present commentary on activities in Q4 FY20 and up to the date of this report, to accompany the lodgement of this Appendix 4C quarterly cash flow report for the quarter ending 31 December 2020.

All amounts are in \$USD '000 unless otherwise specified.

Highlights

- Strong Order Book:** The Company enters FY2021 with a strong order book that, when combined with established recurring revenues, leads management to provide guidance that FY2021 should significantly outperform FY2020
- Strategic Wins:** AUD\$4.1m Australian Department of Defence contract in December 2020, following on from the previously announced Global Teaming Agreement with Samsung in mid-2020
- Recurring Revenue Growth:** Recurring revenues from support contracts and royalties grew 27% year-on-year to US\$2.33m for FY2020 (from US\$1.84m in FY2019) as shown in the accompanying graph
- Strong Increased Cashflow:** Net operating cashflow was US\$1.73m for FY2020 (up from US\$1.4m in FY2019) the third successive year of positive net operating cashflow. This led to a further reduction in debt
- Positive EBITDA:** FY2020 EBITDA and revenues will be in line with the previous FY2019 year's results. In FY2019 EBITDA was US\$1.1m on revenue of US\$4.8m
- Successful Capital Raise:** Raised AUD\$5 million in December 2020 before costs, providing additional working capital in support of development activities related to the Samsung agreement and Australian defence project

Summary

The company successfully completed a capital raising in December 2020 via an institutional placement with new institutional investors and high net worth investors, raising AUD\$5 million before costs. The placement was undertaken at an issue price of AUD\$0.58 per CDI and the proceeds of the raise will provide balance sheet flexibility to:

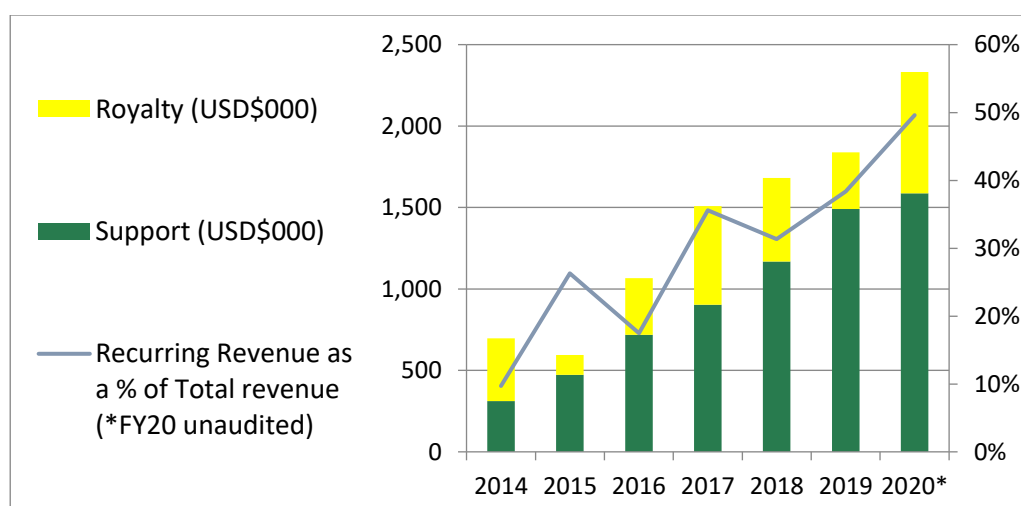
- Enable and accelerate the pursuit of evolving market opportunities in Government Infrastructure, Defence and Public safety markets in particular those opportunities involving Etherstack's Mission Critical Push to Talk and PTT over satellite solutions;
- Enable and accelerate intellectual property developments needed for success in these market sectors; and
- Strengthen working capital resources.

In the quarter, the Company announced:

- a technology licensing contract with the Australian Department of Defence to supply Etherstack technology and associated delivery services to the Commonwealth of Australia with an initial value of AUD\$4.1m, with the majority of this revenue to be recognised in FY2021.
- its North American subsidiary, Etherstack Inc. successfully delivered and commissioned a digital radio network for the Royal Canadian Mounted Police (RCMP), the federal policing agency of Canada, within the Arctic Circle.
- New technology licensing deal in France with TPL Systemes. This licence was subsequently delivered within the quarter and royalty revenue has been recognised.

In addition, the Company notes:

- Ongoing joint pursuit of carrier opportunities with Samsung under the Global teaming agreement announced in June 2020 are expected to generate additional revenues this FY
- Additional Australian defence sector pursuits are underway
- Recurring support revenues, a key performance indicator, have remained strong year to date and for the quarter.
- The Company's annual financial statements are in the process of being drawn up and audited. At this point Management expect revenue and EBITDA results will be comparable to the prior year. The net profit after tax will be impacted by a non-cash finance charge of \$2,383 recognised in the half year financial statements connected to the revaluation of the convertible note liability as a result of the sharp increase in the Company share price on 30 June 2020.



Cashflow commentary

- Cash Receipts from customers of \$1,055 for the December quarter is slightly higher than previous quarters but below the average for the year as:
 - There was very strong collections quarter for the 30 June quarter in which \$2,248 was collected.
 - While the general impact of Covid 19 is expected to be limited, there has been some timing issues with project activity. Activity and hence cashflow was delayed in the September and December quarters relative to the first half.
 - A R&D incentive of \$280 received on 2nd October 2020 as well as some Covid relief measures.
- December quarter cash position is \$4,180 which has increased over the quarter as a result of:
 - Capital raise in December 2020 raising \$3,557
 - Positive operating cash of \$470 for the quarter
 - Loan repayments of \$40 in the quarter making \$556 in loan repayments for the year
 - Increased investment in intellectual property developments of \$623 for the quarter and \$1,401 for the year which has offset the increased cash position produced by the above items
- Payments for directors' fees and salaries for the quarter were \$100.

Etherstack CEO, David Deacon said, "The Company is delivering on its plans through excellent booked and previously announced forward deal flow. 2021 is shaping up as a signature growth year for the business as we push into new markets and territories with world class products and partners."

Impact of Covid 19

Management and the Board of Directors are continuously monitoring the impact of Covid 19. In general, the impact on the business is expected to be at the lesser end of the range and while there have been some timing impacts, the company has been able to manage these issues to minimise disruption. Notwithstanding, a very high degree of caution will continue to be exercised through this uncertain period. Management and the Board of Directors will continue to monitor the impacts and take all necessary actions to protect the business and all stakeholders.

Authorised for release by David Carter, Company Secretary

Enquiries

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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.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

ETHERSTACK PLC

ABN	Quarter ended ("current quarter")
34 156 640 532	31 December 2020

Consolidated statement of cash flows	Current quarter \$USD'000	Year to date (12months) \$USD'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,055	5,528
1.2 Payments for		
(a) research and development ¹	-	-
(b) product manufacturing and operating costs	(168)	(1,009)
(c) advertising and marketing	(2)	(8)
(d) leased assets	(45)	(169)
(e) staff costs	(427)	(2,076)
(f) administration and corporate costs	(233)	(883)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	(31)
1.6 Income taxes paid	(1)	(30)
1.7 Government grants and tax incentives	291	411
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	USD 470	USD 1,733

¹ Development costs are capitalised and shown as investing activities in 2.1(e)

Consolidated statement of cash flows	Current quarter \$USD'000	Year to date (12months) \$USD'000
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(14)	(69)
(d) investments	-	-
(e) intellectual property	(623)	(1,401)
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(g) entities	-	-
(h) businesses	-	-
(i) property, plant and equipment	-	-
(j) investments	-	-
(k) intellectual property	-	-
(l) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	USD (637)	USD (1,470)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	3,791	3,791
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	36
3.4 Transaction costs related to issues of equity securities or convertible debt securities	(234)	(238)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(40)	(556)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other – Principal element paid on leased assets	(32)	(132)
3.10 Net cash from / (used in) financing activities	USD 3,485	USD 2,901

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (12months) \$USD'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	767	931
4.2	Net cash from / (used in) operating activities (item 1.9 above)	470	1,733
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(637)	(1,470)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,485	2,901
4.5	Effect of movement in exchange rates on cash held	95	85
4.6	Cash and cash equivalents at end of period	USD 4,180	USD 4,180

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$USD'000	Previous quarter \$USD'000
5.1	Bank balances	4,180	767
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	USD 4,180	USD 767

6.	Payments to related parties of the entity and their associates	Current quarter \$USD'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	100
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Payments are director fees to non-executive directors and salaries to executive directors including superannuation.

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$USD'000	Amount drawn at quarter end \$USD'000
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	-	-

7.5 **Unused financing facilities available at quarter end** -

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

8.	Estimated cash available for future operating activities	\$USD'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	470
8.2	Cash and cash equivalents at quarter end (Item 4.6)	4,180
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	4,180
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	Not applicable

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 29 January 2021

Authorised by: David Carter

(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.