

Appendix 4E

Preliminary final report

Name of Entity: Etherstack plc

ARBN: 156 640 532

1. Reporting Period (“current period”): Year ended 31 December 2020
Previous corresponding period: Year ended 31 December 2019

2. Results for announcement to the market

		\$	%		31 Dec 2020 USD \$000	31 Dec 2019 USD \$000
Revenue from ordinary activities	Decreased	93	1.9%	to	4,699	4,792
EBITDA (Note 1)	Decreased	13	1.2%	to	1,080	1,093
Underlying Statutory Profit/(Loss) from ordinary activities after tax attributable to members (Note 2)	Increased	954	109%	to	83	(871)
Statutory (Loss)/Profit from ordinary activities after tax attributable to members	Increased	1,429	164%	to	(2,300)	(871)
Net loss attributable to members	Increased	1,429	164%	to	(2,300)	(871)

EBITDA and Underlying profit/(loss) from ordinary activities after tax, are non-IFRS measures used by management of the company to assess the operating performance of the business. The non-IFRS measures are not subject to audit.

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

Note 2. Underlying Statutory (Loss)/Profit from ordinary activities after tax attributable to members excludes an extraordinary Non-cash Finance charge of \$2,383 as previously reported in the half year financial report. The reasons for excluding this item from the underlying result are further explained in the commentary below.

2020 Results Summary and Commentary - all amounts are in USD \$000 unless otherwise indicated.

Results Highlights

- **Positive EBITDA and Positive Underlying Net profit after Tax:** US \$1.1 million EBITDA on revenue of US \$4.7 million, following FY2019 EBITDA US \$1.1 million. FY2020 revenue was also in-line (slightly down 1.9%) with FY2019 revenues of \$4.8 million due to negligible variations in project timing during the second half of the year. The underlying NPAT for FY2020, was \$83, compared to a loss of \$871 in FY2019.
- **Forward Order Book Growth:** Management has previously provided guidance that it expects FY2021 EBITDA and revenues to significantly outperform FY2020 on the basis of contract wins and strategic partnerships announced during FY2020, when combined with underlying recurring revenues.
- **Strong Positive Cashflow:** Net operating cash inflow of US \$1.7 million in 2020 following strong operating cash inflow of US \$1.4 million in 2019 and \$1.5 million in 2018.
- **Continued Recurring Revenue Growth:** Recurring revenues (support and royalty revenue) increased a further 27% in 2020 (year-on-year from FY2019), driven by long term support contracts and new royalty agreements.
- **Strategic Business Wins:**
 - The company entered a Global teaming agreement with Samsung Electronics in June 2020 to deliver next generation Mission Critical Push To Talk (MCPTT) over LTE solutions to telecommunications carriers and governments across the globe, utilising Etherstack's digital LMR (Land Mobile Radio) softswitching technologies
 - AUD\$4.1m Contract with the Australian Department of Defence. This was followed by a further Australian defence deal announced in February 2021 of AUD \$499,000.
 - New technology licensing deal in France with TPL Systemes opening a further royalty stream, including a minimum guaranteed stream of \$478.
 - Etherstack won and delivered a material deal to supply digital radio network equipment for a major resources sector company in Western Australia
- **Expansion Wins:** FY2020 saw continued repeat business for the Company's deployed large digital radio networks as used in the public safety and electric utilities industries including Ergon Energy and North American network customers.
- **Successful Delivery in the face of Covid-19 challenges:** The Company 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.
- **Significantly Improved Balance Sheet:** The Company successfully completed a capital raise in December 2020, raising AUD\$5 million in December 2020 before costs, providing additional working capital in support of development activities, in particular activities related to the Samsung agreement and Australian Department of Defence projects

Major Projects Update (Samsung & Defence)

Etherstack is generating solid positive operating cash, has a strong EBITDA, significantly improved balance sheet and positive underlying NPAT. Management believe the Company is poised for growth.

In June 2020, the Company announced a Global Teaming Agreement with Samsung in relation to the supply of certain Etherstack technologies to Samsung for use in the global telecommunications carrier market.

By June 2020, Etherstack and Samsung were already co-operating on multiple carrier pursuits in an emerging area of technologies related to the global public safety/first responder markets. The agreement was to formalise that partnership so that both companies could commit significant further resources in the joint development and marketing of solutions incorporating their respective technologies.

Last week, Etherstack announced the award of a US\$1.2m integration agreement in relation to the global partnership arrangement, which is to provide additional funding to accelerate integration activities between the companies ahead of the initial carrier deployments.

It is anticipated that initial carrier deployments will be announced in the near term, during 2021.

Etherstack has announced two significant new Australian Department of Defence projects in the past three months, for which the initial phases total over AUD \$4.6 million. The Company has other pursuits underway and has previously advised the market of a positive exposure to Australian defence and public safety infrastructure spending.

Globally, as a result of the pandemic and its associated economic impact, management believe that unprecedented global stimulus spending will be directed to health, emergency services, infrastructure, public safety and security projects. Focus on sovereign supply chains and technology sourcing create an excellent background environment for Etherstack to operate in.

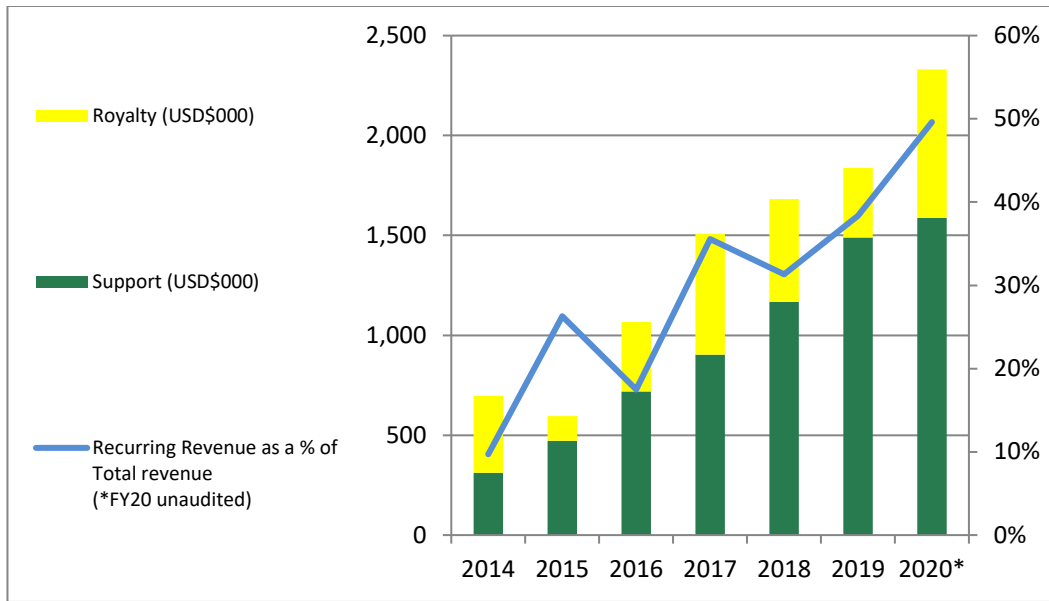
The Board looks forward to 2021 with confidence.

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

Total revenue in 2020 of \$4,699 was comparable to 2019 of \$4,792 with the decrease being 1.9%.

Project revenues comprising Licence fees, installation/integration and supply of wireless communications technology were \$2,368 in 2020 compared to \$2,954 in 2019. Etherstack's revenues can be impacted by a small number of large projects. While some of this volatility is the inherent nature of Etherstack project activities whereby any delay or change to project schedules can cause revenue volatility between periods, the Company witnessed slowing of project activity and revenue due to travel restrictions and uncertainty arising from Covid 19 in the second half, but the Company reports a rebound in contracted orders for FY2021 during Q4 FY2020.

2020 has seen continued growth of recurring revenue streams. Aggregate recurring revenues comprising Royalties and Support revenue streams are \$2,331 for 2020 compared to \$1,838 for 2019. The increase in 2020 represents a 27% increase over 2019. This KPI has increased 234% over the 6 years from \$697 in 2014 to \$2,331 in 2020.



Graph 1 - Recurring revenues from Support contracts and Royalty agreements 2014 to 2020 shown in USD and as a percentage of Total revenue. 2020 data is unaudited

These recurring revenues contributed 50% of total revenue in 2020 (2019: 38%). This contribution can fluctuate, however, over the medium term, recurring revenues have grown in both absolute terms, from \$697 in 2014 through to \$2,331 in 2020 and, as a percentage of total revenue, 10% in 2014 through to 50% in 2020.

Recurring revenue streams reduce overall revenue volatility and cash flow volatility and reduce dependence upon a small number of large contracts where the scale of the project and nature of the end users means timing of revenue recognition is difficult to accurately predict.

Support revenues increased in 2020 to \$1,588 from \$1,490 in 2019 following the rollout of digital radio networks in 2020 as well as incremental growth to other supported networks. Support revenues have increased from \$312 in 2014 to \$1,588 in 2020. **This is a CAGR (Compound Annual Growth Rate) of 31.2%.**

Royalty revenues are generated from licence agreements whereby equipment manufacturers pay Etherstack a licence fee per item manufactured, for the use of Etherstack technology in their products, such as base stations and handsets.

Royalty revenues increased in 2020 to \$743 from \$348 in 2019. In general, the royalties earned by Etherstack follow the increase or decrease in sales achieved by manufacturers whose products include Etherstack technology however royalty revenues can also increase when Etherstack signs a new royalty arrangement and the licensee provides minimum guaranteed volumes. In 2020, the TPL Systemes agreement provided a minimum guaranteed royalty revenue stream of \$478.

Result for 2020

Loss after income tax is \$2,300 compared to Loss after income tax of \$871 in 2019.

The key reason for the difference is a non cash finance charge of \$2,383. This \$2,383 charge is a result of the sharp increase in the Company share price on 30 June 2020 and its effect on the convertible notes valuation. While the Company has issued convertible notes in the past and continues to have convertible notes on issue at 31 December 2020, the impact on the results of the 30 June 2020 revaluation is significant and not considered to be part of the underlying result.

	2020	2019
Statutory Loss after income tax	(2,300)	(871)
Less: Non cash finance charge as at 30 June 2020	2,383	-
Underlying Statutory Profit/(Loss) after income tax	83	(871)

This improvement in underlying statutory profit/(loss) after tax is due to the combined impacts, favourable and unfavourable, of the following items:

- The gross margin on Etherstack projects varies 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 earned by Etherstack are much lower. The nature of the projects in 2020 was different to the projects in 2019 and as a result the cost of sales was higher in 2020.
- Administrative costs have decreased overall due to:
 - reduced travel and marketing costs in the Covid 19 environment
 - reduced amortisation charge in 2020 of \$1,183 compared to \$1,612. There is no change to the amortisation rate however a number of projects became fully amortised in 2019 and 2020 thereby leading to a reduced amortisation charge.
 - Increased recruitment costs as the group increased the engineer labour force
- The Etherstack group has operations in Australia, United States, United Kingdom and Japan and as a consequence is exposed to gains and losses from foreign currency fluctuations between the reporting currency USD and the other currencies in which transactions are undertaken; Australian dollar, Yen, Euro and GBP. In 2020 there was a currency translation gain of \$127 compared to a loss of \$180 in 2019.
- Interest costs have decreased predominantly as a large proportion of convertible notes were converted into fully paid ordinary shares on 30 June 2020 and 1 July 2020
- Decreased revenues, as outlined above

EBITDA

EBITDA has decreased slightly to \$1,080 from \$1,093 in 2019 however EBITDA has remained positive despite the loss after tax of \$2,300 predominantly due to the add back of the amortisation charge of \$1,183 and the non cash finance charges of \$2,216 (which includes the 30 June 2020 non cash finance charge of \$2,383 on revaluation of the embedded derivative).

Intellectual property development

Etherstack remains committed to developing new technology and intellectual property assets as well as refreshing, maintaining and enhancing its existing suite of intellectual property assets.

Accordingly, Etherstack continues to invest in intellectual property development and has invested \$1,401 in the current year compared to \$1,205 in 2019. Etherstack has now invested in excess of \$22,000 into its portfolio of intellectual property assets.

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

Etherstack is actively recruiting engineers across its four research and development locations in support of increased activity and a strong order book and pipeline.

Dividends

No dividends are proposed.

Record date for determining entitlements to the dividends

Not applicable.

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3. Consolidated statement of comprehensive income

	2020 USD \$000	2019 USD \$000
Revenue from Contracts with Customers	4,699	4,792
Cost of sales	<u>(2,032)</u>	<u>(1,507)</u>
Gross profit	2,667	3,285
Other income	125	100
Other administrative expenses	(3,175)	(3,868)
Net foreign exchange gains/(losses)	127	(180)
Total administrative expenses	<u>(3,048)</u>	<u>(4,048)</u>
Gross operating (loss)/profit from continuing operations	(256)	(663)
Embedded derivatives revaluation and amortisation (net)	(2,216)	(16)
Finance expense-borrowing costs	(149)	(321)
Net finance expense	<u>(2,365)</u>	<u>(337)</u>
Loss before taxation	(2,621)	(1,000)
Income tax benefit	<u>321</u>	<u>129</u>
(Loss) after taxation for the period attributable to the equity holders of the parent	<u>(2,300)</u>	<u>(871)</u>
Other Comprehensive Income/(Loss)		
Items that will be classified to profit and loss:		
Exchange differences on translation of foreign operations	(285)	35
Total comprehensive loss for the period attributable to the equity holders of the parent	<u>(2,585)</u>	<u>(836)</u>
Earnings (loss) per share		
Basic (in cents)	(1.96)	(0.78)
Diluted (in cents)	(1.96)	(0.78)

	2020 USD \$000	2019 USD \$000
Revenue from Contracts with Customers		
Licence fees, installation/integration and supply of wireless communications technology	2,368	2,954
Support services	1,588	1,490
Royalties	743	348
	4,699	4,792
Other income		
Grant receipts – research and development incentives	56	100
Cash flow boost – Australian Govt. Covid19 payment	69	-
	125	100
Expenses		
Included within expenses are the following:		
Depreciation of property, plant and machinery	33	25
Depreciation of Right-of-use assets	120	118
Operating lease costs	169	184
Amortisation of intangible assets	1,183	1,613
Net foreign exchange (gains)/losses	(127)	180
Finance costs – interest on loans and Convertible notes	116	279
Finance costs – interest on leased assets	33	42

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4. Condensed consolidated balance sheet

		2020 USD \$000	2019 USD \$000
Current assets			
Cash and cash equivalents		4,180	931
Trade and other receivables	8	1,410	1,870
Inventories	7	318	155
Right-of-use assets		128	92
		<u>6,036</u>	<u>3,048</u>
Non-Current Assets			
Property, plant and equipment	10	73	35
Intangible assets	9	3,516	3,295
Trade and other receivables	8	404	-
Right-of-use assets		75	84
		<u>4,068</u>	<u>3,414</u>
Total assets		<u>10,104</u>	<u>6,462</u>
Current liabilities			
Trade and other payables	11	2,760	2,467
Current tax liabilities		61	46
Deferred revenue		1,641	1,248
Employee entitlements		357	236
Lease liabilities		145	109
Convertible notes		233	-
Borrowings		572	1,262
		<u>5,769</u>	<u>5,368</u>
Non-Current Liabilities			
Deferred tax liability		14	40
Deferred revenue		103	84
Employee entitlements		10	43
Lease liabilities		112	130
Convertible notes		-	1,417
		<u>239</u>	<u>1,714</u>
Total Liabilities		<u>6,008</u>	<u>7,082</u>
Net Assets / (Liabilities)		<u>4,096</u>	<u>(620)</u>
Equity			
Share capital	12	739	652
Share premium account		15,212	7,998
Merger reserve		3,497	3,497
Share based payment reserve		609	609
Foreign currency translation reserve		(2,983)	(2,698)
Retained earnings		(12,978)	(10,678)
Total equity		<u>4,096</u>	<u>(620)</u>

5. Condensed consolidated statement of cash flows

	2020 USD \$000	2019 USD \$000
Cash flows from operating activities		
Receipts from customers	5,528	5,628
Payments to suppliers and employees	(4,145)	(4,473)
Interest paid	(31)	(152)
Government grants and tax incentives	411	379
Income tax paid	(30)	(18)
Net cash generated from operating activities	<u>1,733</u>	<u>1,364</u>
Cash flows from Investing activities		
Additions to intangible assets	(1,401)	(1,205)
Purchases of property plant and equipment	(69)	(18)
Net cash (used in) investing activities	<u>(1,470)</u>	<u>(1,223)</u>
Cash flows from Financing activities		
Proceeds from issue of shares	3,827	-
Share issue costs	(238)	-
Proceeds from convertible notes issue	-	1,398
Principal element of lease payments	(132)	(110)
Repayments of loan	(504)	(534)
Interest paid	(52)	(15)
Net cash from/(used in) financing activities	<u>2,901</u>	<u>739</u>
Net increase in cash and cash equivalents	<u>3,164</u>	<u>880</u>
Cash and cash equivalents at beginning of year	931	51
Effect of foreign exchange rate differences	85	-
Cash and cash equivalents at end of year	<u><u>4,180</u></u>	<u><u>931</u></u>

6. Statement of changes in equity

	Share Capital	Share Premium	Share Based payment	Merger reserve	Foreign Currency Translation reserve	Retained earnings	Total
	USD \$000	USD \$000	USD \$000	USD \$000	USD \$000	USD \$000	USD \$000
Balance at 1 January 2019	645	7,742	609	3,497	(2,733)	(9,807)	(47)
Loss for the year	-	-	-	-	-	(871)	(871)
Other Comprehensive Income - gains	-	-	-	-	35	-	35
Total Comprehensive income	-	-	-	-	35	(871)	(836)
Issue of Share Capital	7	256	-	-	-	-	263
Transactions with owners	7	256	-	-	-	-	263
Balance at 31 December 2019	652	7,998	609	3,497	(2,698)	(10,678)	(620)
Loss for the year	-	-	-	-	-	(2,300)	(2,300)
Other Comprehensive Income – (losses)	-	-	-	-	(285)	-	(285)
Total Comprehensive income	-	-	-	-	(285)	(2,300)	(2,585)
Issue of Share Capital	87	7,214	-	-	-	-	7,301
Transactions with owners	87	7,214	-	-	-	-	7,301
At 31 December 2020	739	15,212	609	3,497	(2,983)	(12,978)	4,096

7. Inventories

	2020 USD \$000	2019 USD \$000
Finished goods and work in progress	580	417
Slow moving stock provision	(262)	(262)
Total stock at hand	318	155

8. Trade and other receivables

	2020 USD \$000	2019 USD \$000
Current		
Trade debtors	581	1,249
Accrued income from contracts in progress	173	121
Other debtors	656	500
	1,410	1,870
Non current		
Accrued income from contracts in progress	404	-

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 2019	19,614	431	808	353	21,206
Additions	1,205	-	-	-	1,205
Impairment	-	-	-	-	-
Exchange differences	-	-	(6)	-	(6)
At 31 December 2019	20,819	431	802	353	22,405
Additions	1,401	-	-	-	1,401
Impairment	-	-	-	-	-
Exchange differences	1	-	79	-	80
At 31 December 2020	22,221	431	881	353	23,886
Accumulated amortisation					
At 1 January 2019	16,214	368	566	353	17,501
Charge for the year	1,400	27	96	-	1,523
Impairment	90	-	-	-	90
Exchange differences	-	-	(4)	-	(4)
At 31 December 2019	17,704	395	658	353	19,110
Charge for the year	1,073	17	93	-	1,183
Impairment	-	-	-	-	-
Exchange differences	-	-	77	-	77
At 31 December 2020	18,777	412	828	353	20,370
Carrying amount					
At 31 December 2020	3,444	19	53	-	3,516
At 31 December 2019	3,115	36	144	-	3,295

10. Property, Plant and equipment

	Leasehold property USD \$000	Furniture and equipment USD \$000	Computer equipment USD \$000	Total USD \$000
Cost				
At 1 January 2020	26	129	342	497
Additions	-	32	36	68
Exchange differences	3	9	19	31
At 31 December 2020	29	170	397	596
Accumulated depreciation				
At 1 January 2020	26	124	312	462
Charge for the year	-	5	28	33
Exchange differences	3	8	17	28
At 31 December 2020	29	137	357	523
Carrying amount				
At 31 December 2020	-	33	40	73
At 31 December 2019	-	5	30	35

11. Trade and other payables

	2020 USD \$000	2019 USD \$000
Current		
Trade creditors and accruals	845	609
Other creditors	1,549	1,596
Other taxes and social security costs	366	262
	2,760	2,467

12. Share capital

	2020 USD \$000	2019 USD \$000
Called up, allotted and fully paid 129,580,125 (2019: 112,975,636) ordinary shares of 0.4p	739	652

13. Earnings per share

Details of basic and diluted EPS are as follows:

	2020	2019
	USD \$000	USD \$000
(Loss) for the year	(2,300)	(871)
	Number	Number
Weighted average number of ordinary shares for basic and diluted earnings per share	<u>117,252,736</u>	<u>111,688,848</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

	2020	2019
	USD Cents	USD Cents
Net tangible assets per ordinary share	0.4	(3.5)

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. Contingent liabilities

There are no Contingent liabilities.

21. Any other significant information

After balance sheet date, group companies have entered into two significant contracts with customers:

- Etherstack Pty Ltd has entered into a subcontract with EOS Defence Systems Pty Ltd, a member of the Electro Optic Systems Holdings Limited (ASX: EOS) group, to supply services in relation to a project with the Australian Department of Defence. The value of

services to be provided under the contract is approximately \$385 which the Company expects will be fully recognised in FY2021.

- Etherstack Wireless Ltd, will provide Samsung a license to existing technology for the purposes of assisting integration of the joint solution aimed at the telecommunications carrier market, as previously disclosed in the Global Teaming Agreement announcement to the ASX in June 2020. This contract will generate US\$1.2m in revenue however this does not represent a sale of the solution to an end carrier customer, but instead is related to ongoing development and integration activities between the companies.

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

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About Etherstack plc (ASX: ESK):

Etherstack is a wireless technology company specialising in licensing mission critical radio technologies to equipment manufacturers and network operators around the globe. With a particular focus in the public safety, defence, utilities, transportation and resource sectors, Etherstack's technology can be found in radio communications equipment used in the most demanding situations. The company has R&D facilities in London, Sydney, New York and Yokohama.