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27 February 2018

ASX Announcement

ETHERSTACK PLC [ASX:ESK]
("Etherstack" or the "Company")

Full Year 2017 results

Etherstack plc, the developer, manufacturer and licensee of mission critical radio technologies across the globe, is pleased to announce results for the year ended 31 December 2017.

Results Highlights

- **Revenue of US $4.239 million is a decrease of US $1.858 million from 2016 revenues of $6.097 million, predominantly due to timing of contract/project revenue recognition**
- **NPAT loss of US $1.546 million is an improvement on 2016 NPAT loss of $1.697 despite revenue decrease**
- **EBITDA of US $92,000 positive which, although a decrease from 2016 EBITDA result of $636,000, has been achieved despite a revenue decrease of US$1.858 million**
- **2 major projects awarded; Stage 2 of a digital radio network rollout for a Canadian Utility customer and new project win for Australian Government**
- **41% increase in recurring revenues driven by cumulative long term support contracts and growth in royalty revenue streams**
- **Initial orders received for new IVX product**

Revenue growth in 2016 and decrease in 2017

Etherstack achieved significant revenue growth of 169% in 2016 and was unable to sustain this revenue in 2017 when revenues declined by $1.858 million to $4.239 million. The decline is due to timing of revenue recognition on major contracts/projects rather than a loss of contracts or a contraction of the underlying business or the market sectors in which Etherstack operates.

Etherstack project related revenues can be volatile due to the inherent nature of the projects and customers, where delays on a small number of individually large projects/contracts, frequently for government funded customers, can lead to revenues in a financial period being materially impacted. The revenue decrease in 2017 is predominantly attributed to these timing issues.

In 2016 and again in 2017 Etherstack achieved important contract wins and repeat business in the government radio communications and electric utility sectors in Australia, USA and Canada. Etherstack's expanded global reach proved its ability to win and deploy complex communications networks around the world that form part of the essential services of all communities.

Key projects/contracts won in 2017 included:

- US $1.2 million order for Stage 2 of the ATCO Electric project in Alberta, Canada; and
- Australian Government order for AUD $1 million

Recurring revenues:

The aggregate recurring revenues comprising Royalties and Support revenue streams are $1,508,000 for 2017 compared to $1,066,000 in 2016 and $550,000 in 2015. The increase in 2017 represents a 41% increase.

These revenues reduce revenue 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.

Royalties

Royalties 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 2017 and 2016 driven by the increase in sales achieved by manufacturers due to maturity of their products which include Etherstack technology, in particular unit sales of an emerging digital radio standard known as DMR.

Support revenues

Support revenues increased following the rollout of digital radio networks in 2016 and 2017, as well as incremental growth to other supported networks. The Group currently supports four large digital radio networks in the North American electric utility market. The Group also supports a major utility network in Queensland, Australia and expects further network expansions from its utilities client base during 2018 to provide revenue directly connected to the expansion plus support revenues for several years thereafter.

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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.

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Appendix 4E

Preliminary final report

Name of Entity: **Etherstack plc**
ARBN: **156 640 532**

1. Reporting Period ("current period"): **Year ended 31 December 2017**
Previous corresponding period: Year ended 31 December 2016

2. Results for announcement to the market

				31 Dec 2017 USD $000	31 Dec 2016 USD $000
Revenue	Down	30%	to	**4,239**	**6,097**
Statutory (Loss)/Profit from ordinary activities after tax attributable to members	Up	9%	to	**(1,546)**	**(1,697)**
EBITDA (Note 1)	Down	85%	to	**92**	**636**

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

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

2017 Highlights

- **Revenue of US $4.239 million is a decrease of US $1.858 million from 2016 revenues of $6.097 million, predominantly due to timing of contract/project revenue recognition**
- **NPAT loss of US $1.546 million is an improvement on 2016 NPAT loss of $1.697 despite revenue decrease**
- **EBITDA of US $92,000 positive which, although a decrease from 2016 EBITDA result of $636,000, has been achieved despite a revenue decrease of US$1.858 million**
- **2 major projects awarded; Stage 2 of a digital radio network rollout for a Canadian Utility customer and new project win for Australian Government**
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Decreased revenue

The Market Announcement "Results Release: 2017 Full Year financial results" dated 27 February 2018 forms part of and should be read in conjunction with this preliminary Final Report (Appendix 4E).

This Announcement outlines the 2017 revenue decrease and the revenue sources and underlying reasons producing this decrease.

Result for 2017

Loss after tax has improved slightly from a loss of $1,697 in 2016 to a loss of $1,546 in 2017 – an improvement of $151 or 9%.

This result has been achieved despite a revenue decrease as:

- Change in revenue mix leading to changed gross margin. Gross margins can vary significantly depending upon the nature of the projects underway in any particular period which may differ markedly. In 2017, project revenues have decreased in both $ terms and in relative terms however support and royalty revenues have increased. The changed mix has led to an increase in margin. For example, margin recognised on royalties is 100% which can be compared to project and product margins which are lower and in some cases as low as 10-15% where the Group resells third party products.
- Finance costs have decreased as interest charges decreased following the rights issue in 2016 reduced interest bearing debt.
- Revaluation of the embedded derivative has led to a profit and loss account credit in 2017 of $262
- Reduced amortisation charge on the Group's intellectual property assets. The 2017 charge is $2,042 compared to $2,480 in 2016 representing a 17% decrease. A number of the Group's intellectual property assets have become fully amortised and the amortisation charge for 2018 is expected to show a further reduction from the 2017 charge.

- The 2016 result includes a profit & loss charge against the carrying value of inventory of $200. There is no profit & loss charge in 2017.
- The net tax credit has decreased from $502 to $354 predominantly as a result of a reduction in the UK Research and Development incentive claim.

EBITDA

EBITDA has decreased to $92 from $636 in 2016 however EBITA has remained positive despite the loss after tax of $1,546 predominantly due to the add back of the amortisation charge of $2,042.

Intellectual property development

The group continues to invest in its suite of intellectual property assets and has invested $757 in the current year compared to $1,293 in 2016.

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

Dividends

No dividends are proposed.

Record date for determining entitlements to the dividends

Not applicable.

3. Consolidated statement of comprehensive income

	2017 USD $000	2016 USD $000
Revenue	4,239	6,097
Cost of sales	(1,857)	(3,028)
Gross profit	2,382	3,069
Other administrative expenses	(4,249)	(4,786)
Slow moving stock provision	-	(200)
Foreign exchange (gain)	(100)	12
Total administrative expenses	(4,349)	(4,974)
Gross operating loss from continuing operations	(1,967)	(1,905)
Embedded derivatives revaluation and amortisation (net)	262	-
Finance income-interest	1	-
Finance expense-borrowing costs	(196)	(294)
Net finance income (expense)	67	(294)
Loss before tax	(1,900)	(2,199)
Income tax benefit/ (expense)	354	502
Loss for the period	(1,546)	(1,697)
Other Comprehensive Income		
Items that will be classified to profit and loss:		
Foreign currency translation	(147)	(697)
Total comprehensive loss attributable to owners of the parent	(1,693)	(2,394)
Earnings (loss) per share		
Basic (in cents)	(1.4)	(2.2)
Diluted (in cents)	(1.4)	(2.2)

Revenue

	2017 USD $000	2016 USD $000
Licence Fees, Design, development of Wireless Technology	2,634	4,854
Support	903	719
Royalties	605	347
Grant income	97	177
	4,239	6,097

Expenses	**2017 USD $000**	**2016 USD $000**
Depreciation	17	53
Operating lease costs	363	441
Amortisation of intangible assets	2,042	2,480
Foreign exchange losses (gains)	100	(12)
Finance costs – interest on loans and Convertible notes	196	294
Slow moving stock provision	-	200

4. Condensed consolidated balance sheet

	Note	2017 USD $000	2016 USD $000
Non-Current assets			
Intangible assets	10	3,967	5,092
Property, plant and equipment	11	64	18
Trade and other receivables	9	196	100
		4,227	5,210
Current Assets			
Inventories	8	146	275
Trade and other receivables	9	2,551	2,160
Cash and bank balances		41	236
		2,738	2,671
Total assets		**6,965**	**7,881**
Non-Current liabilities			
Deferred tax liability		103	133
Deferred revenue		116	47
Borrowings		246	-
Trade and other payables	12	27	-
		492	180
Current Liabilities			
Trade and other payables	12	3,787	4,022
Borrowings		1,757	960
Current tax liabilities		52	173
Deferred revenue		838	814
		6,434	5,969
Total Liabilities		**6,926**	**6,149**
Net Assets		**39**	**1,732**
Equity			
Share capital	13	645	645
Share premium account		7,742	7,742
Merger reserve		3,497	3,497
Share based payment reserve		609	609
Foreign currency translation reserve		(2,608)	(2,461)
Retained earnings		(9,846)	(8,300)
Total equity		**39**	**1,732**

5. Condensed consolidated statement of cash flows

	2017 USD $000	2016 USD $000
Cash from operating activities	**(664)**	**753**
Investing activities		
Purchase of intangible assets	(757)	(1,293)
Purchases of property plant and equipment	(62)	-
Net cash used in investing activities	**(819)**	**(1,293)**
Financing activities		
Proceeds from/ (Repayment of) loan notes	1,419	-
Proceeds from issue of Share Capital (Net)	-	718
Net cash from financing activities	1,419	718
Net (decrease)/ increase in cash and cash equivalents	(64)	178
Cash and cash equivalents at beginning of year	236	51
Effect of foreign exchange rate differences	(131)	7
Cash and cash equivalents at end of year	41	236

6. Reconciliation of cash from operating activities

	2017 USD $000	2016 USD $000
Operating loss after tax	**(1,546)**	**(1,697)**
Adjustments for:		
Amortisation of intangible assets	2,042	2,480
Embedded derivatives revaluation and amortisation (net)	(262)	-
Depreciation of property, plant & equipment	17	53
Equity settled share based transactions	-	196
Unrealised foreign exchange losses/(gains)	-	(12)
Dilapidation expense	(11)	(3)
Slow moving stock provision	-	200
Operating cashflows before movements in working capital	**240**	**1,217**
Decrease/ (Increase) in inventories	129	(30)
(Increase) in receivables	(703)	(705)
(Decrease)/ Increase in payables	(207)	160
Increase in Deferred Income	94	123
Decrease in income tax payable	(217)	(12)
Net cash (used in)/ generated by operating activities	**(664)**	**753**

7. Statement of changes in equity

	Share Capital USD $000	Share Premium USD $000	Share Based payment USD $000	Merger reserve USD $000	Foreign Currency Translation reserve USD $000	Retained earnings USD $000	Total USD $000
Balance at 1 January 2016	**205**	**2,282**	**413**	**3,497**	**(1,764)**	**(6,603)**	**(1,970)**
Loss for the year	-	-	-	-	-	(1,697)	(1,697)
Other Comprehensive income	-	-	-	-	(697)	-	(697)
Total Comprehensive income	-	-	-	-	**(697)**	**(1,697)**	**(2,394)**
Share based payment charge	-	-	196	-	-	-	196
Issue of Share Capital	440	5,460	-	-	-	-	5,900
Balance at 31 December 2016	**645**	**7,742**	**609**	**3,497**	**(2,461)**	**(8,300)**	**1,732**
Loss for the year	-	-	-	-	-	(1,546)	(1,546)
Other Comprehensive loss	-	-	-	-	(147)	-	(147)
Total Comprehensive income	-	-	-	-	**(147)**	**(1,546)**	**(1,693)**
At 31 December 2017	**645**	**7,742**	**609**	**3,497**	**(2,608)**	**(9,846)**	**39**

8. Inventories

	2017 USD $000	2016 USD $000
Finished goods and work in progress	346	475
Slow moving stock provision	(200)	(200)
Total stock at hand	**146**	**275**

9. Trade and other receivables

	2017 USD $000	2016 USD $000
Current		
Trade debtors	1,194	1,068
Accrued income from contracts in progress	290	107
Other debtors	1,067	985
	2,551	2,160
Non-Current		
Accrued income from contracts in progress	90	100
Other debtors	106	-
	196	100

10. 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 2016	16,356	697	805	353	18,211
Additions	1,293	-	-	-	1,293
Exchange differences	-	-	(8)	-	(8)
At 31 December 2016	17,649	697	797	353	19,496
Additions	757	-	-	-	757
Exchange differences	-	-	96	-	96
At 31 December 2017	18,406	697	893	353	20,349
Accumulated amortisation					
At 1 January 2017	12,955	618	478	353	14,404
Charge for the year	1,901	35	106	-	2,042
Exchange differences	-	-	(64)	-	(64)
At 31 December 2017	14,856	653	520	353	16,382
Carrying amount					
At 31 December 2017	3,550	44	373	-	3,967
At 31 December 2016	4,694	79	319	-	5,092

11. Property, Plant and equipment

	Leasehold property USD $000	Furniture and equipment USD $000	Computer equipment USD $000	Total USD $000
Cost				
At 1 January 2017	243	347	729	1,319
Additions	1	9	52	62
Disposals	(222)	(229)	(483)	(934)
Exchange differences	7	11	28	46
At 31 December 2017	29	138	326	493
Accumulated depreciation				
At 1 January 2017	229	343	729	1,301
Charge for the year	7	9	1	17
Disposals	(215)	(234)	(483)	(932)
Exchange differences	7	9	27	43
At 31 December 2017	28	127	274	429
Carrying amount				
At 31 December 2017	1	11	52	64
At 31 December 2016	14	4	-	18

12. Trade and other payables

Current	2017 USD $000	2016 USD $000
Trade creditors and accruals	1,480	1,476
Other creditors	1,585	1,363
Other taxes and social security costs	722	1,183
	3,787	4,022
Non-current		
Long service leave	27	-
	27	-

13. Share capital

	2017 USD $000	2016 USD $000
Called up, allotted and fully paid 111,685,313 ordinary shares of 0.4p each	645	645

14. Earnings per share

Details of basic and diluted EPS are as follows:

	2017 USD $000	2016 USD $000
Loss for the year	(1,546)	(1,697)
	Number	**Number**
Weighted average number of ordinary shares for basic and diluted earnings per share	111,685,313	77,687,652

15. Dividends

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

16. Dividend Reinvestment Plans

There are no dividend or distribution reinvestment plans in operation.

17. Net tangible assets

	2017 USD Cents	2016 USD Cents
Net tangible asset backing per ordinary share	(3.52)	(3.01)

18. 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.

19. Details of associates and joint venture entities

Not applicable.

20. Any other significant information

Not applicable.

21. 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.

The preliminary final report is presented in United States Dollars (USD).

22. Contingent liabilities

There are no Contingent liabilities.

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

Similar to the auditor's report for the 2016 financial statements, the auditor's report for the 2017 financial statements may contain an emphasis of matter paragraph in respect of the adoption of the going concern basis of accounting.