Etherstack plc | Sydney (GMT +10)
Level 1, 80 Abercrombie Street
Chippendale, NSW 2008 Australia
E: info.au@etherstack.com
P: +61 2 8399 7500
F: +61 2 8399 7507

22 February 2017

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

Full Year 2016 results show significant growth

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 2016.

Results Highlights

- **169% revenue growth to US$6.1m, as forecast by the Company in June 2016**
- **US$1.54m turn around in underlying EBITDA to US$836,000 from negative US$703,000 EBITDA in 2015)**
- **NPAT loss cut 57% to $1.49m (includes non-cash amortisation charge of US$2.48m)**
- **Several multi-million dollar projects awarded in North America and Utility sectors which will support future years revenues**
- **Major increase in recurring revenues driven by cumulative long term support contracts**
- **Further broadening of government customer base in Australia and US, including first ever Australian Department of Defence orders**
- **Balance sheet strengthened through US$5.9m (A$8m) capital raise**
- **Debt substantially retired, significantly reducing interest charges in 2016**
- **Positive cash flow from operating activities of $753 compared to negative $130 in 2015**

Revenue growth

Etherstack achieved significant revenue growth of 169% in 2016. This increase was driven by the combination of new network expansion projects, licence deals and the growth in recurring royalty and support revenue streams.

In 2016 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.

Repeat business is testament to the value and quality of Etherstack's solution and support services. The Company won several network expansion projects that include support services agreements which will generate revenue for several years.

Royalty revenues in 2016 rose 182%. This was driven by the increase in sales achieved by manufacturers in 2016 due to maturity of their products in the marketplace, in particular, unit sales of an emerging digital radio standard known as DMR.

Network expansion projects

In April 2016 Etherstack announced a strategic multi-million contract with FirstEnergy's Jersey Central Power & Light (JCP&L) subsidiary. All the deliverables were completed and delivered in 2016 and it is expected there will be significant support revenues for 10 years following completion of the project.

In December 2016 Etherstack contracted with ATCO Electric, a Canadian utility company to provide additional sites and capacity to ATCO Electric's mission critical radio communications network. The first phase of the expansion contract was delivered in 2016 and the Company anticipates additional deployment phases in 2017 and beyond, as well as recurring support revenues, that are expected to generate approximately US$3.1 million over 4 to 5 years, dependent on the final network rollout plan.

In December 2016 Etherstack received a network expansion order for an electric utility network in Queensland, Australia. This utility has been a customer of Etherstack technology since 2011 and continued expansion through the addition of extra sites is expected in 2017 and 2018.

Licence transactions

Etherstack announced a substantial technology licensing contract with NEC Corporation in October 2016 for Etherstack wireless technology to be incorporated into NEC products.

The agreement relates to technology delivered in 2016 by a multinational team of Etherstack engineers from the company's European R&D centres with local support provided by Etherstack's office in Yokohama, Japan. The contract contributed US$585,000 to Etherstack's 2016 revenues.

Recurring royalty and support revenue streams

Support contracts are generally linked to the network deployment projects and as a result of the new/expansion contracts outlined above, support revenues increased 68% over 2015 as more network sites were enabled. As further networks and sites are deployed, such as those sold and delivered in late 2016, additional support revenues will be generated in 2017 and future years.

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.

As noted above, Royalty revenues in 2016 grew 182%.

Importantly, these royalty and support revenues are less volatile than project revenues and help to smooth earnings.

Capital raise and debt reduction

In 2016 Etherstack undertook a 3 for 1 entitlements issue. The purpose of the raise was to strengthen the balance sheet net asset position and to provide additional working capital for the Company together with funding to repay debt and convertible notes.

The outcome of the raise was the issue of 79,704,529 CDIs, raising AUD $7,970,453 before issue costs and making the total issued capital of the Company 111,685,313 fully paid ordinary shares.

After allowing for issue costs, the increase in net assets was US $5,900,000.

The vast majority of these funds were used to repay Convertible Notes and other debt reductions.

Etherstack
David Carter, Chief Financial Officer
T: +61 2 8399 7500
www.etherstack.com

Media: Walbrook Investor Relations
Ben Knowles
T: +61 426 277 760
ben.knowles@walbrookir.com.au

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.

Appendix 4E

Preliminary final report

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

1. **Reporting Period ("current period"):** **Year ended 31 December 2016**
   Previous corresponding period: Year ended 31 December 2015

2. **Results for announcement to the market**

				31 Dec 2016 USD $000	**31 Dec 2015 USD $000**
Revenue	Up	169%	to	**6,097**	**2,263**
Statutory (Loss)/Profit from ordinary activities after tax attributable to members	Down	72%	to	**(1,697)**	**(5,979)**
Underlying (Loss)/Profit after tax for the period attributable to members (Note 1)	Down	57%	to	**(1,497)**	**(3,500)**
EBITDA (Note 2)	Up	158%	to	**636**	**(1,088)**
Underlying EBITDA (Note 1)	Up	219%	to	**836**	**(703)**
Net cash (used in)/generated from operating activities in the period	Up	679%	to	**753**	**(130)**

Note 1: Etherstack plc considers underlying profit/(loss) after tax and underlying EBITDA to be a more suitable indicator of operating performance since it is not affected by impairment of intangibles, debt subject to claim and , legal fees related to a commercial dispute resolved in 2015, and a write down on a modest stock level of a hardware module that is infrequently ordered.

Note 2: 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.

2016 Highlights

- **169% revenue growth to US$6.1m, as forecast by the Company in June 2016**
- **US$1.54m turn around in underlying EBITDA to US$836,000 from negative US$703,000 EBITDA in 2015)**
- **NPAT loss cut 57% to $1.49m (includes non-cash amortisation charge of US$2.48m)**
- **Several multi-million dollar projects awarded in North America and Utility sectors which will support future years revenues**
- **Major increase in recurring revenues driven by cumulative long term support contracts**
- **Further broadening of government customer base in Australia and US, including first ever Australian Department of Defence orders**
- **Balance sheet strengthened through US$5.9m (A$8m) capital raise**
- **Debt substantially retired, significantly reducing interest charges in 2016**
- **Positive cash flow from operating activities of $753 compared to negative $130 in 2015**

Increased revenue

The Market Announcement "Results Release: 2016 Full Year financial results" dated 22 February 2017 forms part of and should be read in conjunction with this preliminary Final Report (Appendix 4E).

This Announcement outlines the 2016 revenue increase and the revenue sources underlying this increase.

Result for 2016

Underlying loss after tax has improved from a loss of $3,500 in 2015 to a loss of $1,497 in 2016 – an improvement of 57%.

Underlying EBITDA has been improved from a loss of $703 in 2015 to a positive result of $836 in 2016 – an improvement of $1,539 representing a 219% increase.

The improvements in underlying results are attributable to:

- Improved revenues as outlined above
- Improved gross margins – gross margins can vary significantly depending upon the nature of the projects underway in any particular period which may differ markedly. This can make high level inter-period comparisons of gross margins potentially misleading.
- Cost restraint, in particular, reduced finance costs noted below.

It should be noted that the largest single contributor to the negative NPAT result is a (non-cash) amortisation charge of $2,480 as the company continues to amortise its intangible Intellectual property assets on a 6 year straight line basis. It should be further noted that this (non-cash) charge in 2017 is expected to be 10% lower than 2016, before decreasing to approximately $1.2 million in 2018 and 2019.

The Statutory loss for the year after tax is $1,697 which may be compared to the 2015 loss of $5,979. This is a significant improvement however the losses in 2016 and 2015 include items which have negatively impacted the result.

- Provision against carrying value of inventory $200 (2015 $nil). This stems from the inventory acquired as part of the settlement of a commercial dispute which gave rise to the 2015 expense described as Debt subject to claim and legal fees. While the inventory remains current and saleable, the Group has taken a conservative position and provided in full against this inventory.
- Impairment to intangibles 2016 $nil (2015 $2,094)
- Debt subject to claim and legal fees 2016 $nil (2015 $385)

The company considers underlying profit/(loss) after tax and underlying EBITDA excluding these items to be more suitable indicators of performance.

Reconciliation of underlying profit/(loss) after tax and underlying EBITDA

	31 Dec 2016 USD $000	31 Dec 2015 USD $000
Statutory Profit/ (loss) after tax	(1,697)	(5,979)
After tax effect of:		
Impairment to intangibles	-	2,094
Debt subject to claim and legal fees	-	385
Stock obsolescence provision	200	-
Underlying profit/ (loss) after tax	(1,497)	(3,500)
EBITDA	636	(1,088)
After tax effect of:		
Debt subject to claim and legal fees	-	385
Stock obsolescence provision	200	-
Underlying EBITDA	836	(703)

Finance costs

Finance costs have also fallen from $483 to $294 following the repayment of convertible notes in the years after the capital raise. These costs are likely to decline further in 2017 due to a substantial reduction in interest costs as a result of significant debt reduction.

Intellectual property development

The group continues to invest in its suite of intellectual property assets and has invested $1,293 in the current year compared to $1,577 in 2015.

Notwithstanding the reduced cost base, 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

	2016 USD $000	2015 USD $000
Revenues	**6,097**	**2,263**
Cost of sales	(3,028)	(1,429)
Gross profit	**3,069**	**834**
Foreign exchange gain	12	582
Slow moving stock provision	(200)	-
Other administrative expenses	(4,786)	(4,901)
Impairment loss	-	(2,094)
Debt subject to claim and legal fees	-	(385)
Total administrative costs	(4,974)	(6,798)
Operating loss	(1,905)	(5,964)
Finance costs	(294)	(483)
Loss before tax	(2,199)	(6,447)
Income tax benefit/ (expense)	502	468
Loss for the period	**(1,697)**	**(5,979)**
Other Comprehensive Income		
Items that will be classified to profit and loss:		
Foreign currency translation	(697)	19
Total comprehensive loss attributable to owners of the parent	**(2,394)**	**(5,960)**
Earnings per share		
Basic (in cents)	(2.2)	(18.6)
Diluted (in cents)	(2.2)	(18.6)

Revenue	**2016 USD $000**	**2015 USD $000**
Licence Fees, Design, development of Wireless Technology	4,854	1,520
Support	719	427
Royalties	347	123
Grant income	177	193
	6,097	2,263

Expenses

	2016 USD $000	**2015 USD $000**
Depreciation	53	60
Dilapidation expense	3	5
Operating lease costs	441	534
Amortisation of intangible assets	2,480	2,722
Foreign exchange (gains)	(12)	(582)
Impairment loss	-	2,094
Debt subject to claim and legal fees	-	385
Finance costs – interest on loans and Convertible notes	294	483
Slow moving stock provision	200	-

4. Condensed consolidated balance sheet

		2016 USD $000	2015 USD $000
Non-Current assets			
Intangible assets	9	5,092	6,287
Property, plant and equipment	10	18	73
Trade and other receivables	8	100	150
		5,210	6,510
Current Assets			
Inventories	7	275	482
Trade and other receivables	8	2,160	1,591
Cash and bank balances		236	51
		2,671	2,124
Total assets		7,881	8,634
Non-Current liabilities			
Trade and other payables	11	47	180
Deferred tax liability		133	128
		180	308
Current Liabilities			
Trade and other payables	11	5,796	10,151
Current tax liabilities		173	145
		5,969	10,296
Total Liabilities		6,149	10,604
Net Assets		1,732	(1,970)
Equity			
Share capital	12	645	205
Share premium account		7,742	2,282
Merger reserve		3,497	3,497
Share based payment reserve		609	413
Foreign currency translation reserve		(2,461)	(1,764)
Retained earnings		(8,300)	(6,603)
Total equity		1,732	(1,970)

5. Condensed consolidated statement of cash flows

	2016 USD $000	2015 USD $000
Cash from operating activities	**753**	**(130)**
Investing activities		
Purchase of intangible assets	(1,293)	(1,577)
Purchases of property plant and equipment	-	(3)
Net cash used in investing activities	**(1,293)**	**(1,580)**
Financing activities		
(Repayment of)/proceeds from loan notes	(5,182)	964
Proceeds from issue of Share Capital	5,900	-
Net proceeds on issue of convertible notes	-	411
Net cash from financing activities	**718**	**1,375**
Net increase/(decrease) in cash and cash equivalents	**178**	**(335)**
Cash and cash equivalents at beginning of year	**51**	**443**
Effect of foreign exchange rate differences	7	(57)
Cash and cash equivalents at end of year	**236**	**51**

Reconciliation of cash from operating activities

	2016 USD $000	2015 USD $000
Operating loss after tax	**(1,905)**	**(5,964)**
Adjustments for:		
Amortisation of intangible assets	2,480	2,723
Impairment charge	-	2,094
Depreciation of property, plant & equipment	53	60
Equity settled share based transactions	196	51
Unrealised foreign exchange income	(12)	(582)
Dilapidation expense	(3)	-
Slow moving stock provision	200	-
Operating cashflows before movements in working capital	**1,009**	**(1,618)**
(Increase)/Decrease in inventories	(30)	(303)
(Increase)/Decrease in receivables	(705)	347
(Decrease)/Increase in payables	(134)	346
Increase in Deferred Income	123	255
Increase in income tax payable	33	5
Cash generated by/ (used in) operations	**296**	**(968)**
Income taxes received	457	1,067
Interest (paid)	-	(229)
Net cash generated by/ (used in) operating activities	**753**	**(130)**

6. 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 2015	**205**	**2,282**	**361**	**3,497**	**(1,783)**	**(624)**	**3,938**
Loss for the year	-	-	-	-	-	(5,979)	(5,979)
Other Comprehensive income	-	-	-	-	19	-	19
Total Comprehensive income	-	-	-	-	**19**	**(5,979)**	**(5,960)**
Share based payment charge	-	-	52	-	-	-	52
Balance at 31 December 2015	**205**	**2,282**	**413**	**3,497**	**(1,764)**	**(6,603)**	**(1,970)**
Loss for the year	-	-	-	-	-	(1,697)	(1,697)
Other Comprehensive loss	-	-	-	-	(697)	-	(697)
Total Comprehensive income	-	-	-	-	**(697)**	**(1,697)**	**(2,394)**
Issue of Share Capital	440	5,460	-	-	-	-	5,900
Share based payment charge	-	-	196	-	-	-	196
Transactions with Owners	**440**	**5,460**	**196**	-	-	-	**6,096**
At 31 December 2016	**645**	**7,742**	**609**	**3,497**	**(2,461)**	**(8,300)**	**1,732**

7. Inventories

	2016 USD $000	2015 USD $000
Finished goods and work in progress	475	482
Slow moving stock provision	(200)	-
Total stock at hand	275	482

8. Trade and other receivables

	2016 USD $000	2015 USD $000
Current		
Trade debtors	1,068	422
Accrued income from contracts in progress	107	94
Other debtors	985	1,075
	2,160	1,591
Non-current		
Accrued income from contracts in progress	100	150

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 2015	14,779	697	900	353	16,729
Additions	1,577	-	-	-	1,577
Exchange differences	-	-	(95)	-	(95)
At 31 December 2015	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
Accumulated amortisation					
At 1 January 2016	10,618	576	377	353	11,924
Charge for the year	2,337	42	101	-	2,480
At 31 December 2016	12,955	618	478	353	14,404
Carrying amount					
At 31 December 2016	4,694	79	319	-	5,092
At 31 December 2015	5,738	121	428	-	6,287

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 2016	243	347	729	1,319
Additions	-	-	-	-
Exchange differences	-	-	-	-
At 31 December 2016	243	347	729	1,319
Accumulated depreciation				
At 1 January 2016	205	314	727	1,246
Charge for the year	24	27	2	53
Exchange differences	-	2	-	2
At 31 December 2016	229	343	729	1,301
Carrying amount				
At 31 December 2016	14	4	-	18
At 31 December 2015	38	33	2	73

11. Trade and other payables

Current	2016 USD $000	2015 USD $000
Trade creditors and accruals	1,476	1,902
Other creditors	1,363	1,376
Other taxes and social security costs	1,183	1,044
Deferred income	814	558
Convertible notes at amortised cost	-	3,095
Embedded derivative at fair value	-	48
Other loans	960	2,128
	5,796	10,151
Non-current		
Deferred income	47	180
	47	180

12. Share capital

	2016 USD $000	2015 USD $000
Called up, allotted and fully paid 111,685,313 ordinary shares of 0.4p each	645	205

13. Earnings per share

Details of basic and diluted EPS are as follows:

	2016 USD $000	2015 USD $000
Loss for the year	(1,697)	(5,979)
	Number	**Number**
Weighted average number of ordinary shares for basic and diluted earnings per share	77,687,652	31,980,784

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

	2016 USD Cents	2015 USD Cents
Net tangible asset backing per ordinary share	(3.01)	(25.8)

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. Any other significant information

Not applicable.

20. 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).

21. Post balance date events

There are no post balance date events.

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 2015 financial statements, the auditor's report for the 2016 financial statements may contain an emphasis of matter paragraph in respect of the adoption of the going concern basis of accounting.