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The Manager
Market Announcements Platform
Australian Securities Exchange Limited

Adjustment to 2018 Profit Outlook

The Company wishes to update the market on its latest outlook for FY2018.

In the Company's Half Year Financial Report, released to the market in February, it reported a before tax loss of $568,000 for the first half of FY2018, but in the outlook for the second half the Company anticipated that major contract sales would "deliver a lift in gross and net profit which will produce a profit result for the full financial year to 30 June 2018".

While working to increase base sales revenue, which pleasingly has exceeded by over 20% that enjoyed in the first half of FY2018, the Company has also been pursuing the completion of those major contract deliveries. Due to events almost entirely beyond the Company's control it is now certain that two major product shipments will not be made before 30 June 2018 but will instead be delayed until the first quarter of FY2019. There will be no reduction in the quantum or value of the shipments, which are the subject of contractually enforceable orders and commitments, but the rescheduling of the deliveries will have a material impact on the Company's full year result.

Details of the deferred product shipments in question are as follows:

1. The first half of the fourth order for 5000 Iridium GO!® units was delivered in March 2018 and it was expected that the balance would be delivered in June. Due to a very minor cosmetic issue, not relating to function or performance, the release of the last 2500 units will be delayed past 30 June while this product labelling issue, which is easily rectified at no cost to the Company, is remedied.

2. As reported in the Half Year Report, the Company had previously experienced issues that were delaying the finalisation of the Thuraya WE unit's software. Those issues have unfortunately, and unexpectedly, lingered and thereby hampered efforts to complete the contracted delivery of 3000 units in this financial year. All 3000 WE units have been manufactured (a simple and quick software update, once available, will be required for each unit) and some 342 units have already been delivered to Thuraya. Once again, rectification is expected to take place relatively quickly (within Q1 of FY 2019) but unfortunately not before 30 June of this financial year.

Due to the very large magnitude of these unfulfilled shipments and the consequential impact on the Company's annual profit, the Company is obliged to advise the market of a significant adjustment of its anticipated annual result. Until it was finally determined this week that the above shipments were not possible to be made before 30 June, the Company was confidently anticipating a Net Profit Before Tax broadly in line with forecasts. The lack of the two major shipments will now mean the Company is likely to sustain a Net Loss Before Tax for FY2018 of between $1.2m and $1.4m. Although this revelation is very disappointing, the Board is significantly comforted by management's firm expectation that deliveries will be made shortly and that this represents merely a deferral of contractual revenues.

The magnitude of the adjusted revenue scheduling is reflective both of the lumpy nature of the Company's business incomes and also the significant revenues that the Company expects to receive from further orders of these products in the new financial year.

Naturally the delays to revenue impact cash generation, however the Company exercises strong cash control in respect to its recurring operational expenses. In addition, the Company received in May a government R&D grant of $1.1m, further bolstering our current reserves. The Company's cash balance is supplemented by pre-approved and, as of today's date, undrawn loan facilities of A$3.4m (although there was minor use of the overdraft over the last three months).

The Company’s directors and senior management believe the Company is well placed to cope with the periods of volatility that are part of the nature of our business and we are determined to grow the revenues and profits of the Company with appropriate investments and innovative products.

We look forward to sharing with the market news of the successful delivery of the above major product shipments and note that their deferral into FY2019 is expected to enhance s the Group’s annual result for the coming financial year.

Yours faithfully

Michael Capocchi
Managing Director