

ASX ANNOUNCEMENT

31 January 2020

Norwood Corporate Overview and App 4C for December 2019 Quarter

Highlights

- **Secured new, additional contract from Spark NZ post-quarter end to deploy and operate on Spark's behalf a Spark-branded, hosted Visual Voicemail service for Spark's business customers.**
- Receipts from customers of \$86,000 for the December 2019 quarter, taking the total receipts from customers for the last six months of the 2019 calendar year to \$411,000 (a 48% increase compared to \$276,000 for the corresponding period of CY2018).
- Costs of R&D, manufacturing, operating, staff, sales consulting, admin and corporate for the December quarter were down 13.7%, compared to the September quarter.
- Release 3 of **World Voicemail** for iOS issued in parallel to voicemail server platform upgrades to address telco operators' requirements for system scalability and reliability.
- **World Voicemail Release 3** targeting the \$1 billion telco voicemail market through direct sales and telco partnerships
- Completed two placements of \$200,000, each via the placement of 66.7 million fully paid ordinary shares at \$0.003 per Share, to raise a total of \$400,000 to assist with the Company's ongoing working capital requirements.
- Completed a 10 for 1 consolidation of securities on issue.

'Sharing Economy' and 'Communications as a Service' pioneer Norwood Systems Ltd (Norwood or the Company) (ASX: NOR) is pleased to provide an overview of the Company's activities for the December 2019 quarter and the accompanying Appendix 4C cashflow report.

Norwood's CEO and Founder, Paul Ostergaard, said: *"I am very pleased with the progress this quarter and our securing of a new material contract from Spark NZ post-quarter. As a result of earlier recognised revenue from our Spark NZ contract, we have been able to progress our product development activities and we are seeing a positive reaction from the sector in response to World Voicemail.*

"This most recent contract with Spark is of a significant and material nature and we expect it to deliver almost immediate material revenues to Norwood over the coming weeks. We believe that it is a significant signal, moreover, of the enhanced level of trust that Spark now has in Norwood, arising from our year-long engagement with them.

"A year ago, we signed a contract to deliver voicemail platform infrastructure to be operated within Spark's internally hosted network. It is a significant sign of the trust that Spark is placing in Norwood that they are now allowing Norwood to operate such services on their behalf using Norwood's cloud platform. We believe this hosted model provides Spark with considerable "time-to-market" advantages, and we also believe it has the potential to be replicated with other operators around the world, with McKinsey¹ having forecast potential opex savings for operators of up to 30 to 70% when they move their service infrastructure to a cloud provider.

¹ Source: <https://www.mckinsey.com/industries/telecommunications/our-insights/overwhelming-ott-telcos-growth-strategy-in-a-digital-world>

“Release 3 of World Voicemail demonstrates our commitment to continue evolving and upgrading our telco offering to the market, and we have a feature roadmap fleshed out that will deliver even more value to the operator community.

*“Norwood is confident that it has developed the world’s most advanced visual voicemail service available for telcos as they consider upgrading their existing, ageing voicemail platforms. We continue to target the \$1 billion telco market for legacy voicemail service replacement, and we can confirm we are developing go-to-market distribution partnerships for **World Voicemail**.*

“We continue to see a significant decline in our operating costs, which has been assisted through material revenue from the Spark NZ contract. During the quarter, we received firm commitments to raise \$400,000 via two placements which will assist with short term working capital requirements and will be used to pursue material licensing deals and revenue generating contracts related to World Voicemail.”

Product Development Activities

During the quarter the Company announced **Release 3** of its telco-scale **World Voicemail** platform.

Key new World Voicemail end-user features include: Improved voicemail message transcription quality; new iOS 13 dark-mode appearance; automatic voicemail forwarding to email – “voicemail delegation”; ability to read or listen to voicemails directly from the iPhone lock-screen; and support for 16 new languages to support global distribution.

Norwood is one of very few network telco vendors that focuses both on core network technologies as well as the critically important end-user customer experience (CX), mediated through Norwood’s award-winning App development competencies.

The upgraded platform capabilities mean that Norwood’s telco-scale **World Voicemail** platform now has the full support of key features demanded by telco customers – including geographic redundancy, high-availability configurations and scalability beyond 100 million subscribers per telco.

Sales and Commercialisation Activities

Spark NZ contract update

Norwood was pleased to announce post quarter end the signing of a further Agreement with Spark for the provision of additional Norwood World Voicemail services to Spark.

Under the Agreement, Norwood will provide Spark with a Spark-branded version of Norwood’s existing hosted World Voicemail service and application, for use exclusively in New Zealand. Spark will promote its branded version – Spark Voicemail – to its business subscribers.

The pre-existing agreement with Spark (refer ASX Announcement 1 February 2019) remains unchanged. This new Agreement, which comes into effect immediately and is anticipated to continue until 30 June 2020, is required in order to encourage the adoption of advanced voicemail services to Spark users as an alternative to Spark’s internally hosted voicemail services, which Norwood is also contracted to deliver.

Spark will encourage subscribers to sign up for the service at either a monthly or annual price. The new subscription revenue arising from this hosted service will be shared between the parties. Norwood is anticipating this contract will make a material revenue contribution this quarter.

Telco Voicemail partnerships

Norwood confirms that it is currently developing go-to-market distribution partnerships for World Voicemail with several prospective telco vendors. Norwood previously advised that it anticipated the formalisation of such a partnership in the September 2019 quarter, and whilst an agreement has not yet been achieved Norwood advises that such discussions are continuing afoot and progressing well, an agreement is currently expected (based on discussions-in-progress) in the current March 2020 quarter.

Corporate

Capital Raising

During the quarter, Norwood completed two placements for \$200,000, as announced on 29 October 2019 and 9 December 2019 (**Placements**).

On 29 October 2019 the Company announced it has received firm commitment from Pinnacle Corporate Finance Pty Ltd (“Pinnacle”) to raise \$200,000 via the placement of approximately 66.7 million fully paid ordinary shares (“Shares”) at \$0.003 per Share (pre-consolidation) under its existing ASX Listing Rule 7.1 capacity.

On 9 December 2019 the Company announced it has received firm commitments to raise \$200,000 via the placement of approximately 66.7 million fully paid ordinary shares (“Shares”) at \$0.003 per Share (pre-consolidation) under its existing ASX Listing Rule 7.1A capacity. Settlement of the placements occurred immediately.

Net proceeds from the Placements are geared towards pursuing material licensing deals and revenue generating contacts related to **World Voicemail**. The Company is seeing robust commercial interest in **World Voicemail**, and discussion remains on foot with a number of telcos and telco partners worldwide.

The successfully completed Placements, cash funds now received from the ATO for an R&D tax offset rebate for FY2019 and a proposed funding arrangement over FY2020 future R&D tax offset rebates (via Radium Capital) provide sufficient working capital for Norwood’s short-term needs.

Annual General Meeting

The Company held its AGM on 28 November 2019 and confirms all resolutions put to the meeting were carried via a poll.

Consolidation

As announced on 12 December 2019 and approved by shareholders at the AGM, the Company completed a 10 for 1 consolidation of its securities in December 2019.

The Company had a significant number of shares on issue and the Board considered the share consolidation would provide the best platform for continued growth and a capital structure that is more in line with the Company’s size and peer group companies. It should also result in a share price level that is more attractive to a wider range of investors and reduce share price volatility.

As a result of the Consolidation, the number of the Company’s shares on issue was reduced from 2,232,693,616 existing shares to 223,270,063. As the Consolidation applied equally to all shareholders, individual shareholdings were reduced in the same ratio as the total number of shares (subject only to the rounding up of fractions). The Consolidation had no material effect on the percentage interest of each individual Shareholder. Similarly, the aggregate value of each shareholder’s holding (and the Company’s market capitalisation) didn’t change as a result of the consolidation.

The consolidation of capital was applied to all listed and unlisted options at the time of the consolidation. In accordance with the option terms and ASX Listing Rule 7.22, including the NOROA Listed Options, these options were consolidated on the same basis as the shares with the existing price amended in inverse proportion to the consolidation ratio. The expiry dates of the options did not change. For further details on the effect of the consolidation, refer to the Company’s Notice of Meeting for the AGM lodged with ASX on 25 October 2019.

Payments

Norwood notes that item 6.1 in the Appendix 4C relates to executive and non-executive director fees.

Authorisation

This announcement has been authorised for release by Paul Ostergaard, CEO and Managing Director of the Company.

<ENDS>

| | |
|---|---|
| Company: Paul Ostergaard , CEO & Founder Office: +61 8 9200 3500 Web: www.norwoodsystems.com Twitter: @norwoodsystems, @paulostergaard | Investor Relations: Shane Murphy , FTI Consulting Office: +61 8 9485 8888 email: shane.murphy@fticonsulting.com Mobile: +61 420 945 291 Twitter: @ShaneWMurphy |
|---|---|

Norwood Systems Ltd (ASX: NOR) is revolutionizing mobile voice, messaging, data and cyber security services through its pioneering award-winning virtual mobile services platforms and associated Apps.

The Company's breakthrough offerings deliver Over the Top (OTT) connectivity, knowledge and intelligence services. Norwood's products and services are targeted at a broad spectrum of prospective customers from individuals through to large enterprises and government agencies.

Norwood has delivered services to more than 6 million customers since launching its platform in mid-2014, servicing people in 200+ countries & territories and 5000+ cities worldwide.

Norwood Systems listed on the ASX in June 2015 and trades with the stock ticker NOR.

Appendix 4C

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

Name of entity

NORWOOD SYSTEMS LIMITED

ABN

15 062 959 540

Quarter ended ("current quarter")

31 December 2019

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|------------------------------------|--|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | 86 | 411 |
| 1.2 Payments for | | |
| (a) research and development | (236) | (518) |
| (b) product manufacturing and operating costs | (98) | (185) |
| (c) advertising and marketing | - | - |
| (d) leased assets | - | - |
| (e) staff costs | (166) | (361) |
| (f) administration and corporate costs | (237) | (527) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 0 | 3 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Government grants and tax incentives | 713 | 713 |
| 1.8 Other (provide details if material) | - | - |
| 1.9 Net cash from / (used in) operating activities | 62 | (464) |
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) entities | - | - |
| (b) businesses | - | - |
| (c) property, plant and equipment | - | - |
| (d) investments | - | - |
| (e) intellectual property | - | - |
| (f) other non-current assets | - | - |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|--------------------------------------|---|----------------------------|---------------------------------------|
| 2.2 | Proceeds from disposal of: | | |
| | (a) entities | - | - |
| | (b) businesses | - | - |
| | (c) property, plant and equipment | - | - |
| | (d) investments | - | - |
| | (e) intellectual property | - | - |
| | (f) 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 | - | - |

| | | | |
|-------------|---|-------------|------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | 450 | 600 |
| 3.2 | Proceeds from issue of convertible debt securities | - | - |
| 3.3 | Proceeds from exercise of options | - | - |
| 3.4 | Transaction costs related to issues of equity securities or convertible debt securities | (17) | (17) |
| 3.5 | Proceeds from borrowings | 135 | 274 |
| 3.6 | Repayment of borrowings | (619) | (619) |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other (provide details if material) | - | - |
| 3.10 | Net cash from / (used in) financing activities | (51) | 238 |

| | | | |
|-----------|--|-----|-------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 169 | 406 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | 62 | (464) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | - | - |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|--|------------------------------------|--|
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | (51) | 238 |
| 4.5 | Effect of movement in exchange rates on cash held | - | - |
| 4.6 | Cash and cash equivalents at end of period | 180 | 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 \$A'000 | Previous quarter \$A'000 |
|------------|---|------------------------------------|-------------------------------------|
| 5.1 | Bank balances | 130 | 119 |
| 5.2 | Call deposits | 50 | 50 |
| 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) | 180 | 169 |

6. Payments to related parties of the entity and their associates

6.1 Aggregate amount of payments to related parties and their associates included in item 1

6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

58

-

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

7. Financing facilities

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.

| | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|---------------------------------------|---|--|
| 7.1 Loan facilities | 274 | 274 |
| 7.2 Credit standby arrangements | - | - |
| 7.3 Other (please specify) | - | - |
| 7.4 Total financing facilities | 274 | 274 |

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.

Key Facility Terms:

- Counterparty: Innovation Structured Finance Co LLC facilitated by Radium Capital
- Amount: 80% of the expected R&D tax offset resulting from each period's eligible R&D expenditures, with principal and interest repaid from the actual tax offsets at the end of the financial year.
- Final Maturity Date: 31 November 2020.
 - Norwood has the option to repay earlier without penalties.
- Interest Rate: 14% per annum, and default rate of 18% (from 1 October 2020 until the loan is repaid in full).
- Security: Secured against the R&D refund receivable from the ATO
- Conditions: R&D expenditure has to be reviewed by R&D Tax Consultants
- Purpose of Loan as per agreement: Wholly or predominantly for working capital or research and development expenditures.

| 8. Estimated cash available for future operating activities | \$A'000 |
|---|----------------|
| 8.1 Net cash from / (used in) operating activities (Item 1.9) | 62 |
| 8.2 Cash and cash equivalents at quarter end (Item 4.6) | 180 |
| 8.3 Unused finance facilities available at quarter end (Item 7.5) | - |
| 8.4 Total available funding (Item 8.2 + Item 8.3) | 180 |
| 8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1) | 2.92 |

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: N/A

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: N/A

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: N/A

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: 31 January 2020

Authorised by: By the Board
(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.