Investor presentation
Etherstack plc (ASX:ESK)

October 2016 Update

etherstack
wireless innovation

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What we do

- ⬡ **Mission Critical Radio Networks**

- ⬡ **Specialized Communications equipment**

- ⬡ **Technology Licensing**

- ⬡ **Long term Support**

- ⬡ **Royalties**

- ⬡ **Customisation and Integration services**

Etherstack's LTE25™ Application allows government users to communicate securely with traditional emergency radio networks from specialised smart phones

Mission critical radio networks

- Typically used by:
    - Public Safety Organisations (police, fire, ambulance)
    - Utilities (electric, gas, water)
    - Mining/Resource Sector
    - Transportation
- They form part of essential services infrastructure in every country
- Etherstack designs, manufacturers and supplies this equipment to system integrators and end network operators globally
- Etherstack also supplies this equipment and technology to OEMs, such as Cisco, for inclusion in their own product lineups

Mission critical radio networks - Revenue

- Etherstack generates its largest revenues from mission critical radio network equipment sales

- Etherstack currently has an installed base of 5 major utility networks in the US, Canada and Australia including a major digital radio network in Queensland for Ergon Energy. Our most recent award was in New Jersey, USA in April 2016.

- Network operators need to build digital radio communications networks that can withstand floods, cyclones, power outages and other disasters and emergencies

- Etherstack's equipment conforms to industry standards - APCO P25, DMR & TETRA – that ensure interoperability between different manufacturers

- Etherstack sells under its own brands as well as white labelling products in the US, Canada and Japan
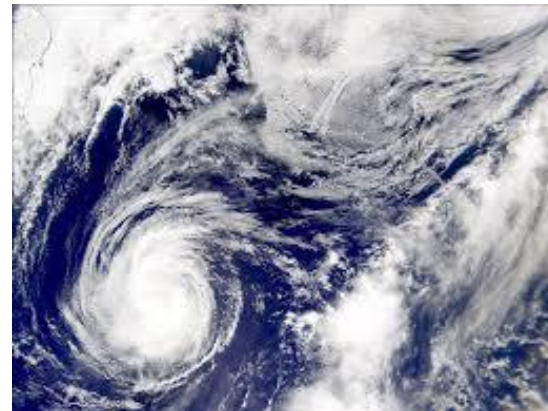
Specialised Communications Equipment

- Etherstack has designed and developed a "best in class" small form factor tactical repeater solution

- Used by national policing and defence organisations to provide secure ad hoc communications networks back to command-and-control from anywhere on the globe

- These solutions are typically used by:

  - State Emergency Services

  - State & Federal Policing Organisations

  - Defence Organisations (e.g. peacekeeping)

  - Humanitarian Aid Agencies

- Etherstack's SFFR-6 unit (as illustrated) has been used to provide security on international policing deployments in challenging locations

**"Best In Class" Technology:
Etherstack's SFFR-6 Tactical Repeater (aka the "Go Box") packs more power and networking capability into the most compact footprint than any comparable offering**

Specialised Communications Equipment - Revenue

- All electronics and software in these solutions are designed and manufactured by Etherstack

- Used in high value applications such as disaster recovery, policing and defence applications

- For example, Etherstack's in-vehicle repeaters allow officers to leave their vehicles and communicate with dispatch from handheld radios using the vehicle as a relay point

- Over 5,000 California Highway Patrol cars have Etherstack specialised communications equipment onboard (US$17m contract 2010 & 2011)

- Etherstack's new tactical repeater ("Go Box") is being well received by international policing and other security organisations. The company has recently announced new sales with multiple government agencies of the product, including several repeat multi unit orders from one key policing client.

California's Highway Patrol uses Etherstack Technology

Additional Revenue Streams

Technology Licensing

- Other wireless equipment manufacturers license Etherstack technology for use in:

    - Portable radio products (handhelds, in-vehicle, airborne radios)

    - Radio network tower site equipment

    - IP based core network solutions

    - Cryptographic solutions

    - Specialised test equipment

- Some of the world's biggest names in wireless and IP switch equipment are clients and pay recurring royalties to Etherstack on sales of products shipped under their own brands

- Etherstack invests extensively in developing next generation wireless technology for the public safety communications industry

- Long royalty tails are typically 7 – 10+ years for the lifespan of a typical client's product line

Additional Revenue Streams (contd.)

Long Term Support

- Each time Etherstack sells a mission critical radio network, the end user organisation typically enters into a 24x7 support agreement with Etherstack, either directly, or indirectly via a system integrator

- Lifetime of support revenues associated with a digital radio network is usually 10-15 years

- Etherstack's installed support client base has been growing every year

- Etherstack has seen strong support revenue growth in the last 18 months as new networks have been deployed

Additional Revenue Streams (contd.)

Ongoing royalties

- Typically on a per unit shipped by the manufacturer using Etherstack technology.

- Recurring royalties have been consistently growing for Etherstack with a noticeable lift in DMR royalties 2016

Customisation and integration services

- These revenues come as a result of the licensing deals

Always Innovating: Etherstack is developing a full DMR Tier III digital mobile radio network product for the global market

Solid Growth in Core Industry

Public Safety communications is a growing global industry

From marketsandmarkets.com, November 2015

"*Public Safety and Security Market by Solution, Service, Vertical (Homeland Security, Emergency Services, Manufacturing, and Others), and Region (North America, Europe, Asia Pacific, Middle East and Africa and Latin America) - Global Forecast to 2020",* the public safety and security market size is estimated to grow **from USD 220.82 Billion in 2015 to USD 370.64 Billion by 2020,** at an estimated Compound Annual Growth Rate (**CAGR) of 10.9%** from 2015 to 2020.

Customers, Licensees, End users

North America
- Allegheny Energy (Pennsylvania/Maryland)
- Jersey Central Power & Light (New Jersey)
- Royal Canadian Mounted Police
- Cisco Systems
- ATCO Electric (Alberta)
- Raytheon
- General Dynamics
- Harris Corporation
- Lockheed Martin
- Rockwell Collins (California Highway Patrol project)

Japan
- JVC Kenwood
- NEC Corporation
- Icom Inc

Australia
- Ergon Energy (Queensland)
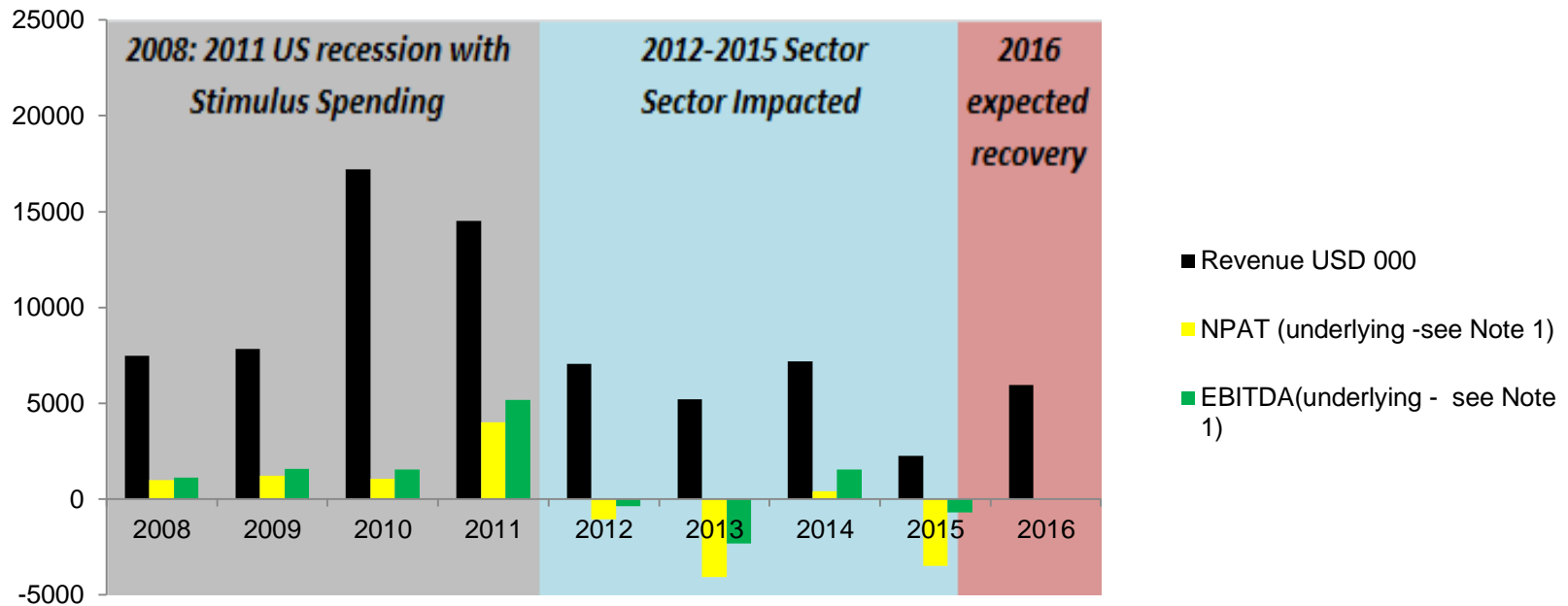- Federal & State public safety agencies
- Department of Defence

Other
- UAE Armed Forces
- Swedish Defence Ministry

Over $100m in Revenue since 2007

- Majority of revenue was earned in North America. The GFC led economic slowdown encouraged stimulus spending from 2008-2011 which was partially financed from forward spending budgets for 2012-2015.
- The recovery of the US economy and associated return in government infrastructure spending has helped Etherstack return to profitability.

Note 1 – NPAT and EBITDA are underlying measures and exclude impairment charges and non recurring costs.
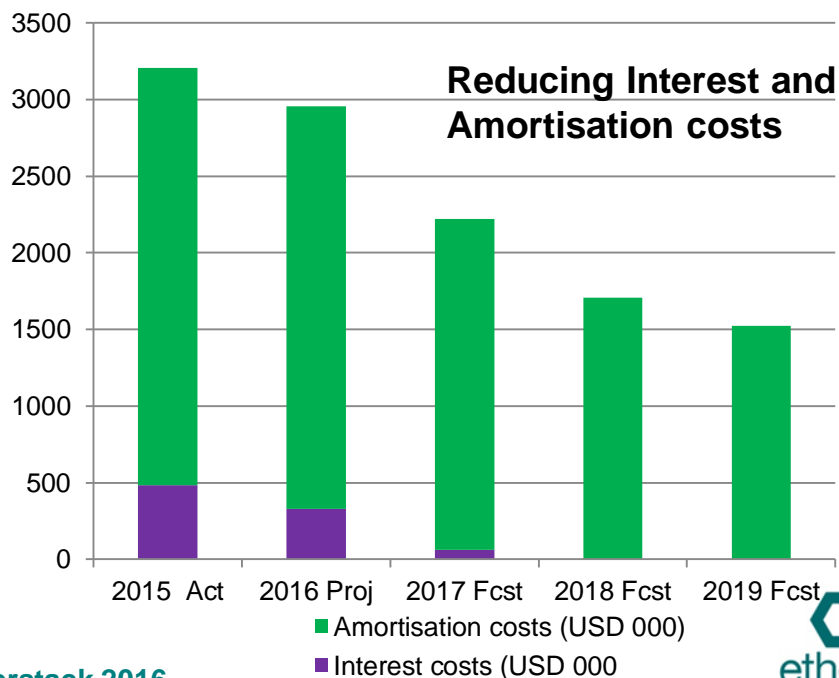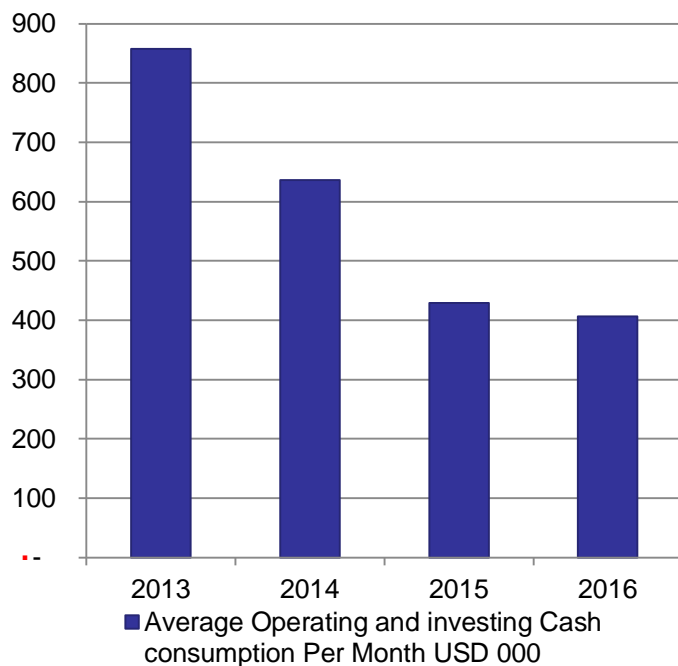
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October Update – Postive 2016 Outlook

Increased revenues, reduced costs, new contract wins

- **The company expects 2016 revenues to be between USD $5.8m to $6.1m versus USD $2.2 m for 2015**

- Growing recurring revenue stream base will help smooth out Etherstack's historically 'lumpy" revenue. Changes in timing of contract wins and their delivery can, and have, had significant impacts on revenue recognition in our reporting

- In 2015 significant signs of recovery in the US economy have helped drive underlying revenues in almost all aspects of Etherstack's diverse revenue streams for 2016

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2016 Update & Outlook

Significantly Reduced Costs

- The company is operating at its lowest cost base in over 6 years, through the rationalisation of product lines and facilities.
  - Operating and investing cash costs excluding cost of sales were reduced
  - Interest costs are declining to due to debt retirement
  - Amortisation costs (non-cash) down ~US$1m over 2015-18 (improving NPAT)

Reducing Interest and Amortisation costs

Left chart — Average Operating and investing Cash consumption Per Month USD 000 (bars for 2013, 2014, 2015, 2016)

Right chart — Amortisation costs (USD 000), Interest costs (USD 000) for 2015 Act, 2016 Proj, 2017 Fcst, 2018 Fcst, 2019 Fcst

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2016 Update & Outlook

Intellectual Property Has Been Maintained and Enhanced

- Notwithstanding reduced operating and investing cash costs the company has maintained and enhanced its intellectual property portfolio and continues to invest in new products. The R&D investment in 2015 was US$1.6m and US$2.3m in 2014

Stronger Balance Sheet

- The Company recently completed an A$8 million entitlement issue to retire debt which will assist both profitability and cashflow going forward.

Recent significant contract wins

Recent Wins

- Etherstack has had numerous new digital radio network wins in the **past 12 months** that are in various stages of deployment including:

  - New US & Canadian policing networks

  - New US Federal networks, such as the US Dept of Interior

  - New US electric utility network win (A$3.2m Jersey Central Power & Light, part of the FirstEnergy electric utility group)

  Last 3 months

  - Ergon Energy 5 year support contract A$3.4 million (USD $2.6 million) announced **21 September 2016**

  - NEC Corporation (Japan), 60m yen (~A$770,000) licensing transaction announced **4 October 2016**

  Upcoming

  - Material new network upgrade and expansion programmes are being planned by our existing network operator client base

2016 Positive Outlook

Specialised Equipment Growth

- Etherstack is experiencing increased demand for its new tactical radio network products. The company is broadening its portfolio and regional certifications in this area to capitalise on demand.

Royalty Growth

- Etherstack's Q1 2016 royalty reports from other manufacturers were unusually high, potentially indicating a sector wide recovery

- Etherstack expects that new royalty streams from a new digital radio technology known as DMR (Digital Mobile Radio) will contribute importantly to the company's profitability in 2016 and forward

Support Growth

- New radio networks deployed and expansion of existing client radio networks has seen a material uptick in support revenues for 2016

- Long term support revenues represent an important foundation for improved visibility and reduced volatility of future earnings; the 5 year support contract with Ergon is a good example of this revenue growth

Outlook Summary

- Achieved structural changes in the Company's revenue mix

- Significantly reduced operating and financing costs

- Witnessing growing demand across all products and services

- Benefiting from improved US economy

- Significant new contract wins already achieved in 2016

- Etherstack expects revenue of USD $5.8m to $6.1m and has positioned itself to continue growing through 2017 and beyond

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