

ASX Announcement

31 October 2022

September 2022 Quarterly Report & Business Update

Key Highlights:

- Repeat order secured under the 'Design Win' strategy with Spright in North America, following a recently announced new commercial agreement.
- Continuing the expansion of the design win partners as well as securing additional orders with existing customers.
- New features offering and testing of Halo 5G with Tier-1 US cellular operator.
- Breakthrough first US FAA Type Certificate issued to commercial drone operator.

Elsight Limited (ASX: ELS) (Elsight or the Company), the carrier agnostic, AI-powered connectivity solutions company, is pleased to provide the following **Business Update**, outlining the Company's achievements over the September quarter.

'Design Win' Strategy Update

During the quarter, the Company received its first repeat order for 'Halo' units from Air Methods' wholly owned drone subsidiary, [Spright](#). Spright placed its first commercial order of Halo after signing a five-year agreement with the Company towards the end of June (refer ASX announcement on 30 June 2022). Approximately six weeks after the initial order, the Company received a repeat order which consisted of both upfront hardware revenue as well as recurring Elsight cloud and SLA revenues.

Repeat orders are expected during the remaining term of this agreement as Spright is not only seeking to become the largest drone operator in the medical delivery space in North America, but they will also become an official 'Halo' reseller in the United States, further increasing the Company's distribution opportunities in that region.

After the quarter end, Spright [announced](#) the successful completion of the longest UAS Beyond Visual Line Of Sight (BVLOS) flight in the US by a commercial entity. This achievement brings Spright closer than ever to their ultimate goal; to serve an expansive network of healthcare facilities through the only bi-directional drone delivery service in the United States.

Business metrics showing strong progress

During the quarter, the Company continued to expand the Halo investment program as part of the 'Design Win' strategy, bringing the total number to 67 partners. The 'Design Win' concept is proving itself as the company continues to receive repeat orders from existing customers. During the quarter, 16 partners placed repeat orders adding up to US\$255K this quarter. The Company is also seeing an acceleration in recurring revenue.

In addition, the Company continues to enjoy great progress with customer rollouts and product satisfaction. Ryan Henderson, Director of Flight Operations, MissionGo! "We have been extensively flying with Halo and we love it. Just incredible. We've never experienced such a solid LTE link before."

Allan Burtness, Director of Maintenance, MissionGo! "Elsight's customer support is the best I've ever seen. HALO is very impressive and backed up by an outstanding support group. It's a win-win."

MissionGo! Has recently [announced](#) their 3-year, \$50 million UAS infrastructure inspection partnership with Southern California Edison.

Milestones at our key partners DroneUp-Walmart drone delivery during this quarter

August 24, 2022 - As part of their preparation for the expansion of drone parcel delivery services in a growing number of stores and states, DroneUp announced its plan to invest \$7 million to expand its Virginia Beach headquarters, creating 510 jobs at that location, and invest an additional \$20.2 million to establish a testing, training and R&D center for drone operators at Richard Bland College of William & Mary, on the outskirts of metropolitan Richmond, creating 145 jobs there.

August 24, 2022 – In May, [DroneUp announced](#) that it would deliver to 34 sites, in six U.S. states to four million households by the end of 2022. On August 24, 2022 Tom Walker, DroneUp CEO told the media "Our delivery capacity will be four million homes by the end of this year. Our goal is 30 million by the end of next year." He further stated that "Our partnership with Walmart is unique because there's 4,700 Walmarts. Ninety-two percent of the U.S. population lives within 10 miles of a Walmart. So, as we work with the FAA and negotiate that broader range, we're starting to go three, four, five, ten miles. It's not long before 92 percent of the U.S. population can be receiving products."

August 30, 2022 - Walmart added its second board member to DroneUp's board of directors by appointing Mr. David Guggina, Senior Vice President of Innovation and Automation at Walmart.

Technology improvement

The Company is continuing to improve the Halo product by optimising the product's core strength as well as adding new features to provide better value to customers and creating new revenue stream opportunities by upselling to existing customers.

Post quarter end, the Company, in partnership with DroneUp and T-Mobile, one of the three largest US cellular carriers, carried out the first commercial 5G flight during the RedBull Rampage event in Utah in the US. The event took place after an extensive mutual effort by all parties to unlock the maximum value of the 5G network.

This is another indicator of the strong relationship between Elsieht and DroneUp, and has formed a solid foundation for future work between Elsieht and T-Mobile, including possible joint agreements which might take place in the future. As part of the deployment, the Company and its partners have used both IPV6 and direct P2P communication over the 5G network. This capability represents a new valuable feature to Halo users as it solves some of the industry's biggest challenges.

FAA Regulatory Update

In a major breakthrough for the drone industry, the US Federal Aviation Administration (FAA) issued its first Type Certificate (TC) to a commercial drone operator in the US during the quarter. This has been a much anticipated and very significant event for the entire drone industry operating in North America.

The issue of the first TC to a commercial drone operator demonstrates a maturing of the industry which has previously been operating under exemptions and waivers. The drone market in the US continued to grow and expand significantly under the waivers-only scenario, it is therefore reasonable to assume that the issue of the first FAA TC will be a strong catalyst for mass deployment of commercial drone services for that market moving forward. The Company's 'Design Win' strategy has Elsieht very well positioned to participate with the expected growth in the industry by having 'Halo' embedded as a critical component in drone design by manufacturers.

Conferences & Events

During the quarter the Company attended and manned a booth at one of the leading conferences for the drone industry. Commercial UAV Expo was held in Las Vegas and attracted a record attendance with more than 4,000 registrants. The Elsight booth was hosted in conjunction with Spright and with WingCopter, strengthening the relationship with Spright. Elsight was well received and recognised at the Expo, with numerous companies already having brand recognition of Elsight prior to meeting with the team that travelled to the Expo.

Corporate

During the quarter, the Company continued to demonstrate good traction with new partnerships under its 'Design Win' strategy. In order to further capitalise on growth initiatives, the Company has been considering a range of funding alternatives to maintain its strong growth trajectory and expects to provide an update to the market in the upcoming December quarter.

As detailed in Item 6.1 of the Appendix 4C, Payments to related parties and their associates during the quarter totalled \$44k comprising Directors' fees.

Elsight Webinar Presentation on 7 November at 5.00 pm AEDT.

Elsight plans to hold a webinar presentation on 7 November at 5.00 pm AEDT, to provide a business update and go through the September quarter results.

Please register in advance [HERE](#).

This will be an opportunity to hear from the CEO, Yoav Amitai, and the other Directors. The Company looks forward to meeting with our shareholders at this presentation, where you will also be given the chance to participate in a Q&A session.

Authorised for release by the Board of Directors of Elsight Limited.

For more information, please contact:

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About Elsight

Elsight (ASX:ELS) (www.elsight.com) Elsight delivers Absolute Connection with 24/7 Confidence. Our proprietary bonding technology incorporates both software and hardware elements to deliver extremely reliable, secure, high bandwidth, real-time connectivity - even in the most challenging areas for stationary, portable, or actively mobile situational requirements.

Appendix 4C

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

Name of entity

ELSIGHT LIMITED

ABN

98 616 435 753

Quarter ended ("current quarter")

30 September 2022

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (9 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	352	811
1.2 Payments for		
(a) research and development	(392)	(1,354)
(b) product manufacturing and operating costs ⁽ⁱ⁾	(56)	(332)
(c) advertising and marketing ⁽ⁱ⁾	(204)	(697)
(d) leased assets	-	-
(e) staff costs ⁽ⁱ⁾	(257)	(671)
(f) administration and corporate costs	(205)	(595)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(3)	(11)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(765)	(2,849)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	(1)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

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	-	(1)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	13	2,480
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	(104)
3.8	Dividends paid	-	-
3.9	Other – principal elements of lease payments	(50)	(151)
3.10	Net cash from / (used in) financing activities	(37)	2,225

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,028	1,990
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(765)	(2,849)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(1)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(37)	2,225

Appendix 4C

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

4.5	Effect of movement in exchange rates on cash held	(11)	(150)
4.6	Cash and cash equivalents at end of period	1,215	1,215

(i) Following a detailed review of cost allocations undertaken during Q3, at 30 September 2022 the Group has reclassified US\$154,000 of costs paid during the period 1 January – 30 June 2022. The impact on the 30 September 2022 YTD figures presented above is a reduction in product manufacturing and operating costs of US\$154,000, an increase in advertising and marketing of US\$77,000 and in increase in staff costs of US\$77,000.

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 \$US'000	Previous quarter \$US'000
5.1	Bank balances	1,176	1,988
5.2	Call deposits	39	40
5.3	Bank overdrafts	-	-
5.4	Other – proceeds held in relation to Non-Eligible Foreign Shareholders' Entitlements	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,215	2,028

6.	Payments to related parties of the entity and their associates	Current quarter \$US'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1 – Payment to directors for their salaries and fees.	44
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>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.</i>		

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	-	-
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.		

8.	Estimated cash available for future operating activities	\$US'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(765)
8.2	Cash and cash equivalents at quarter end (item 4.6)	1,215
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	1,215
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.6*
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>		
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	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: Towards the end of 2021, the Company increased its inventories (working capital) substantially in order to prepare for future sales. As a result, there will be a dual effect of a reduction of manufacturing and operating costs associated with that short term increase in working capital as well as the aforementioned expected increase in sales receipts. Furthermore, to maximize its runway, the Company is going through a modest streamlining to drive efficiencies in the business.	
8.6.2	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: The Company is continually monitoring its cash position. Should the Company choose to increase its funding, it has access to a range of working capital finance opportunities.	
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer: Yes. Refer to comment in 8.6.2 above.	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>		

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 October 2022
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Authorised by: the Board
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(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.