

29 April 2020

ASX Announcement

ETHERSTACK PLC [ASX:ESK]

("Etherstack" or the "Company")

Etherstack plc Trading Update & Appendix 4C

Etherstack is pleased to present commentary on the Company's activities in Q1 FY20, to accompany the lodgement of its Appendix 4C cash report for the quarter ending 31 March 2020.

Highlights

- **Significant Q1 Revenue Increase:** While Q1 is typically a quiet quarter for Etherstack due to government budget spending cycles, Q1 revenues and sales activity in 2020 have been unseasonably high. Unaudited revenues for Q1 are more than 50% higher than the prior comparative period. While Etherstack revenues can be "lumpy" due to revenues from a small number of large projects, this is nonetheless a positive start to the 2020 financial year.
- **Continued Strong Cashflow:** Cash receipts from Customers of USD\$1,302,000 for the quarter is slightly down from the December 2019 quarter USD\$1,516,000 however the current quarter result excludes a further USD\$575,000 received in the first week of April 2020 connected to this increased Quarter 1 activity.
- **New Contract Wins:** As previously announced during Q1, there have been 2 major new business wins from the existing customer base:
 - US\$1.35m deal to supply digital radio communications equipment to a North American channel partner
 - A further network expansion order from an Australian energy utility, for digital P25 radio network equipment. The expansion order value is approximately AUD \$520,000 (~USD\$359,000)
- **Solid Pipeline:** The Group is pursuing a number of medium and large opportunities with new customers and looks forward to making new customers/contract announcements.
- **Recurring Revenue Growth:** Recurring support revenues have remained strong for the quarter and are 10% higher than the comparative quarter in 2019.
- **Reduced Debt & Financing Costs:** In the quarter, agreement was reached with a Convertible Note holder whereby the liability of USD\$325,000 for matured Convertible notes and interest was settled by:
 - Cash repayment of USD\$104,000 (settled in April);
 - The issue of 516,129 new shares; and
 - The issue of 499,377 new Convertible notes at a lower coupon rate

Impact of Covid 19

Management and the Board of Directors are continuously monitoring the impact of Covid 19. In general, the impact on the business is expected to be at the lesser end of the range as:

- Alternative arrangements are being made for delivery of projects and Etherstack has engineers in Australia, North America, Europe and Japan, however it is possible that an inability to travel or travel restrictions applied to Etherstack, customers or suppliers, will impact our ability and efficiency in the delivery of projects.
- Etherstack already has a mobile and remote workforce, and the nature of much the Company's work, means the transition to full time work from home in affected regions has had minimal impact upon productivity.
- The impact of Covid 19 is inherently uncertain. As many of our projects are long term infrastructure projects often funded by governments or semi-government entities, with funding agreed, we are not expecting a significant impact on short term revenues although signing of certain new contracts could experience some delays. The outlook over the medium term is less certain however it is important to note that government stimulus spending on infrastructure projects and public safety in general may provide additional opportunities in the medium term.

Notwithstanding the above, a very high degree of caution will be exercised through this uncertain and challenging period. Management and the Board of Directors will continue to monitor the impact and take all necessary actions to protect the business and all stakeholders.

Etherstack CEO, David Deacon said, "We are seeing increased sales and delivery activity across all of our operating regions with a good blend of repeat business and new government accounts in the US, Canada, UK and Australia. I'd like to thank our partners and staff for their great support over the period and we look forward to continuing to deliver unparalleled solutions to our burgeoning client base."

Authorised for release by David Carter, Company Secretary

Enquiries

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About Etherstack plc (ASX:ESK):

Etherstack is a wireless technology company specialising in developing, manufacturing and licensing mission critical radio technologies for wireless 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 and solutions 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 4C

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

Name of entity

ETHERSTACK PLC

ABN

34 156 640 532

Quarter ended ("current quarter")

31 March 2020

Consolidated statement of cash flows	Current quarter \$USD'000	Year to date (3months) \$USD'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,302	1,302
1.2 Payments for		
(a) research and development ¹	-	-
(b) product manufacturing and operating costs	(571)	(571)
(c) advertising and marketing	(5)	(5)
(d) leased assets	(46)	(46)
(e) staff costs	(520)	(520)
(f) administration and corporate costs	(202)	(202)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(10)	(10)
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	USD (52)	USD (52)

¹ Development costs are capitalised and shown as investing activities in 2.1(d)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(12)	(12)
(d) investments	-	-
(e) intellectual property	(224)	(224)

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (3months) \$USD'000
2.2	(f) other non-current assets	-	-
	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	USD (236)	USD (236)

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	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(90)	(90)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other – Principal element paid on leased assets	(30)	(30)
3.10	Net cash from / (used in) financing activities	USD (120)	USD (120)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	931	931
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(52)	(52)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(236)	(236)

Consolidated statement of cash flows		Current quarter \$USD'000	Year to date (3months) \$USD'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(120)	(120)
4.5	Effect of movement in exchange rates on cash held	(49)	(49)
4.6	Cash and cash equivalents at end of period	USD 474	USD 931

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 \$USD'000	Previous quarter \$USD'000
5.1	Bank balances	474	931
5.2	Call deposits	-	-
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)	USD 474	USD 931

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
\$USD'000**

86

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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

Payments are director fees to non-executive directors and salaries to executive directors including superannuation.

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 \$USD'000	Amount drawn at quarter end \$USD'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

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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	\$USD'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(52)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	474
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	474
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	9.1

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:

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:

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:

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: 29 April 2020

Authorised by: David Carter, Company Secretary

(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.