ASX Announcement

MGM Wireless Limited (ASX:MWR)

31 August 2018

Technology company **MGM Wireless Limited (ASX:MWR)** ('MGM' or 'the Company') is pleased to release its financial statements for the year ended 30 June 2018, with results reflecting the Company's successful, ongoing transformation to becoming a significant Wearables business.

2018 FINANCIAL RESULTS SUMMARY

2018 Key results Twelve months ended 30 June *$ million unless otherwise specified*	**2018**	**2017**	**Change**
Sales Revenue	**2.74**	**2.62**	**5%**
Total Revenue	**2.74**	**2.63**	**4%**
Wearables Revenue	**0.449**	**0**	**-%**
School Communication Business Revenue	**2.23**	**2.54**	**-12%**
EBITDA	**0.67**	**0.76**	**-11%**
Net Loss	**(1.13)**	**(0.53)**	**114%**
Dividend per share (cents)	**0**	**0**	**0%**
EBITDA margin	**2%**	**29%**	**-27%**
Net cash from operating activities	**1.25**	**1.70**	**-26%**
Cash balance	**2.65**	**1.11**	**139%**
Net cash/(debt)	**2.65**	**1.11**	**139%**
Earnings per share (basic) cents	**(11.71)**	**(6.15)**	**90%**
Contracted Schools & Early Learning Centres	**1,372**	**1,061**	**29%**

FY18 HIGHLIGHTS

- **Launched Company developed SPACETALK – a children's all-in-one smartphone, watch and GPS device – exceeding all expectations and sales projections**
- **Advanced Company transformation to the "Wearables" sector**
- **After 9 months of sales, realised revenues from our Wearables business that are:**
  - **20% of overall Company revenues and continues to grow**
  - **on track to overtake and exceed School Communication revenues in FY2019**
- **Within the Wearables business, revenues from our direct online sales are on track to becoming $1 million+ pa revenue business – a significant achievement in its first year.**
- **SPACETALK has been unequivocally recognised by industry experts as the best, children's smartphone device on the market globally.**
- **Commenced Bricks and Mortar rollout.**
- **Booked a solid EBITDA of $671K despite significant costs and investment associated with launching a new Wearables business of this size and magnitude**
- **Increased cash balances 139% to $2.65 million following a successful capital raising and heavily oversubscribed Share Purchase Plan.**
- **Maintained a Zero debt position.**
- **Increased the number of contracted schools, significantly, by 29% although revenues down by 12.3%**
- **Recorded a Net Loss After Tax of $1.13 million due to amortising prior year investments and non-cash expenses from the issue of options and employee shares.**

Appendix 4E
Preliminary Final Report
Under Listing Rule 4.3A

MGM Wireless Limited

(ABN 93 091 351 530)
Year Ending 30 June 2018
(Previous corresponding period – Year ending 30 June 2017)

MGM
Leaders in school-parent communication™

Appendix 4E
Preliminary Final Report

MGM Wireless Limited
(ABN 93 091 351 530)
Year Ending 30 June 2018
(Previous corresponding period – Year ending 30 June 2017)

Results for announcement to the market

			$
Revenue from ordinary activities	up 5%	to	2,744,102
Profit/(loss) from ordinary activities after tax attributable to members	Down 114%	to	(1,129,935)
Net Profit/(loss) for period attributable to members	Down 104%	to	(1,121,825)

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend	Nil¢	Nil¢
Previous corresponding period	Nil¢	Nil¢
Record date for determining entitlements to dividends	Not applicable	
Payment date	Not applicable	

Net tangible asset backing	30 June 2018	30 June 2017
Net tangible asset backing per ordinary security	$0.26	$0.16

Control gained or lost over entities during the period

Name of entity	Not applicable
Date of gaining or losing control	Not applicable

Dividend or distribution reinvestment plan details

There is no conduit foreign income for this dividend.

Joint venture and associate details Not applicable

Foreign entities' accounting standards used Not applicable

Status of Audit

The statutory financial statements of the consolidated entity are in the process of being audited.

MGM Wireless Limited
Commentary on Results
For the Year Ended 30 June 2018

The directors of MGM Wireless Ltd are pleased to report the Company's financial results for the 12 months to 30 June 2018.

Operational Highlights

- In October 2017, after a four-year development period, we launched SPACETALK, an all-in-one children's phone, GPS tracker and smartwatch.
- When we launched, SPACETALK was virtually an unknown brand, however, our internal online SPACETALK 'stretch' sales targets leading up to Christmas 2017 were exceeded by more than 150%.
- Sales for the year were mostly via our e-commerce platform and Company owned website 'allmytribe.com'. Sales grew monthly and by year end we had almost sold out of our initial production run.
- Our e-commerce business is, post year end, now on track to deliver $1 million + p.a. revenue in FY2019.
- SPACETALK received strong interest from Australia's largest bricks and mortar retailers and signed a distribution sales agreement with Leading Edge stores.
- We exhibited SPACETALK at Mobile World Congress (MWC18) in Barcelona and were very well received.
- We commenced product trials with several Australian and international distributors and retailers.
- We strengthened senior management with the appointment of key personnel.
- We upgraded our market size expectations from 3,000 to 10,000 units per annum to 120,000 – 180,000 units ($30 million to $60 million per annum - Australia only) based on independent research by Gartner[1] and after leading Australian bricks and mortar retailers recommended management to accelerate its rollout strategy and aim much higher to achieve mass market take up and leadership.

Financial Highlights

- Wearable SPACETALK revenues of $0.44m accounted for 20% of overall revenues ($2.47m) despite starting at a zero base and having a sales period of only 9 months in the financial year.
- To operate each SPACETALK watch requires the AllMyTribe App with a monthly subscription fee of $5.99 for up to 2 watches or $8.99 for up to 5 watches. Currently, each SPACETALK watch is generating recurring monthly gross revenue averaging $3.61 per month.
- Overall revenues were up 5%. This is attributable to the success of our Wearables launch as revenue from our School Communications was $2.23mil, down 12.3% from previous year as In-App messaging replaces SMS. In FY2018, the Company recorded strong sales from its Queensland Department of Education contract.
- Operational expenditure was well controlled with material increases targeted to the areas of advertising and marketing, up $220k and Employee Costs up $110k.
- We recorded an EBITDA of $671k which is down 11% from FY17 but is after Wearables development and launch costs of $1.68m.
- We recorded a Net Loss after Tax of $1.13m which includes non-cash expenses of $615k, Option/Share issue costs and $1.81m in Amortisation and Depreciation.

[1] https://www.gartner.com/newsroom/id/3790965

- We completed a placement to sophisticated investors of $691k, a Share Purchase Plan of $995k which was heavily oversubscribed; and a Rights Offer of $293k. We would like to recognize and thank our shareholder base for their overwhelming support.
- We maintained a zero-debt position. Our cash balance at year end was $2.65m.

The Company is pleased to report that during the period substantial progress was made in the SPACETALK rollout. This success has positioned the Company to be at the forefront of one of the highest growth consumer product categories – Wearables.

Since launching SPACETALK in October 2017, sales performed beyond the Company's expectations despite being limited predominantly to a single channel - the Company's own website – allmytribe.com and our brand being almost completely unknown. Online sales grew through the year and have now, post year end, reached a run rate of $1 million p.a.

Late in the reporting period the rollout to bricks and mortar retailers began with the addition of several stores from the Leading Edge Group stocking SPACETALK, experiencing sales and all placing re-orders. JB Hi-Fi's on-line store commenced sales after year end on August 5, with sales to-date exceeding everyone's expectations.

At financial year end, SPACETALK revenues accounted for 20% of overall revenues and we forecast they will exceed school communication revenues in FY2019; transforming the Company into a Wearable sector participant and exposing it to one of the highest growing consumer categories globally. This transformation brings about enormous opportunity and the Company is positioning itself to be the market leader with its best-of-breed product.

Management continues to focus on expenses and costs even during this transformational and high growth stage. We maintain a positive EBITDA of $671k despite the significant development and investment costs with launching a new product of this magnitude, which is reflective of this conservative approach.

School Business

The way schools need to communicate and engage with parents is undergoing change and challenges, as consumers move away from the computer desktop to a wide range of device types and mobile phone-based consumption of content.

Exciting new revenue growth opportunities are emerging for the Company's school business, with the emergence of, and access to, artificial intelligence and machine learning technologies. MGM Wireless believes opportunities exist to incorporate these new technologies into its products to further improve the effectiveness of our Company products while driving revenue growth.

The Company sees an ongoing positive future for its schools business.

Consolidated statement of Profit or Loss and Other Comprehensive Income

	Notes	Group Year Ended 30/06/2018 $	30/06/2017 $
Continuing Operations			
Revenue	2	**2,744,102**	**2,626,617**
Cost of sales		**(308,072)**	**(193,992)**
Doubtful debts		**(37,147)**	**(230,755)**
Interest costs		**(11,960)**	**(11,296)**
Amortisation & depreciation		**(1,808,510)**	**(1,738,029)**
Option and share issue costs		**(615,449)**	**-**
Consulting fees		**0**	**(45,706)**
Corporate and administration		**(839,808)**	**(842,189)**
Advertising and marketing		**(219,969)**	**-**
Employee costs		**(660,056)**	**(550,777)**
(Loss)/ Gain on foreign exchange		**(8,140)**	**-**
(Loss)/Profit before tax		**(1,765,009)**	**(986,127)**
Income tax benefit	3	**635,074**	**452,328**
(Loss)/Profit for the year		**(1,129,935)**	**(533,799)**
Other comprehensive income/Items that may be classified subsequently to profit or loss			
Exchange differences on translating foreign operations		**8,110**	**(17,411)**
Other comprehensive income net of tax		**8,110**	**(17,411)**
Total comprehensive (loss)/income for the year		**(1,121,825)**	**(551,210)**
(Loss)/Profit attributable to:			
Owners of the Company		**(1,121,825)**	**(551,210)**
Earnings per share			
From continuing and discontinued operations:			
Basic (cents per share)	4	**(11.71)**	**(6.15)**
Diluted (cents per share)	4	**(11.25)**	**(6.15)**

Consolidated statement of financial position

	Notes	Group As At 30/06/2018 $	Group As At 30/06/2017 $
ASSETS			
Current Assets			
Cash and cash equivalents	5	2,649,810	1,109,972
Trade and other receivables	6	237,143	362,794
Inventories		120,133	-
Other current assets	7	825,624	922,510
Total Current Assets		3,832,710	2,395,276
Non-Current Assets			
Property, plant and equipment	9	174,546	174,061
Intangible assets	10	2,548,645	2,647,286
Total Non-Current Assets		2,723,191	2,821,347
Total Assets		6,555,901	5,216,623
LIABILITIES			
Current Liabilities			
Trade and other payables	11	513,573	593,906
Provisions		217,582	243,050
Current Tax Liabilities		154,583	311,011
Total Current Liabilities		885,738	1,147,967
Non-Current Liabilities			
Deferred tax liabilities		10,889	65,671
Total Non-Current Liabilities		10,889	65,671
Total Liabilities		896,627	1,213,638
Net Assets		5,659,274	4,002,985
EQUITY			
Issued capital	12	9,966,782	7,469,606
Reserves	13	735,512	446,464
Accumulated losses		(5,043,020)	(3,913,085)
Total Equity		5,659,274	4,002,985

Consolidated statement of changes in equity

Consolidated	Issued Capital $	Accumulated Losses $	Share Based Payment Reserve $	Foreign Currency Translation Reserve $	Total Equity $
At 30 June 2016	**7,454,029**	**(3,266,672)**	**483,583**	**(19,708)**	**4,651,232**
Profit attributable to members	-	(533,799)	-	-	**(533,799)**
Currency translation differences	-	-	-	(17,411)	**(17,411)**
Total comprehensive income	-	(533,799)	-	(17,411)	(551,210)
Transactions with owners					
Contributions and distributions					
Payment of dividends	-	(112,614)	-	-	(112,614)
Issue of shares (DRP scheme)	15,577	-	-	-	15,577
Transactions with owners	15,577	(112,614)	-	-	(97,037)
At 30 June 2017	**7,469,606**	**(3,913,085)**	**483,583**	**(37,119)**	**4,002,985**
Loss attributable to members	-	(1,129,935)	-	-	(1,129,935)
Currency translation differences	-	-	-	8,110	8,110
Total comprehensive income	-	(1,129,935)	-	8,110	(1,121,825)
Transactions with owners					
Contributions and distributions					
Shares Issued	2,436,732	-	-	-	2,436,732
Options exercised	166,348	-	(38,848)	-	127,500
Share issue costs	(105,904)	-	-	-	(105,904)
Options/ rights issued	-	-	319,786	-	319,786
Transactions with owners	2,497,176	-	280,938	-	2,778,114
At 30 June 2018	**9,966,782**	**(5,043,020)**	**764,521**	**(29,009)**	**5,659,274**

Consolidated statement of cash flows

	Notes	Group Year Ended 30/06/2018 $	30/06/2017 $
Cash flows from operating activities			
Receipts from customers		**3,144,163**	3,320,767
Payments to suppliers		**(2,477,127)**	(2,017,919)
Tax receipts		**599,956**	406,478
Interest payments		**(11,960)**	(11,296)
Net cash generated from / (used in) operations		**1,255,032**	1,698,030
Cash flows from investing activities			
Payments for plant and equipment		**(26,767)**	(13,384)
Payment for development		**(1,683,587)**	(1,750,886)
Net cash provided / (used) by investing activities		**(1,710,354)**	(1,764,270)
Cash flows from financing activities			
Payment of dividends		**-**	(97,037)
Repayment of borrowing		**-**	(115,000)
Proceeds from issue of shares		**1,965,454**	-
cost associated with issue of shares		**(105,904)**	-
Proceeds from options exercised		**127,500**	-
Net cash provided / (used) by financing activities		**1,987,050**	(212,037)
Net increase / (decrease) in cash held		**1,531,728**	(278,277)
Cash at the beginning of the year		**1,109,972**	1,405,660
Effect of exchange rate changes		**8,110**	(17,411)
Cash at the end of the year	5	**2,649,810**	1,109,972

MGM Wireless Limited
Notes to the Financial Statements for the Year Ended 30 June 2018

1. Significant Accounting Policies

Statement of Compliance
The Appendix 4E preliminary final report has been prepared in accordance with ASX listing rules and the recognition and measurement criteria of Accounting Standards and interpretations. Accounting Standards include Australian equivalents to International Financial Reporting Standards.

Basis of Preparation
The Appendix 4E has been prepared on the basis of historical cost. The accounting policies and methods of computation adopted in the preparation of the Appendix 4E are consistent with those adopted and disclosed in the Company's 2017 annual financial report.

	Group Year Ended	
	30/06/2018	30/06/2017
	$	$
2. Revenue		
The following is an analysis of the Group's revenue		
Revenue		
Schools sales	**2,233,866**	2,547,590
SI Income	**54,000**	69,750
All MyTribe sales	**449,472**	-
Sundry income	**6,764**	9,277
Total sales revenue	**2,744,102**	2,626,617

	Group Year Ended 30/06/2018	Group Year Ended 30/06/2017
3. Income Tax	**$**	**$**
3.1 Income tax benefit		
The income tax benefit for the year can be reconciled to the accounting profit or loss as follows:		
(Loss)/ profit for the year	**(1,765,009)**	(986,127)
Prima facie tax benefit at 27.5% (2016: 30%)	**(485,377)**	(271,185)
Non-deductible items		
Other	**170,428**	86,302
Research and development tax offset	**(283,667)**	(331,479)
Effect on deferred tax balances due to change in income tax rate from 30% to 27.5%	**-**	**461**
Previously unrecognised deferred tax assets and liabilities	**-**	-
Adjustments recognised in the current year in relation to the current tax of prior years	**(7,283)**	63,573
Adjustments recognised in the current year in relation to the deferred tax of prior years	**(29,175)**	-
Total income tax benefit	**(635,074)**	(452,328)

4. Earnings per share

	Group Year Ended 30/06/2018 $	30/06/2017 $
Basic earnings per share		
Total basic earnings per share (cents per share)	**(11.71)**	(6.15)
Diluted earnings per share		
Total diluted earnings per share (cents per share)	**(11.25)**	(6.15)

4.1 Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows.

	30/06/2018 $	30/06/2017 $
Net (loss)/profit for the year attributable to owners of the Company	**(1,129,935)**	(533,799)
Earnings used in the calculation of total basic earnings per share	**(1,129,935)**	(533,799)
Weighted average number of ordinary shares for the purposes of basic earnings per share (all measures)	**9,645,837**	8,682,878

4.2 Diluted earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows.

	30/06/2018 $	30/06/2017 $
Net (loss)/profit for the year attributable to owners of the Company	**(1,129,935)**	(533,799)
Earnings used in the calculation of total diluted earnings per share	**(1,129,935)**	(533,799)
Weighted average number of ordinary shares for the purposes of diluted earnings per share (all measures)	**10,043,599**	8,682,878

5. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	Group Year Ended	
	30/06/2018	30/06/2017
	$	$
Cash & cash equivalents		
Cash and bank balances	**2,649,810**	1,109,972

	Group Year Ended	
	30/06/2018	30/06/2017
	$	$
6 Trade and other receivables		
Trade receivables	**327,858**	549,767
Provision for doubtful debts	**(90,715)**	(186,973)
	237,143	362,794

	Group Year Ended	
7. Other Current Assets	30/06/2018	30/06/2017
	$	$
R&D tax incentive	**771,219**	901,224
Prepayments	**54,405**	21,286
	825,624	922,510

8. Other Financial Assets

Unlisted Controlled Entity	Date of Acquisition	Country of Incorporation	Class of Shares	Cost of Parent Entity's Investment 30/06/2018 $	Cost of Parent Entity's Investment 30/06/2017 $
MGM Wireless Holdings Pty Ltd	08/10/2003	Australia	Ordinary	**767,000**	**767,000**
Message You LLC	11/09/2006	USA	Ordinary	**124,440**	**124,440**
MGM Wireless (NZ) Pty Ltd	18/05/2010	Australia	Ordinary	**80**	**80**
				891,520	**891,520**

The equity holding in all companies is 100%

9. Plant, Equipment and Leasehold Improvements

	Plant and Equipment $	Leasehold Improvements $	Total $
Cost			
Balance at 30 June 2016	321,110	182,607	**503,717**
Additions	10,986	2,398	**13,384**
Balance at 30 June 2017	332,096	185,005	**517,101**
Additions	22,555	4,212	**26,767**
Balance at 30 June 2018	354,651	189,217	**543,868**
Accumulated depreciation and impairment			
Balance at 30 June 2016	(242,844)	(92,412)	**(335,256)**
Depreciation expense	(5,171)	(2,613)	**(7,784)**
Balance at 30 June 2017	(248,015)	(95,025)	**(343,040)**
Depreciation expense	(19,478)	(6,804)	**(26,282)**
Balance at 30 June 2018	(267,493)	(101,829)	**(369,322)**
Written Down Value 30 June 2018	87,158	87,388	**174,546**

10. Intangible Assets

	Group Year Ended 30/06/2018 $	Group Year Ended 30/06/2017 $
At cost	9,659,782	7,976,195
Accumulated amortisation and impairment	(7,111,137)	(5,328,909)
Carrying Value	2,548,645	2,647,286

Cost	Distribution Rights $	Capitalised Development Costs $	Total $
Balance at 30 June 2016	441,017	5,784,292	6,225,309
Additions from internal developments	-	1,750,886	1,750,886
Balance at 30 June 2017	441,017	7,535,178	7,976,195
Additions from internal developments	-	1,683,587	1,683,587
Balance at 30 June 2018	441,017	9,218,765	9,659,782
Accumulated amortisation and impairment			
Balance at 30 June 2016	(132,305)	(3,466,359)	(3,598,664)
Amortisation	(44,102)	(1,686,143)	(1,730,245)
Balance at 30 June 2017	(176,407)	(5,152,502)	(5,328,909)
Amortisation	(44,100)	(1,738,128)	(1,782,228)
Balance at 30 June 2018	(220,507)	(6,890,630)	(7,111,137)
Carrying Value 30 June 2018	220,510	2,328,135	2,548,645

11. Trade and Other Payables

	Group Year Ended 30/06/2018 $	Group Year Ended 30/06/2017 $
Trade payables	367,957	404,665
Indirect tax liability	80,180	96,693
Accrued SMS charges	65,436	92,548
	513,573	593,906

12. Issued capital

	Group Year Ended 30/06/2018 $	Group Year Ended 30/06/2017 $
Ordinary shares, fully paid	**9,966,782**	7,469,606
(30 June 2018: 11,847,500, 30 June 2017: 8,691,438)		

12.2 Fully paid ordinary shares

	Group Number of shares	Group Share capital $
Balance as at 30 June 2016	**8,664,960**	7,454,029
Shares issued to Directors	**26,478**	15,577
Balance as at 30 June 2017	**8,691,438**	7,469,606
Shares issued in entitlement offer on 3 October 2017	**487,230**	170,531
Shares issued to the underwriter on 9 October 2017	**350,000**	122,500
Shares issued to contractor for corporate and investor solutions	**370,000**	343,348
Share issued in placement on 23 April 2018	**750,000**	750,000
Shares issued in purchase plan on 29 May 2018	**1,049,923**	1,049,923
Shares issued on exercise of employee options	**148,909**	166,778
Share issue costs	**-**	(105,904)
Balance as at 30 June 2018	**11,847,500**	9,966,782

13. Reserves

	Group Year Ended	
	30/06/2018	**30/06/2017**
	$	**$**
Option issue reserve	**764,521**	483,583
Foreign currency translation reserve	**(29,009)**	(37,119)
	735,512	446,464

	Option Issue Reserve	Foreign Currency Translation Reserve
Balance as at 30 June 2016	**483,583**	(19,708)
Options issued	-	-
Options exercised	-	-
Currency translation differences	-	(17,411)
Balance as at 30 June 2017	**483,583**	(37,119)
Options issued	**319,786**	-
Options exercised	**(38,848)**	-
Currency translation differences	**-**	8,110
Balance as at 30 June 2018	**764,521**	(29,009)

Nature and purpose of reserve
The option issue reserve is used to accumulate amounts received on the issue of options and records items recognised as expenses on valuation of incentive based share options.

The foreign currency translation reserve is used to record exchange rate differences arising from the translation of the financial statements of foreign subsidiaries and is recognised directly in the Statement of Profit or Loss and Other Comprehensive Income before accumulation in this reserve.

14. Subsequent Events

There has not been any matter or circumstance that has arisen since 30 June 2018, which has significantly affected, or may significantly affect, the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

Signed: Mark Fortunatow
Director