ASX Announcement

MGM Wireless Limited (ASX:MWR)

22 August 2019

Technology company **MGM Wireless Limited (ASX:MWR)** ('MGM' or 'the Company') is pleased to release its financial statements for the year ended 30 June 2019. The results reflect the Company's successful, ongoing transformation to becoming a significant Wearables business.

2019 FINANCIAL RESULTS SUMMARY

2019 Key results Twelve months ended 30 June *$ million unless otherwise specified*	**2019**	**2018**	**Change**
Total Revenue	**7.14**	**2.74**	**161%**
Wearables Revenue	**4.64**	**449**	**933%**
School Communication Business Revenue	**2.19**	**2.23**	**(2%)**
EBITDA	**(0.27)**	**0.67**	**(140%)**
Net Loss	**(4.69)**	**(1.13)**	**315%**
Dividend per share (cents)	**0**	**0**	**0%**
EBITDA margin*	**(4%)**	**24%**	**(28%)**
Net cash from operating activities	**(0.53)**	**1.25**	**(143%)**
Cash balance	**1.64**	**2.65**	**(38%)**
Net cash/(debt)	**0.39**	**2.65**	**(85%)**
Earnings per share (basic) cents	**(38.80)**	**(11.71)**	**231%**
Contracted Schools & Early Learning Centres	**1318**	**1,372**	**(4%)**
SPACETALK Smartwatches Units Sold	**18,270**	**1,785**	**1023%**

*Excluding non-cash options and share expenses.

FY19 HIGHLIGHTS

- **The SPACETALK children's all-in-one smartphone, watch and GPS device delivered sales and industry-wide acceptance well beyond expectations**
- **In SPACETALK's first full year of sales, total revenue increased 161% as the company capitalised on strong demand, achieving strong sales momentum**
- **Wearables revenue growth delivered more than double school products revenue for the year, validating the company's significant growth opportunity**
- **Secured a $2 million convertible note facility with institutional and sophisticated investors to fund orders for SPACETALK watches**
- **Commenced rollout of SPACETALK into JB Hi-Fi and Leading Edge Computers stores in Australia**
- **Launched distribution in New Zealand through mobile network operator and master SPACETALK distributor SPARK New Zealand's store network**
- **Commenced UK and European expansion with UK launch and first sales in May 2019**
- **SPACETALK acclaimed as among the most secure children's watch in cyber security audit by Interpol accredited global cyber expert**
- **Managed costs effectively despite high growth sales and continued investment in the wearables business to report EBITDA of ($0.27) million**
- **Recorded a Net Loss After Tax of $4.69 million due to amortising prior year investments and non-cash expenses from the issue of options and employee shares**
- **Strong growth momentum continuing with watershed UK sales agreements signed after balance date**

Appendix 4E
Preliminary Final Report
Under Listing Rule 4.3A

MGM Wireless Limited

(ABN 93 091 351 530)
Year Ending 30 June 2019
(Previous corresponding period – Year ending 30 June 2018)

Leaders in school-parent communication™

Appendix 4E
Preliminary Final Report

MGM Wireless Limited
(ABN 93 091 351 530)
Year Ending 30 June 2019
(Previous corresponding period – Year ending 30 June 2019)

Results for announcement to the market

			$
Revenue from ordinary activities	up 161%	to	7,142,148
Profit/(loss) from ordinary activities after tax attributable to members	Down 315%	to	(4,688,679)
Net Profit/(loss) for period attributable to members	Down 318%	to	(4,686,214)

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 2019	30 June 2018
Net tangible asset backing per ordinary security	$0.28	$0.26

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 2019

The directors of MGM Wireless Ltd are pleased to report the Company's financial results for the 12 months to 30 June 2019.

Operational Highlights

- Following JB Hi-Fi's successful online launch of SPACETALK we began supplying the group's bricks and mortar stores. SPACETALK is now available in 196 JB Hi-Fi stores across Australia, including high-profile, high traffic store locations.
- We signed a preferred supplier agreement enabling 120 Leading Edge Computers stores to stock SPACETALK across Australia.
- We added our first international mobile network operator when New Zealand's largest telecommunications provider SPARK signed a master supply agreement to sell SPACETALK in its 73 retail stores and online.
- We spent $850,000 on an Australian advertising campaign which commenced in November 2018 to support store sales, including high-profile billboard and out-of-home advertising in 71 leading shopping centres in Sydney, Melbourne and Brisbane and extensive digital and social media campaigns.
- We commenced plans to enter the high growth UK and European market in January, leading to the successful UK launch first online UK sales of SPACETALK in May 2019.
- In February, SPACETALK attended the Mobile World Congress 2019 in Barcelona, the world's largest conference of its type attended by more than 110,000 delegates from around the world.
- Results of a cyber security audit of children's smartwatch phones in the Australian market by Dr Matthew Sorell found SPACETALK was unique among children's smartwatches in the Australian market as it met all current international privacy and security legislation.

Financial Highlights

- Wearable SPACETALK revenues increased from $0.44m to $4.6m in the first full year of sales, reflecting our product's exceptional reliability, ease of use and high standards of data security.
- SPACETALK unit sales increased more than 1000% to 18,270 units (FY18: 1,785 units sold in nine months), with strong momentum continuing as consumer demand drives expansion in Australia, New Zealand and the UK.
- Sales in New Zealand commenced with Spark New Zealand selling SPACETALK with a recommended retail price of NZ $399. SPACETALK was also offered bundled with a SIM for under NZ$25 on a 24 month monthly plan, removing upfront cost as a potential barrier to purchase.
- Overall revenues increased 161% to $7.1m as SPACETALK sales exceeded revenue forecasts.
- The schools business continued to deliver stable, steady profit performance with good margins and strong positive cash flow.
- We secured a $2m convertible note facility to fund orders for SPACETALK watches from anticipated new and existing customers. At 30 June 2019, this facility was drawn to $1.25m.
- Cost of sales increased from $0.3m to $1.9m as the company continued to maintain tight control of operational expenditure.
- We recorded EBITDA of ($27k) after significant targeted advertising and marketing costs of $2 million and employee costs of $1.5 million as the company increased scale to take advantage of high demand for its products.

- We reported a net loss after tax of $4.69m which includes non-cash expenses of $3.4m option and share issue costs and $2.0m in amortisation and depreciation.
- Our cash balance at year end was $1.6m.

The company is operating in an emerging, fast growth market. SPACETALK is the world leader in the children's wearable segment and its high standards of data security and privacy standards provide a competitive advantage.

We believe that SPACETALK is becoming a hot, must have mobile phone product among children aged 5 to 12 years of age and that a new children's wearable and mobile category is emerging.

Gartner, the leading research and advisory company for the technology sector, predicts global spending on wearable devices will reach US$42 billion in 2019, supporting our view that children's wearable mobile phone devices will continue to be a high growth sector during the next decade. The wearables sector is one of the highest growing consumer categories globally and smart watches are the most valuable segment, with more than 60% of market value.

In 21 months since the launch of SPACETALK, sales have exceeded all expectations. Wearable sales now provide nearly two-thirds of the Company's revenue, and this proportion is anticipated to increase following the signing of exciting new sales agreements in the UK, which has 66 million people and more than three times the addressable market of Australia.

Management maintains prudent spending as the company builds scale, taking advantage of its exciting mass market expansion opportunity.

School Business

MGM Wireless is the largest provider of messaging communication solutions to Australian schools, with 1400 contracted schools. Schools communication service revenue of $2.2 million was flat compared to the previous year, reflecting the stability of the business.

The company continues to upgrade its products and services, ensuring the quality of its systems which are used by 1.6 million people across Australia daily.

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

UK agreements subsequent to balance date

Subsequent to balance date, we announced significant expansion of SPACETALK sales in New Zealand through 118 Noel Leeming, Harvey Norman and JB Hi-Fi retail stores in July 2019.

Most importantly, sales were boosted through a landmark agreement in August 2019 with Sky, Europe's leading media, entertainment and telecommunications company which is part of the Comcast group. Sky, which has a UK subscriber base of 23 million people, began selling SPACETALK through Sky Mobile on a £10 per month plan.

Sky has already reported strong sales prior to beginning a marketing campaign which will soon target Sky's 10 million subscribers that have children aged between five and 12. MGM Wireless receives full wholesale payment and recognises 100% of revenue when SPACETALK is sold to Sky.

We have also signed a retail sales agreement with the UK's leading TV shopping retailer, QVC UK, which has a significant customer demographic of women aged between 30 and 55, SPACETALK's target customer demographic. QVC UK will exclusively promote SPACETALK on its TV channels in 30 and 45 minute shows at its own expense, which provides a great opportunity to educate the UK market about SPACETALK.

The Sky agreement is potentially the most significant distribution agreement signed to date because of Sky's brand awareness, its commitment to market SPACETALK prominently to its entire subscriber base and the attractiveness of the £10 per month offer. Forecasting group sales is difficult and could, due to Sky's large customer base, be subject to significant variability. That said, the company is targeting sales of approximately 90,000 units in FY20 e.g. four times the number sold in FY19. Initial orders have been placed with suppliers to meet this demand. Further, given the pipeline of other networks and bricks and mortar distributors already in discussion we believe growth will continue beyond FY20.

Consolidated statement of Profit or Loss and Other Comprehensive Income

	Notes	Group Year Ended 30/06/2019 $	30/06/2018 $
Continuing Operations			
Revenue	2	**7,142,148**	2,744,102
Cost of sales		**(1,923,963)**	(308,072)
Doubtful debts		**(5,167)**	(37,147)
Interest costs		**(16,685)**	(11,960)
Amortisation & depreciation		**(1,985,402)**	(1,808,510)
Option and share issue costs		**(3,391,440)**	(615,449)
Corporate and administration		**(1,981,509)**	(839,808)
Advertising and marketing		**(1,969,357)**	(219,969)
Employee costs		**(1,476,786)**	(660,056)
(Loss)/ Gain on foreign exchange		**(36,181)**	(8,140)
(Loss)/Profit before tax		**(5,644,342)**	(1,765,009)
Income tax benefit	3	**955,663**	635,074
(Loss)/Profit for the year		**(4,688,679)**	(1,129,935)
Other comprehensive income/Items that may be classified subsequently to profit or loss			
Exchange differences on translating foreign operations		**2,465**	8,110
Other comprehensive income net of tax		**2,465**	8,110
Total comprehensive (loss)/income for the year		**(4,686,214)**	(1,121,825)
(Loss)/Profit attributable to:			
Owners of the Company		**(4,686,214)**	(1,121,825)
Earnings per share			
From continuing and discontinued operations:			
Basic (cents per share)	4	**(38.80)**	(11.71)
Diluted (cents per share)	4	**(36.71)**	(11.71)

Consolidated statement of financial position

	Notes	Group As At 30/06/2019 $	30/06/2018 $
ASSETS			
Current Assets			
Cash and cash equivalents	5	1,635,872	2,649,810
Trade and other receivables	6	813,863	237,143
Inventories		1,241,938	120,133
Other current assets	7	1,000,700	825,624
Total Current Assets		4,692,373	3,832,710
Non-Current Assets			
Property, plant and equipment	9	187,983	174,546
Intangible assets	10	2,786,541	2,548,645
Total Non-Current Assets		2,974,524	2,723,191
Total Assets		7,666,897	6,555,901
LIABILITIES			
Current Liabilities			
Trade and other payables	11	1,298,051	513,573
Provisions		307,349	217,582
Current Tax Liabilities		-	154,583
Total Current Liabilities		1,605,400	885,738
Non-Current Liabilities			
Borrowings		1,250,000	-
Deferred tax liabilities		6,499	10,889
Total Non-Current Liabilities		1,256,499	10,889
Total Liabilities		2,861,899	896,627
Net Assets		4,804,998	5,659,274
EQUITY			
Issued capital	12	10,806,726	9,966,782
Reserves	13	3,729,971	735,512
Accumulated losses		(9,731,699)	(5,043,020)
Total Equity		4,804,998	5,659,274

Consolidated statement of changes in equity for the year ended 30 June 2019

Consolidated	Issued Capital $	Accumulated Losses $	Share Based Payment Reserve $	Foreign Currency Translation Reserve $	Total Equity $
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	(146,074)	-	-	-	(146,074)
Current tax expense on share issue costs	8,034	-	-	-	8,034
Deferred tax expense on share issue costs	32,136	-	-	-	32,136
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**
Loss attributable to members	-	(4,688,679)	-	-	(4,688,679)
Currency translation differences	-	-	-	2,465	2,465
Total comprehensive income	-	(4,688,679)	-	2,465	(4,686,214)
Transactions with owners					
Contributions and distributions					
Shares Issued	6,000	-	-	-	6,000
Options exercised	775,903	-	(335,945)	-	439,958
Options/ rights issued	58,041	-	3,327,939	-	3,385,980
Transactions with owners	839,944	-	2,991,994	-	3,831,938
At 30 June 2019	**10,806,726**	**(9,731,699)**	**3,756,515**	**(26,544)**	**4,804,998**

Consolidated statement of cash flows

	Notes	Group Year Ended 30/06/2019 $	30/06/2018 $
Cash flows from operating activities			
Receipts from customers		7,216,287	3,144,163
Payments to suppliers		(8,340,307)	(2,477,127)
Tax receipts		609,349	599,956
Interest payments		(16,685)	(11,960)
Net cash generated (used in)/from operations		(531,356)	1,255,032
Cash flows from investing activities			
Payments for plant and equipment		(42,581)	(26,767)
Payment for development		(2,190,466)	(1,683,587)
Net cash (used in)/from investing activities		(2,233,047)	(1,710,354)
Cash flows from financing activities			
Proceeds from issue of shares		-	1,965,454
Costs associated with issue of shares		-	(105,904)
Proceeds from options exercised		498,000	127,500
Issue of convertible note		1,250,000	127,500
Net cash (used in)/from financing activities		1,748,000	2,114,550
Net increase/(decrease) in cash held		(1,016,403)	1,531,728
Cash at the beginning of the year		2,649,810	1,109,972
Effect of exchange rate changes		2,465	8,110
Cash at the end of the year	5	1,635,872	2,649,810

MGM Wireless Limited
Notes to the Financial Statements for the Year Ended 30 June 2019

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 Group's 30 June 2018 annual financial report with the exception of the following:

- The Group adopted AASB 15 – *Revenue from contracts with customers* from 1 July 2018
- The Group adopted AASB 9 – *Financial instruments* from 1 July 2018

The accounting policies were disclosed in the Group's 31 December 2018 half-year financial report

	Group Year Ended 30/06/2019 $	Group Year Ended 30/06/2018 $
2. Revenue		
The following is an analysis of the Group's revenue		
Revenue		
Schools sales	**2,190,415**	2,233,866
SI Income	**-**	54,000
SPACETALK sales	**4,637,982**	449,472
Grants received	**275,321**	-
Other SPACETALK income	**28,275**	528
Sundry income	**10,155**	6,236
Total sales revenue	**7,142,148**	2,744,102

Other SPACETALK income relates to repairs and shipping charges.

	Group Year Ended	
	30/06/2019	30/06/2018
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	**(5,644,342)**	(1,765,009)
Prima facie tax benefit at 27.5%	**(1,552,194)**	(485,377)
Non-deductible items		
Other	**944,106**	170,428
Research and development tax offset	**(351,302)**	(283,667)
Adjustments recognised in the current year in relation to the current tax of prior years	**3,830**	(7,283)
Adjustments recognised in the current year in relation to the deferred tax of prior years	**(103)**	(29,175)
Total income tax benefit	**(955,663)**	(635,074)

4. Earnings per share

	Group Year Ended 30/06/2019 $	30/06/2018 $
Basic earnings per share		
Total basic earnings per share (cents per share)	**(38.80)**	(11.71)
Diluted earnings per share		
Total diluted earnings per share (cents per share)	**(36.71)**	(11.71)

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.

Net (loss)/profit for the year attributable to owners of the Company	**(4,688,679)**	(1,129,935)
Earnings used in the calculation of total basic earnings per share	**(4,688,679)**	(1,129,935)
Weighted average number of ordinary shares for the purposes of basic earnings per share (all measures)	**12,082,711**	9,645,837

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.

Net (loss)/profit for the year attributable to owners of the Company	**(4,688,679)**	(1,129,935)
Earnings used in the calculation of total diluted earnings per share	**(4,688,679)**	(1,129,935)
Weighted average number of ordinary shares for the purposes of diluted earnings per share (all measures)	**12,771,236**	9,645,837

5. Cash & 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 30/06/2019 $	Group Year Ended 30/06/2018 $
Cash and bank balances	**1,635,872**	2,649,810

6. Trade and other receivables

	Group Year Ended 30/06/2019 $	Group Year Ended 30/06/2018 $
Trade receivables	**890,161**	327,858
Loss allowance	**(76,298)**	(90,715)
	813,863	237,143

7. Other Current Assets

	Group Year Ended 30/06/2019 $	Group Year Ended 30/06/2018 $
R&D tax incentive	**955,103**	771,219
Prepayments	**45,597**	54,405
	1,000,700	825,624

8. Parent entity investments

Unlisted Controlled Entity	Date of Acquisition	Country of Incorporation	Class of Shares	Cost of Parent Entity's Investment 30/06/2019 $	Cost of Parent Entity's Investment 30/06/2018 $
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**
Spacetalkwatch UK Ltd	25/02/2019	United Kingdom	Ordinary	**1**	**-**
				891,521	**891,520**

The equity holding in all companies is 100%. Spacetalkwatch UK Ltd was incorporated during the year.

9. Plant, Equipment and Leasehold Improvements

	Plant and Equipment $	Leasehold Improvements $	Total $
Cost			
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**
Additions	23,299	19,282	**42,581**
Balance at 30 June 2019	377,950	208,499	586,449
Accumulated depreciation and impairment			
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)**
Depreciation expense	(18,785)	(10,359)	**(29,144)**
Balance at 30 June 2019	(286,278)	(112,188)	**(398,466)**
Written Down Value 30 June 2018	87,158	87,388	**174,546**
Written Down Value 30 June 2019	91,672	96,311	**187,983**

10. Intangible Assets

	Group Year Ended 30/06/2019 $	Group Year Ended 30/06/2018 $
At cost	11,850,248	9,659,782
Accumulated amortisation and impairment	(9,063,707)	(7,111,137)
Carrying Value	2,786,541	2,548,645

	Distribution Rights $	Capitalised Development Costs $	Total $
Cost			
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
Additions from internal developments	-	2,190,466	2,190,466
Balance at 30 June 2019	441,017	11,409,231	11,850,248
Accumulated amortisation and impairment			
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)
Amortisation	(44,100)	(1,908,470)	(1,952,570)
Balance at 30 June 2019	(264,607)	(8,799,100)	(9,063,707)
Carrying Value 30 June 2019	**176,410**	**2,610,131**	**2,786,541**

11. Trade and Other Payables

	Group Year Ended 30/06/2019 $	Group Year Ended 30/06/2018 $
Trade payables	1,205,417	367,957
Indirect tax liability	26,337	80,180
Accrued SMS charges	66,297	65,436
	1,298,051	513,573

	Group Year Ended 30/06/2019 $	Group Year Ended 30/06/2018 $
12.1 Issued and paid up capital		
Ordinary shares, fully paid	**10,806,726**	9,966,782
(30 June 2019: 12,514,500, 30 June 2018: 11,847,500)		

	Group Number of shares	Group Share capital $
12.2 Fully paid ordinary shares		
Balance as at 30 June 2018	**11,847,500**	9,966,782
Options exercised	**610,000**	775,903
Employee retention rights issue on 3 December 2018	**22,000**	46,900
Employee retention rights issue on 11 December 2018	**20,000**	9,506
Employee retention rights issue on 17 June 2019	**15,000**	7,635
Balance as at 30 June 2019	**12,514,500**	10,806,726

13. Reserves

	Group	
	Year Ended	
	30/06/2019	30/06/2018
	$	$
Option issue reserve	3,756,515	764,521
Foreign currency translation reserve	(26,544)	(29,009)
	3,729,971	735,512

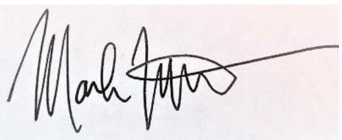
	Option Issue Reserve	Foreign Currency Translation Reserve
Balance as at 30 June 2017	483,583	(37,119)
Options issued	319,786	-
Options exercised	(38,848)	-
Currency translation differences	-	8,110
Balance as at 30 June 2018	764,521	(29,009)
Options issued	3,327,939	-
Options exercised	(335,945)	-
Currency translation differences	-	2,465
Balance as at 30 June 2019	3,756,515	(26,544)

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 2019, 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