Investor Update
Etherstack plc (ASX:ESK)

June 2016

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

Etherstack

Etherstack is a wireless technology company specialising in developing, manufacturing and licensing mission critical radio technologies.

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.

About Etherstack – What We Do

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

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About Etherstack – What We Do

Tactical Radio Network 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

About Etherstack – What We Do

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

Historical revenues/underlying NPAT and EBITDA [Note 1]
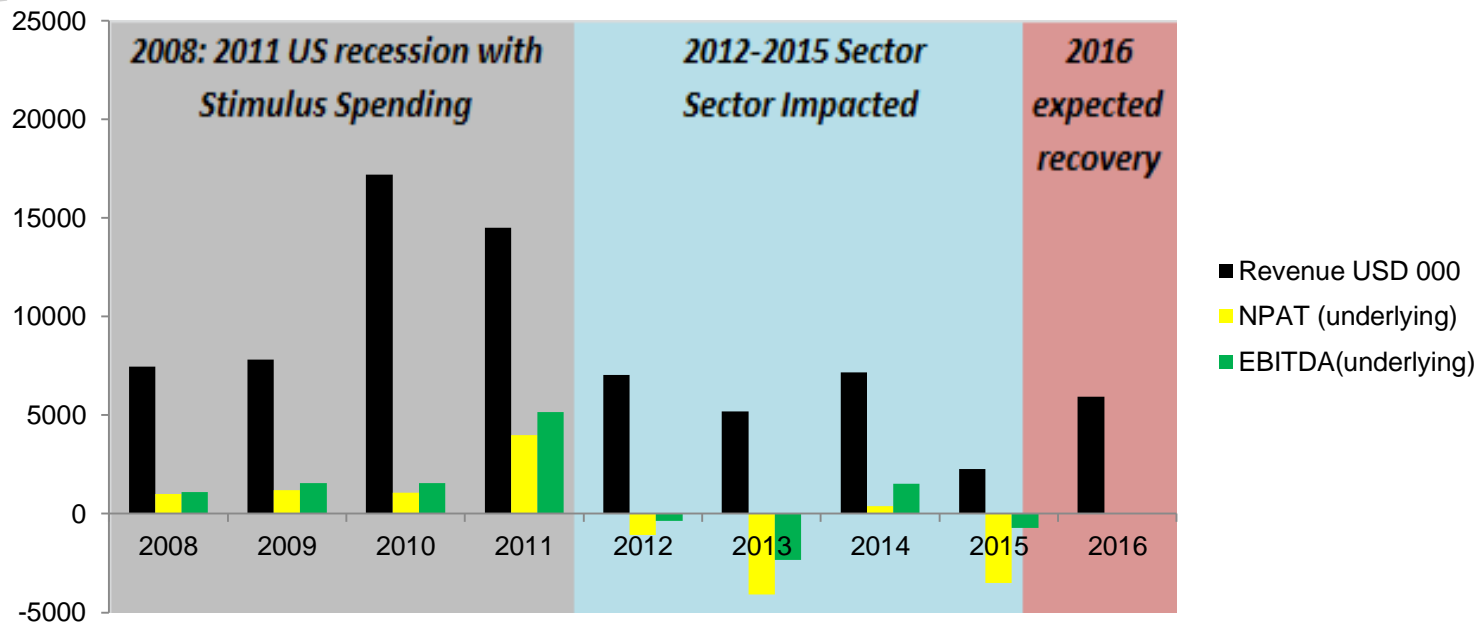
Since 2007, Etherstack has earned **revenues in excess of A$100m**, with the majority of these revenues earned in the North American market. The economic slowdown during the global financial crisis encouraged stimulus spending in the US economy during the 2008-2011 period which ultimately was partially financed from forward spending budgets from the 2012-2015 period. The recovery of the US economy and associated return in government infrastructure spending appears to be assisting in the return to profitability for the company.

Note 1 – NPAT and EBITDA are underlying measures and exclude impairment charges and non recurring costs.

2016 Update & Outlook

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) have fallen as graphed below:
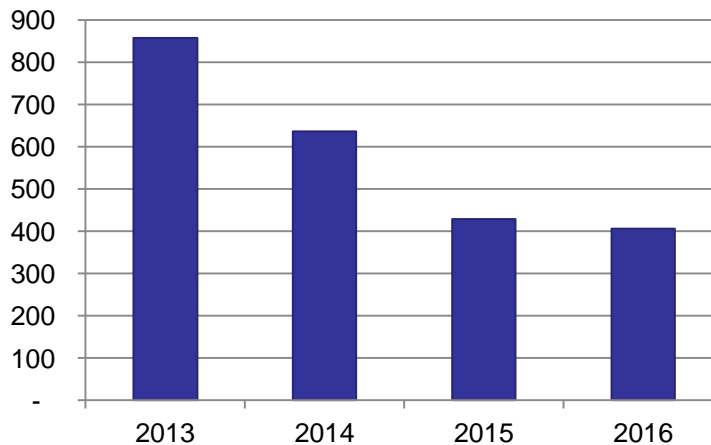
Improving monthly operating and investing costs

■ Average Operating and investing Cash consumption Per Month USD 000

[Bar chart: Average Operating and investing Cash consumption Per Month (USD 000), y-axis from - to 900]
- 2013: ~860
- 2014: ~640
- 2015: ~430
- 2016: ~410

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 investment in 2015 was US$1.6m and US$2.3m in 2014.

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Multiple Revenue Streams

Network Equipment Sales

- 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
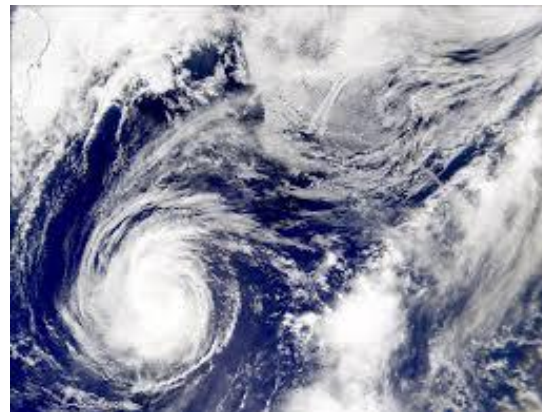
Multiple Revenue Streams

Specialised Communications Equipment

- 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

- 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

Multiple Revenue Streams

Etherstack's technology licensing clients typically generate three types of revenue:

1. **Technology access fees:** Where a wireless equipment manufacture licenses Etherstack's technology rather than develop it internally

2. **Customisation and integration services:** These revenues come as a result of the licensing deals

3. **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 2016

Always Innovating: Etherstack will release a full DMR Tier III digital mobile radio network product line in June 2016

Multiple Revenue Streams

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

2016 Update & Outlook

- 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 the 2016 calendar reporting period

Recent Significant Contract 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)

  - Material upgrade programs underway and planned by existing network operators

2016 Update & Outlook

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

Specialised Equipment Growth

- Etherstack is experiencing increased demand for its new tactical radio network products and seeing fresh orders

- The company is broadening its portfolio and regional certifications in this area to capitalise on demand

2016 Update & Outlook

Specialised Equipment Growth

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Revenue Forecast 2016

- Etherstack revenues can be 'lumpy". Etherstack revenues can be characterised by a relatively small number of relatively large transactions. Changes in the timing of winning these contracts or in the timing of delivery can have, and have had in the past, very significant impacts on the timing of recognition of revenue.
- **The company expects 2016 revenues to be in the range of USD $5.8 million to $6.1 million not including any further new product orders or technology access fees that may be recognised as revenue in the next six months to the financial year end.**

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2016 Update & Outlook

Stronger Cashflow

- 2016 has seen much improved cashflow on the back of new contract awards. It is expected that this will continue throughout 2016, and interest costs reduce as a result of the current equity issue

Rights Issue

- The Company is currently undertaking a A$9.5m entitlement issue to retire debt which will assist both profitability and cashflow going forward.

- If the entitlement issue is fully subscribed, there will be approximately 128 million shares on issue.

- Additional working capital will also be available to the Company as a result to assist in the deployment of new projects and expansion of marketing activities for its latest products

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 plus additional upside from new wins over next 6 months and has positioned itself to continue growing through 2017 and beyond

Other information

- Board of directors profiles

- Executive Management profiles

- Issued capital and options

- Contacts

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Board of directors profiles

⚛ David Deacon, Group Chief executive officer

David has over 20 years' experience in the wireless communications industry. Prior to Etherstack, David founded and ran an Australian wireless technology company, Indian Pacific Communications Pty Ltd until it was sold to a public company in 2000. Before this, David led software development teams involved in wireless research and development in Perth and Sydney.

David founded Etherstack in 2002 and has overseen its growth into operations in seven countries around the world. For the past decade, David has been based between Europe and North America where the majority of Etherstack's client base resides, creating multiple regional offices for Etherstack to provide local support and services for the client base.

⚛ Peter Stephens, Chairman Non executive director

Peter was previously head of European Equities Sales at both Salomon Brothers and Credit Lyonnais and since 2001 he has been working as a venture capitalist.

Peter is a founding shareholder of Desire Petroleum plc and and GeTech Group plc, which is a quoted company on the London Stock Exchange's AIM market. He is a Director and major shareholder in five other UK ventures including Wealth Manager Cavendish Ware Limited, which is regulated by the FCA in the UK. Peter was a founder shareholder of travel company ,Scott Dunn, in 1988 which was recently sold for £77m.

Peter has an M.A. in Jurisprudence from Oxford University and qualified as a barrister in the UK in 1978.

Peter has Non Executive chairman of the Board since 2007.

Board of directors profiles

⬡ Paul Barnes, Non executive director

Paul has amassed considerable experience in venture development, financial management, corporate finance and M&A transactions. Paul is a Fellow of the Association of Chartered Certified Accountants and a Member of the Chartered Institute for Securities & Investment.

Paul has been a key member of the teams which developed and listed - by admission to the AIM market - both Tristel PLC (2005) and Oxford Catalysts Group PLC now Velosys Group PLC (2006) raising substantial funds for both companies. Variously between 2005 and 2010 he served as the executive Finance Director of these two public companies in addition to having in 2003 established Beach Street Limited, an FSA regulated corporate advisory firm.

Paul is a founder and director of Amersham Investment Management Limited an Investment Management Firm, regulated by the FCA in the UK.

Paul joined Etherstack in 2002 as finance director and CFO, and held these positions until December 2011.

⬡ Scott Minehane, Non executive director

Scott is an international regulatory and strategy expert in the telecommunications sector and has been involved in advising investors, operators, Governments and regulators in Australia, Asia, the Pacific and South Africa. He has advised a range of leading organisations including the Commonwealth, South Australian and Victorian Governments, APEC Business Advisory Council, NBNCo, Macquarie Group, Leighton Holdings, Macquarie Telecommunications, IDA Singapore, Telekom Malaysia, Axiata, Telkom South Africa and Telecom NZ.

Scott has a Bachelor of Economics and a Bachelor of Laws from the University of Queensland and holds a Master of Laws specialising in Communications and Asian Law from the University of Melbourne.

Scott joined the Board as an Independent Non-executive Director in 2012 and is chairman of the Audit & Risk Management Committee.

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Executive Management Profiles

David Carter, Chief Financial Officer

David worked within the audit and assurance practice of Coopers & Lybrand and PricewaterhouseCoopers for 12 years in Australia and The Netherlands.

David has held senior finance roles in IT companies including Dimension Data and Computer Science Corporation and was CFO and company secretary of a software reseller and engineering services provider before joining Etherstack as CFO in September 2011.

David has a Bachelor of Commerce degree from University of New South Wales, is a member of the Institute of Chartered Accountants in Australia, and holds an Executive MBA from the Australian Graduate School of Management.

John Boesen, Chief Operating Officer

John joined Etherstack as Head of Engineering of the Networks Divisions in 2012, bringing with him over 20 years' experience in leading product and engineering teams to commercialise innovative and mission critical software and hardware solutions. John was appointed Chief Operating Officer in January 2014.

Prior to Etherstack, John has lead multi-disciplinary innovation and delivery focused teams, ran program management functions, undertaken process re-engineering, delivered successful technology and cultural change management programs, developed strategies to drive market growth and mentored leaders on all aspects of leadership and high performance.

John has a Bachelor of Science from University of New South Wales majoring in Mathematics and Computer Science.

Issued Capital and options

Capital Structure (1:1 Share:CDI)	
CDIs currently on issue	72.8 million
CDIs to be issued under shortfall offer	55.1 million
Total CDIs after completion of the Offer	127.9 million

- Status of the current raise - Eligible shareholders have subscribed for 40,877,859 CDIs (representing $4.08 million) and these have been allotted on 4 May 2016.

- The entitlements of ineligible shareholders and those entitlements not taken up by eligible shareholders will form part of the Shortfall offer which is currently in progress. The Company has commitments and indicative support for approximately $3.0m of the Shortfall offer, representing over $7.0m when combined with the entitlements taken up by eligible shareholders, out of the of the $9.5m raise.

- Options – the Company has issued 1,749,250 options exercisable at prices GBP 0.24 (AUD $0.46) and GBP 0.80 (AUD $1.53) with expiry dates between August 2016 and December 2018

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