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Lodgement of Market Briefing**

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Market Briefing

NetComm Wireless MD on 2016 first half results and outlook

Interview with David Stewart (Managing Director & CEO)

In this Market Briefing interview, David Stewart, NetComm Wireless' Managing Director & CEO, discusses the company's 2016 first half results and strategic outlook including:

- *Half year financial performance*
- *USA based fixed wireless rural broadband agreement*
- *Performance of the base business*
- *Balance sheet / capital management*
- *Growth outlook*

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NetComm Wireless has just announced a 53.7% increase in revenue and 538.9% increase in profit during the first half of the 2016 financial year. Can you please discuss the drivers of this result?

David Stewart

Our very strong growth this period has been a direct result of the strategic decision we made to focus on the global Machine to Machine [M2M] and fixed-wireless rural broadband markets.

The growth in revenue reflects the continued ramp up in volumes from our Ericsson / NBN contract as the rollout further penetrates into rural and regional households. We expect this trajectory to continue in future periods. In addition, we are seeing revenue growth resulting from key partnerships we made with carrier partners during FY15.

In line with our strategy, a greater proportion of NetComm Wireless' revenue is coming from our M2M business, which accounted for 67% of group revenues in 1H16. This has underpinned an even stronger increase in EBITDA and net profit.

This strong earnings result was achieved even after making a substantial reinvestment back into the business for future growth. We deployed \$2 million into additional staff and infrastructure to further enhance our global capabilities as a number of large global opportunities in the fixed wireless regional broadband and M2M markets are pursued.

NetComm Wireless also early adopted AASB15 Revenue from Contracts with Customers. This resulted in the capitalisation of \$2.1 million of people related costs associated with the Company's recent major USA Fixed Wireless Regional Broadband contract win. This capitalisation of \$2.1 million is in addition to the \$2.0 million business reinvestment I just referred to.

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During November last year, NetComm Wireless announced the signing of a Master Purchase Agreement with one of the two largest USA telecommunications carriers to supply fixed wireless devices for a rural broadband network. How significant will this contract be for NetComm Wireless' earnings going forward?

David Stewart

The signing of the Master Purchase Agreement is a major business opportunity for NetComm Wireless as the volumes expected from the contract are much larger than those under the Ericsson / NBN contract and also flow over an extended number of years.

In addition, this agreement should hopefully lead to a number of other similar agreements globally. This is because NetComm Wireless was appointed directly by one of the two largest USA based telecommunications carriers for a number of reasons, a key one being that we are the only company that can currently point to in-field project experience delivering this type of solution, being the NBN locally.

In the lead up to the commencement of the USA project we have enhanced our talent base and infrastructure over the past six months and are expecting that substantial revenue and earnings will flow through in future periods as the project scales up.

The key immediate milestone is to receive "Technical Approval" from the customer, which is anticipated to be around May 2016. Following this, small scale "closed" trials will commence followed by a slightly larger external trial. These trials will take place in the balance of the 2016 calendar year.

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Given the success you have achieved in fixed wireless regional broadband, how much of a first mover advantage do you have?

David Stewart

We have a world leading position in regional broadband following our proven success in the local market with Ericsson/NBN. This project has been a significant undertaking for NetComm Wireless and having bolstered our infrastructure and engineering talent we possess a strong first mover advantage.

The recent signing of a Master Purchase Agreement with one of the two largest USA based telecommunications carriers, following a competitive tender process, demonstrated that we are able to leverage our first mover advantage to win substantial contracts. We believe that this momentum will continue as the Ericsson/NBN contract roll out gathers pace and as we commence our project in the USA.

The regional broadband market is an \$80 billion global market, so the opportunities for us to leverage our experience to win future projects are substantial.

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Given your focus on regional broadband opportunities globally, will this mean you're placing less focus on M2M growth?

David Stewart

While we have had substantial success in winning and implementing fixed wireless regional broadband projects, NetComm Wireless is still very active in the broader M2M business and we are currently pursuing a number of global opportunities. Our M2M strategy remains focussed on growth in a number of vertical sectors where we see the best opportunities such as healthcare, building automation, utilities and device control.

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How is the Australia/NZ broadband business performing?

David Stewart

Over the last six months, our base broadband business performed to expectations achieving \$15.2 million in revenue, a slight reduction from the \$16.7 million achieved in the first half of the 2015 financial year. While the second half of the 2015 financial year saw a substantial lift in base business revenues due to additional Foxtel devices being sold, our base broadband business should continue to generate around \$30 million in annual revenues going forward.

While we will continue to earn a stable amount of revenues from this part of our business, base broadband revenues will continue to reduce as a proportion of overall group revenue as we focus our efforts on the opportunities in the global fixed wireless regional broadband and M2M markets.

We still see growth opportunities for our broadband base business resulting from the roll out of the NBN. During the course of the roll out 8.5 million ADSL devices will ultimately become obsolete and replaced by VDSL, fibre or cable devices, so there is a clear technology upgrade opportunity.

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Net debt has grown over the past six months. Can you explain the key drivers for this, and do you have sufficient headroom to continue to fund growth initiatives?

David Stewart

As NetComm Wireless has pursued its global growth strategy, we have increased the level of investment in people and infrastructure to underpin that growth. In addition, working capital requirements have increased as a result of the higher level of revenues being generated.

With growing cash flows and \$15 million in banking facilities we are well placed to continue to support the investment required to pursue the attractive growth opportunities available to the Company.

In addition, we have access to a banking facility that allows for the sale of 100% of selected customer receivables to allow us to receive cash in a 15-20 day period from delivery of product to the customer.

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With the company growing so strongly, will you look to pay a dividend in the near term?

David Stewart

We are currently pursuing a number of attractive growth opportunities in the global fixed wireless regional broadband and M2M markets. If we can deliver on just some of these opportunities, there will be substantial additional shareholder value created. We believe that in the near term re-investment into our business is the best use of cash generated by the Company as we scale up and the Board is conscious of capital management to ensure that NetComm has the right mix going forward.

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Can you update us on the growth outlook for the Company?

David Stewart

We remain very optimistic for the future growth of the Company, and expect substantial growth in revenue and earnings to flow from Fixed Wireless and M2M projects which have already commenced as well as those which will commence in future periods.

NetComm Wireless' business model is highly scalable and while we will continue to invest into our business, we anticipate substantial future earnings growth. At the same time, our base broadband business should continue to generate a consistent level of revenues each half.

The 2017 financial year should see even further growth in revenues and earnings as the Ericsson / NBN project continues to ramp-up and revenues from our USA fixed wireless regional broadband agreement commence to be generated.

We are pursuing new M2M and fixed wireless regional broadband opportunities in a number of global markets. We expect additional increases in revenues and earnings in future financial years if these activities lead to orders as projects typically extend over multiple years and there is a lag between winning a contract and delivering our customised M2M and fixed wireless products.

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Thank you, David.

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