

Level 2, 18-20 Orion Road
Lane Cove NSW 2066

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29 August 2016

Market Briefing

NetComm Wireless MD on 2016 full year 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 full year results and strategic outlook including:

- *Continued growth in revenues underpinning additional business reinvestment*
- *Successful \$51 million capital raising to fund added growth investment*
- *Rollout of Ericsson/nbn™ Fixed Wireless project ramping up*
- *Awarding of US Fixed Wireless project*
- *Outlook for FY17 in light of multiple growth opportunities*

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NetComm Wireless has delivered another record year of revenues, yet statutory earnings decreased. Can you please discuss the drivers of this result?

David Stewart

Having transitioned our business towards Fixed Wireless and M2M, we are now reaping the benefits with another record year that delivered continued strong growth in revenues.

Group revenue grew by 15% to \$85.3 million. Within this M2M & Fixed Wireless revenue grew 74% to \$58.7 million reflecting the continued ramp up of the Ericsson/nbn™ project rollout. Offsetting this growth was reduced Broadband business revenues due to the prior year benefiting from a one-off increase in the sale of powerline and ADSL/VDSL products. The composition of our revenue continues to evolve. The proportion of revenues coming from our higher margin M2M & Fixed Wireless division will continue to increase.

Statutory earnings before interest, tax, depreciation and amortisation [EBITDA] declined 15% to \$6.2 million given increased business investment in infrastructure and people. We have been scaling up our business prior to receiving the first orders from the major US Fixed Wireless contract awarded to NetComm Wireless in November 2015, as well as ensuring we can pursue multiple global growth opportunities.

If we remove the \$4.3 million of business investment and \$0.7 million in non-cash share based payments, underlying EBITDA was up 23% to \$11.2 million. This clearly shows the success of our growth strategy that has transitioned the business to Fixed Wireless and M2M solutions. Over the past four years, underlying EBITDA has been on a strong and sustainable growth path that looks set to continue.

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In April NetComm Wireless completed a heavily oversubscribed \$50 million capital raising plus a \$1 million SPP. Can you explain how you intend to deploy these funds?

David Stewart

We were very pleased with the response we received from the investment market to our \$50 million fund raising. The funds raised will support our global growth initiatives and have also been used to repay borrowings.

We have been investing in working capital to facilitate the US Fixed Wireless contract, including the recent launch of a new R&D facility in the US. We are investing heavily in people to add skills and resources to support our continued global growth given the multiple opportunities we see ahead of us.

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How is the Ericsson/nbn™ project progressing?

David Stewart

We are delighted by the progress made with the Ericsson/nbn™ project. The rollout of our Fixed Wireless solution continues to gain pace. As at 30 June 2016, well over 120,000 units had been deployed and the roll-out has continued to ramp up.

While the coverage area of nbn™ has increased by 156,000 premises over FY16 to stand at 425,000 premises at July, the take up rate has also increased to 29%. Clearly, there is an increasing demand for ultra-fast broadband, and this growing demand will continue to drive the ramp up in this project.

Other countries and telecommunications carriers are preparing to invest in similar initiatives as they commence the termination of their PSTN copper networks. The expertise we have developed in delivering the world's largest and most successful Fixed Wireless deployment places us in a unique position to gain substantial new business in an \$80 billion annual global market.

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What is the current status of the US Fixed Wireless initiative, and when do you expect to start earning revenue from this?

David Stewart

The signing of a Master Purchase Agreement to deliver a Fixed Wireless solution to one of the two largest telecommunications carriers in the US is the first step in our global growth in this technology. This agreement is transformational for NetComm Wireless as it is substantially larger in deployment size than the Ericsson/nbn™ project.

We recently announced the passing of a key technical milestone that allows for progression of the contract to the next stage of small scale rollout and eco system testing. This contract is expected to generate substantial growth in revenues over multiple years.

We anticipate that we will start earning a small amount of revenue from the project during the second half of FY17. After that, we expect to see revenues ramp up substantially in FY18.

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Given the success of NetComm Wireless' Fixed Wireless solution in Australia, and having recently won a major contract in the US, are you currently pursuing additional opportunities in this market?

David Stewart

Our successful delivery of the world's largest and most successful Fixed Wireless deployment places NetComm Wireless in a unique position to gain substantial new business in an \$80 billion annual global market. This momentum began with NetComm Wireless' recent major contract win in the US, and we expect it to continue as we actively pursuing similar opportunities in global markets.

We are currently in discussions with major US telecommunications carriers planning to shut down their copper PSTN network, as well as several carriers in Europe. In addition, we recently signed a Frame Purchase Agreement with Nokia for the supply of Fixed Wireless devices internationally.

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In addition to opportunities in Fixed Wireless, what other growth opportunities is NetComm Wireless pursuing?

David Stewart

Having built a strong relationship with nbn™, we have pursued our own initiative to develop a practical and economical alternative to Fibre to the Premises (FTTP) to bring fast and reliable broadband to customers without entering premises. Our Australian designed and engineered Fibre to the Distribution Point (FTTdp) solution takes a single fibre connection from the distribution point pit and redistributes it to up to four customer premises using existing copper lines.

Given the strength of our partnerships with global telecommunications carriers we see FTTdp as a substantial opportunity.

As every business is different, and every challenge is unique, we develop bespoke M2M solutions for demanding and complex projects by applying our "Listen. Innovate. Solve." methodology to ensure that our customers' specific "pain point" challenges are well understood and solved. We are currently working within the building automation and health verticals on projects of this type. Whether transforming rural and regional communities with superfast Fixed Wireless, optimising business efficiencies with smart wireless M2M solutions, or extending network infrastructure with Fibre or Cable to the distribution point, NetComm Wireless is at the forefront of innovation globally, and this is providing us with multiple global growth opportunities.

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Can you update us on the growth outlook for FY17?

David Stewart

FY17 is shaping up to be another exciting year for NetComm Wireless. Volumes from the Ericsson/nbn™ contract are expected to accelerate, our M2M business has very good planned growth, and we will begin to receive some small revenues from the USA Fixed Wireless contract. Having laid strong foundations for growth, and given the scalable nature of our business, we are excited by the long term outlook for NetComm Wireless. We plan to undertake substantial investment into the business in FY17 to underpin a number of potential global growth opportunities.

We are projecting an additional \$22 million to \$23 million planned investment into our business for FY17, of which \$17 million to \$18 million relates to investment in people and infrastructure [before any capitalisation of engineering costs] and \$5 million in capital expenditure.

Given the nature of our contracts, there is a lag between contract wins and the ramping up of solution rollouts, which spreads the benefits from new contracts over future financial years. Accordingly, our reinvestment back into the business in FY17 will see us grow revenue and earnings substantially across future periods from FY18 onwards.

Having a number of established partnerships with leading telecommunications carriers, we are uniquely placed to take advantage of additional attractive growth opportunities in the M2M and Fixed Wireless space, to create long term shareholder value. We are at the cusp of a very exciting period of global growth for NetComm Wireless that will deliver substantially increased shareholder returns if we can execute to plan.

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Thank you, David.

For further information, please contact Ken Sheridan, NetComm Wireless CFO on +61 409 157 588, ken.sheridan@netcommwireless.com

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