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Lodgement of Market Briefing**

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Market Briefing

NetComm Wireless MD on 2014 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 2014 first half results and strategic outlook including:

- *the successful transition towards the Machine to Machine (M2M) market*
- *improving returns with the company moving to profitability during the 2014 first half*
- *strengthening balance sheet*
- *outlook for the second half of the 2014 financial year and beyond*
- *reaffirmation of 2014 full year guidance for EBITDA of between \$4.6 million and \$5.1 million*

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NetComm Wireless has just announced a 38.4% increase in revenue and a move to profitability during the first half of 2014. Can you please discuss the drivers of this result?

David Stewart

Two years ago, NetComm Wireless made the strategic decision to transition away from consumer based technologies toward the global Machine to Machine [M2M] market. The benefits from this strategy are now starting to flow through as can be seen from the results over the past six months, and we expect further improvement in NetComm's earnings going forward.

To give you a sense of the growing significance of M2M market sales, this market segment contributed nearly half of the company's total revenue for the first half, compared to just 13% in the first half of 2013.

The significant improvement in first half revenues reflected orders generated from NetComm's first smart metering contract with Ericsson, announced in May last year. By the end of the first half, we had fulfilled around 65% of the number of units required under the contract and we expect to deliver the balance in the second half of this financial year.

While revenues grow strongly, even more pleasingly was the growth in our earnings and profits. EBITDA for the first half of the 2014 financial year was \$2.0 million, compared to a \$0.2 million loss

in the first half of the 2013 financial year, while net profit after tax was \$161,693 compared to a loss of \$842,407 over the same period.

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Is the level of earnings achieved in the first half of the 2014 financial year sustainable? How should we be thinking about NetComm Wireless' potential future M2M earnings?

David Stewart

We expect to see earnings improve further in the second half of the 2014 financial year as further benefits from our shift toward the M2M market flow through. In addition to revenue from the smart metering contract, we expect growth in the second half from early orders from Vodafone Global and additional volume in NBN, Cubic and other M2M contracts.

Our goal to grow NetComm's M2M market share offers significant potential for earnings growth. The M2M market is expected to grow rapidly as every "thing" becomes connected to the internet, with the global market size for M2M applications forecast to grow from \$20 billion in 2010 to over \$66 billion by 2016.

At the same time, the M2M market remains highly fragmented and one of NetComm Wireless' major competitive advantages is our proven ability to quickly develop customised broadband technologies in line with customer requirements. This competitive advantage, combined with our "coat tails" partnership strategy should support the company in achieving its growth ambitions.

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How has NetComm Wireless' M2M strategy been progressing?

David Stewart

As mentioned earlier, we have seen the contribution of the M2M segment to our total revenues increase substantially to 48% in the half year to December 2013. This shift in contribution is in line with our strategy. We expect to see the M2M contribution continue to increase going forward.

Earlier I mentioned our "coat tails" strategy, which involves partnering with large, well established M2M players like Vodafone and Ericsson. We are not in competition with our partner companies. The aim is for these partners to source high volume global opportunities for which we can provide solutions.

Over the first half, we made further progress on this growth strategy, entering into supply agreements with several new strategic partners for M2M devices, including SYNEX [a Verizon Wireless distributor], Etisalat Group and Vodafone Qatar. These agreements further strengthen NetComm Wireless' position and extend our global reach.

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When will sales from Vodafone and other major M2M contracts start to contribute to earnings?

David Stewart

We expect further contribution from the smart metering contract, early orders from Vodafone Global and additional volume in NBN, Cubic and other M2M contracts to contribute to earnings during the second half of 2014.

The volumes from these contracts and others in the pipeline are expected to build substantially in FY15 and beyond, with a lag between contract and delivery, spreading some of the benefit to later reporting periods.

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Can you discuss your balance sheet and cash flow position?

David Stewart

Our balance sheet remains strong following the successful equity raising undertaken in June 2013. The majority of equity raising proceeds were received prior to the end of the 2013 financial year, with \$950,000 of proceeds received during the first half of 2014.

It is worth noting that during the half we restructured our borrowing facility from a US Dollar denominated facility to one with an Australian Dollar denomination. This measure will reduce net asset fluctuations resulting from exchange rate movements going forward.

Net operating cash flows strengthened to \$6.5 million in the first half, up from \$1.8 million in the prior corresponding half, driven by the company's M2M growth strategy.

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Do you have enough resources to execute on your global growth ambitions?

David Stewart

Our need for capital is short term and directly related to business won. Our existing hardware and software platforms facilitate rapid new product development at low incremental cost. This scalable production capacity was demonstrated over the past six months by our ability to ramp up production to meet orders under the smart metering contract.

We continue to invest in product development and we spent \$1.8 million on this over the past six months.

We will increase our investment into sales and engineering resources to organically grow the business during the second half of 2014.

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Can you update us on the outlook for the remainder of FY14 and beyond?

David Stewart

On Friday 21 February 2014 we reaffirmed our previous FY14 guidance for EBITDA of between \$4.6 million and \$5.1 million.

We expect to generate substantial growth as we deliver further M2M contracts in line with our strategic plan to grow market share in the rapidly expanding global M2M market.

We are in discussions and trials in relation to a number of new M2M and smart metering opportunities in a range of geographies including Australia, US and the Middle East. If these opportunities translate into orders, they will result in additional revenue and earnings growth from FY15.

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Thank you, David.

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