

29 July 2020

Norwood Corporate Overview and App 4C for June 2020 Quarter

Highlights

- Successfully launched Version 3.5 of World Voicemail, which incorporates new spam filtering capabilities.
- Secured NZD\$350,000 in future revenues from Spark New Zealand for additional Voicemail services.
- Working towards an anticipated net nil cashburn operating quarter, based on expected receipts from pre-existing customer contracts scheduled for payment in the current (September 2020) quarter and maintenance of current expenditure levels.
- Continued to optimise internal operating costs, supporting the above goal of cashflow break even.
- Receipts from customers of \$277,000 for the June 2020 quarter, compared to \$84,000 in the prior March 2020 period, an increase of 230% period-to-period, and up from \$120,000 in corresponding 2019 June quarter, an increase of 131%.
- Total cash receipts from customers for the 2020 fiscal year of \$772,000, versus \$445,000 in the prior fiscal year, an increase of 73% period-to-period.
- Net operating cash outflows for the June 2020 quarter were down 69% from the corresponding 2019 June quarter, and down 49% from the prior March 2020 quarter. Total 2020 fiscal year net operating cash outflows down 52% from prior 2019 fiscal year.
- Raised \$250,000 via a share placement to assist with the Company's telco contract deployments and broader ongoing working capital requirements amid COVID-19.
- Continued to target key partnerships, which remain afoot, as well as directly targeting new telco accounts, and has seen pleasing development of its customer pipeline over the quarter.
- COVID-19 financial impact has stabilised, with limited productivity disruption as a result of a smooth transition to working from home operations.

'Sharing Economy' and 'Communications as a Service' pioneer Norwood Systems Ltd (Norwood or the Company) (ASX: NOR) is pleased to provide an overview of the Company's activities for the June 2020 quarter and the accompanying Appendix 4C cashflow report.

Norwood's CEO and Founder, Paul Ostergaard, said:

"The June quarter was one full of disruption and uncertainty for the broader business community due to the COVID-19 pandemic. In light of this, it was very pleasing to see that during this period Norwood was able to progress its innovative World Voicemail technology, move to working from home arrangements efficiently, lock in certainty around our working capital and provide additional services to Spark NZ.

"Local restrictions have eased in Western Australia, so the majority of employees have transitioned back to working at our head office, and we are continuing to proactively engage with many of our interstate and international clients and potential customers virtually.

"We have further seen a very pleasing improvement in the company's monthly and quarterly net cash burn, in part from cost-reduction actions taken in response to the COVID-19 pandemic, partly from pre-existing contracts

starting to produce underlying monthly revenue, and in part income from new contracts, that have provided and are continuing to provide a material contribution to the Company's operating cash flows.

"Based on our forecast receipts of existing contracted payment inflows, at minimum we expect this current September quarter to be roughly cash neutral over the quarter, which is a huge milestone for the business.

"The new Version 3.5 release of the World Voicemail platform further strengthens the Company's position to target the \$1 billion telco market for legacy voicemail service replacement and the new capabilities are being very positively received by existing and new pipeline telco prospects.

"The \$250,000 of capital we raised will assist Norwood in continuing to develop this world-leading voicemail service for the telecommunications industry."

Product Development Activities

On 12 May 2020, Norwood released Version 3.5 of the World Voicemail, which added artificial intelligence-powered voicemail spam filtering and tagging to the platform's extensive capabilities. The new functionality supports both user-initiated and machine-learning-enabled tagging, management and blocking of "rogue" callers and their nuisance messages.

The launch marked a significant step in pivoting Norwood as the premier service provider to manage inbound call termination within the telco market.

Sales and Commercialisation Activities

Spark NZ contract update

Norwood's suite of works with Spark NZ are proceeding as planned, and we continue to maintain a strong relationship with this valued client.

On 30 January 2020, Norwood announced an agreement to provide additional World Voicemail services to Spark, in addition to its existing contract with the telco. On 30 April 2020, Norwood announced a variation to the agreement with Spark NZ, which would provide Norwood with payment certainty amid the economic uncertainty stemming from COVID-19.

Norwood will receive NZD\$350,000 in total from the recent variation. Payment will consist of an upfront portion, with the remainder of the variation amount to be invoiced in staged payments until Spark's acceptance of the On-Premises Voicemail solution.

Telco Voicemail partnerships

Norwood confirms that it is still in talks relating to go-to-market distribution partnerships for World Voicemail with several prospective telco vendors.

The COVID-19 situation, while it disrupted such negotiations temporarily in the previous March 2020 quarter and in part of the June 2020 quarter, has stabilised to the extent that has allowed the Company to re-engage with these telco partners. Such partnering discussions are still afoot and being pursued as vigorously as conditions allow. Norwood anticipates more clarity on the exact timing of potential agreements this quarter.

Additional telco pipeline opportunities

Norwood has continued to build its telco pipeline and is progressing with telco pilots where possible, both in Australia and internationally. Notwithstanding the long sales cycles, the Company has made pleasing progress with a number of these prospective telco accounts and hopes to report on further material progress during the September quarter.

Corporate

Capital Raising

The Company announced on 15 June 2020 that it had raised \$250,000 via the placement of 11,363,638 fully paid ordinary shares ("Shares") at \$0.022 per Share to institutional and sophisticated shareholders, together with one free attaching, listed NOROA option (\$0.08, 31 October 2020) for every one share subscribed ("Placement"). The Shares and the NOROA options were issued under Norwood's existing ASX Listing Rule 7.1A and 7.1 placement capacity respectively.

Net proceeds from the Placement positions the Company to continue its successful and ongoing roll out of telco voicemail services and will underpin Norwood's short-term and medium-term working capital requirements, in conjunction with an R&D tax offset rebate for FY2020.

Business Activities Expenditure

In accordance with ASX Listing Rule 4.7C.1, with respect to business activities expenditure, Norwood can confirm there has been no significant change from the previous quarter's expenditure, with a slight (\$15k) decline. Total direct business activity expenditure was \$515k for the quarter (vs \$531k last quarter), consisting of research and development expenses of \$250k (vs \$263k), operating costs of \$93k (vs \$87k) and staff costs of \$172k (vs \$181k). There was an additional \$133k in administration and corporate costs (vs \$155k).

Operating cash outflows for the quarter were again significantly improved declining to \$298k in operating outflow against the prior quarter of \$583k, a 49% improvement over the quarter. This was primarily driven by increased receipts from customers, as well as continued cost control measures.

Payments

Norwood notes that item 6.1 in the Appendix 4C relates to executive and non-executive director fees.

This announcement is authorised for release by Paul Ostergaard, Managing Director and CEO.

<ENDS>

Company: Paul Ostergaard , CEO & Founder Office: +61 8 9200 3500, 4 Leura Street, Nedlands Web: www.norwoodsystems.com Twitter: @norwoodsystems, @paulostergaard	Investor Relations: Shane Murphy , FTI Consulting Office: +61 8 9485 8888 email: shane.murphy@fticonsulting.com Mobile: +61 420 945 291, Twitter: @ShaneWMurphy
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About Norwood Systems

Norwood Systems Ltd (ASX: NOR) is revolutionizing mobile voice, messaging, data and cyber security services through its pioneering award-winning virtual mobile services platform, Corona® and associated Apps.

The Company's breakthrough offerings deliver Over the Top (OTT) connectivity, knowledge and intelligence services. Norwood's products and services are targeted at a broad spectrum of prospective customers from individuals through to large enterprises and government agencies.

Norwood has delivered services to more than 6 million customers since launching its platform in mid-2014, servicing people in 200+ countries & territories and 5000+ cities worldwide and has achieved a 4+ App Store rating on all published Apps.

Norwood Systems listed on the ASX in June 2015 and trades with the stock ticker NOR.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

NORWOOD SYSTEMS LIMITED

ABN

15 062 959 540

Quarter ended ("current quarter")

30 JUNE 2020

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities			
1.1 Receipts from customers		277	772
1.2 Payments for			
(a) research and development		(250)	(1,031)
(b) product manufacturing and operating costs		(93)	(365)
(c) advertising and marketing		-	-
(d) leased assets		-	-
(e) staff costs		(172)	(713)
(f) administration and corporate costs		(133)	(815)
1.3 Dividends received (see note 3)		-	-
1.4 Interest received		-	3
1.5 Interest and other costs of finance paid		-	-
1.6 Income taxes paid		-	-
1.7 Government grants and tax incentives		-	713
1.8 Other (provide details if material)		74	94
1.9 Net cash from / (used in) operating activities		(298)	(1,343)
2. Cash flows from investing activities			
2.1 Payments to acquire or for:			
(a) entities		-	-
(b) businesses		-	-
(c) property, plant and equipment		-	-
(d) investments		-	-
(e) intellectual property		-	-
(f) other non-current assets		-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	250	1,244
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(17)
3.5	Proceeds from borrowings	98	510
3.6	Repayment of borrowings	-	(619)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	348	1,118

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	129	406
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(298)	(1,345)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	348	1,118
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	179	179

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	149	79
5.2	Call deposits	30	50
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	179	129

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	58
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	432	432
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	432	432
7.5	Unused financing facilities available at quarter end	Nil	
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
	<ul style="list-style-type: none">• Counterparty: Innovation Structured Finance Co LLC facilitated by Radium Capital• Amount: 80% of the expected R&D tax offset resulting from each period's eligible R&D expenditures, with principal and interest repaid from the actual tax offsets at the end of the financial year.• Final Maturity Date: 30 November 2020 (Norwood has the option to repay earlier without penalties).• Interest rate: 14% per annum, and default rate of 18% (from 1 October 2020 until the loan is repaid in full).• Security: Secured against the R&D refund receivable from the ATO.• Conditions: R&D expenditure has to be reviewed by R&D Tax Consultants.• Purpose of Loan as per agreement: Wholly or predominantly for working capital or research and development expenditures.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(298)
8.2	Cash and cash equivalents at quarter end (item 4.6)	179
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	179
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	0.60
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>		
8.6	<p>If item 8.5 is less than 2 quarters, please provide answers to the following questions:</p> <p>8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?</p> <p>Answer: Yes, subject to improvements in revenue and cost reductions anticipated.</p>	

- 8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: Yes, the Company has taken and is taking steps to raise further cash to fund its operations. Notwithstanding the expected underlying improvement to operating cashflows for the September quarter arising from scheduled payments from pre-existing contracts (see commentary), the Company has the ability to undertake further capital raisings as required to fund its operations. The Company believes it will be able to raise further equity or debt, if and as required, as exhibited by the successful completion of a recent placement in June 2020 for \$250,000. In addition, the Company also retains the ability to utilise an R&D loan facility for 30 June 2020 quarter, which is expected subsequent to the June quarter end. As at the end of June quarter, the Company had utilised \$432,000 of the facility, and anticipates utilising a further \$140,000 post June quarter end. The Company also continues to closely monitor its operating costs and seek reductions where possible.

- 8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Yes, the Company expects to be able to continue its operations and to meet its business objectives based on its responses to items 8.6.1 and 8.6.2 above.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 29 July 2020

Authorised by: By the Board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.