

ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

ASX Release
MGM Wireless Ltd

31 May 2017

2017 March Quarter results

- Year to date sales revenue up 4%
- March quarter sales revenue down 8%; impacted by Queensland Government imposed delays to roll-out
- Contracted schools up 10% on pcip to a record 1,395
- Investment for growth including new cloud platform
- FY17 expectations: revenue comparable with FY16; breakeven result

School communication and software specialist MGM Wireless (ASX:MWR) has announced its third quarter revenue results, reporting slightly higher revenue for the year to date after lower revenue for the March quarter and ongoing strong growth in its contracted schools.

Total revenue for the 3 months to 31 March was \$239,673 compared to \$261,358 in the prior year corresponding period. Year to date revenue for the nine months to 31 March was \$1,882,325, 2.9% higher than the prior year's comparative of \$1,829,931.

March Quarter Trading Results

\$'000	Mar Qtr 17	Mar Qtr 16	Change	YTD Mar 17	YTD Mar 16	change
Sales Revenue	239.7	261.4	(8)%	1,852.7	1,789.3	4%
Total Revenue	243.4	292.0	(17)%	1,882.3	1,829.9	3%
Cash balances	1,086.9	1,290.2	(16)%			
Contracted schools	1,395	1,262	10%			

Executive Chairman Mark Fortunatow said that the dip in March quarter revenue was directly attributable to the postponement of one large client renewing their Annual License Agreement into the June Quarter and disruption arising from changes to system deployment required by the Queensland Department of Education in respect of the roll out of the company's absence management and parent notification systems.

MGM Wireless was one of 6 providers selected by the Queensland Government for appointment as an approved supplier of Absence Management and Parent Notification solutions in November 2016. MGM Wireless has subsequently contracted 19 new schools in Queensland, taking its total contracted schools in the state to 143.

At 31 March 2017, the company had total contracted schools of 1,395, up 48 on the half year figure of 1,347 and 10% higher than the corresponding figure of 1,262 twelve months earlier.

“Advice we have received is that the MGM product has proven to be, overwhelmingly, the system most purchased by Queensland schools. The surge this provided to our customer base is expected to offer long term value.

“However the revenue benefits have been delayed due to a change in the system installation procedure required during the period. This delayed installations and contract start-up and occupied resources that would otherwise have been focussed on revenue generation in other regions” said Mr Fortunatow.

During the quarter the company was directed by the Queensland Government to conduct software installation onsite at schools using departmental technical staff rather than online by MGM Wireless via remote access. The additional time and training this necessitated delayed the commencement of operation and revenue generation from the new schools, and occupied resources that would otherwise be available for other markets.

“We applaud the commitment shown by the Queensland Government to student privacy, data security and welfare and are naturally pleased with the success of our product in Queensland” said Mr Fortunatow.

“We look forward to the returns this offers once we have concluded the establishment phase. However, the change in installation procedure has meant that the additional sales brought significant short term disruption and cost outside the scope of our original agreement,” he said.

“Accordingly, we have decided to dial back our marketing efforts under the Queensland Government standing offer. Our efforts in Queensland henceforth will concentrate on bringing those schools currently contracted but not online to an operational status and delivering a quality service to our new expanded customer base in the state. Our marketing efforts will revert to the school by school agreement method which has served the company well thus far,” said Mr Fortunatow.

While licence fee income was affected by the delays, revenue from SMS credit sales grew strongly, demonstrating the cyclical recovery anticipated by the company as schools replenished SMS messaging inventory.

It is expected that sales revenue for the 2017 financial year will broadly approximate the \$2.51 million recorded for the previous financial year.

Margin is expected to be lower than recorded in the 2016 financial year due to increased expenses associated with the Queensland roll-out, continued investment in staff training and short term costs associated with the shift to a new upgraded cloud based enterprise platform. The new platform, Microsoft Azure, is expected to result in lower ongoing costs and improved efficiency on a full cycle basis. A breakeven net profit result is expected for the 12 months to 30 June 2016.

The company accrued R & D grant funds of \$192,015 during the quarter compared with \$177,657 in the previous March quarter. Ongoing commitment to R & D continued to feature highly in the company's activities.

The company's balance sheet remains strong with a cash balance of \$1.1 million at 31 March.

Mr Fortunatow said that notwithstanding the demands brought by growth during the quarter, the underlying position had advanced considerably.

"The three months to March proved to be a disrupted period but one which nonetheless sees MGM Wireless in a solid position. In Queensland we have won strong market share and expect the revenue benefits of this to accumulate as new schools are progressively brought on line under the new required procedure.

"Advances in mobile and in particular messaging technology continue to highlight the relevance and capabilities of our technology and software. We are vigorously pursuing the opportunities this may present".

"Apart from SchoolStar we are continuing the R&D investment in our wearables product lines and the AllMyTribe brand of child safety product lines. The company continues to develop its AllMyTribe platform and children's GPS smartwatch/phones, and their application in the Internet of Things. We strongly believe this will be a large, fast growing segment of the Australian and global economy.

"Our R & D and capabilities are right on pace with what is available in this evolving area and we believe given time the company will generate significant growth from this area."

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