22 May 2019

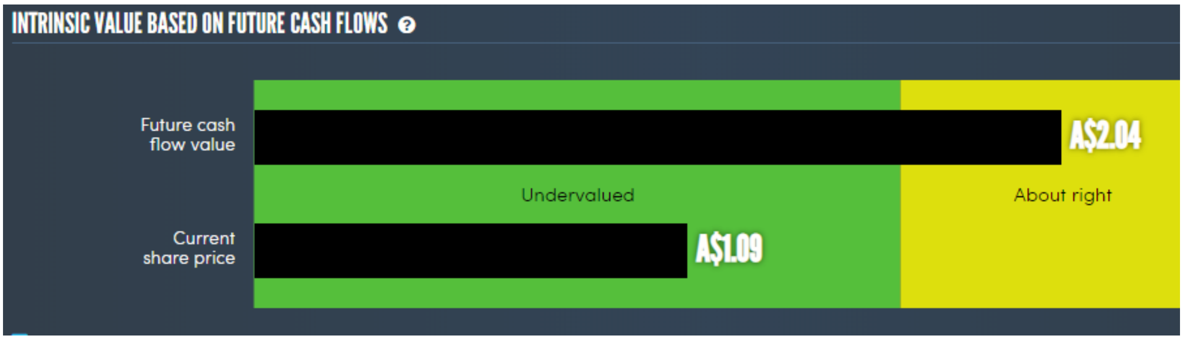
Dear Fellow NetComm Shareholder,

WHY DOES THE NetComm BOARD WANT YOU TO SELL YOUR SHARES FOR *HALF THEIR FAIR VALUE*?

The price offered by Casa of $1.10 per NetComm (NTC) share grossly undervalues NetComm and transfers economic value from shareholders to Casa. Casa has publicly stated their pleasure in the deal and say the synergies by themselves will pay for *three quarters* of the purchase price:

"*We anticipate the 70 – 85% of the total consideration paid by Casa will be covered by simple and quick-to-achieve Phase I synergies alone. And this calculation does not yet consider the fiscal year 2020 EBITDA that we're acquiring from Netcomm and other material revenue synergies that we hope to achieve from this acquisition.*"[1]

On a two stage discounted cash flow method *Simply Wall Street* calculates an estimated value of $2.04[2] per NetComm share, around twice the offer price.



NetComm has attractive investment attributes:

1. NTC has significant IP relevant to a growing worldwide data communications market.
2. NTC has contracts in place with major telecommunication providers in Australia and North America that extend to FY 2026.
3. NTC is *profitable and has NO DEBT*. The business has optionality value.
4. NTC is investing in 5G wireless IP and is domiciled in Australia.

NetComm has issues:

1. NTC is dependent on large contracts that have changeable timings and expire.
2. NTC is small in relation to primary customers and competitors.
3. Despite growing revenue by 69% in FY18, the market reacted badly to NTC's FY18 results announcement due to FY19 year forecasting only 15-20% growth, with reduced EBITDA due to expenditure investing in 5G capability. The Company maintained that the lower than expected revenue was not lost, it was merely delayed due to roll-out delays with NBN and AT&T contracts.

[1] Independent Expert's Report (IER), Page 36, Attachment 1, value assumed to be based on multiples of 10

[2] https://simplywall.st/

WHO HAS PUT NETCOMM UP FOR SALE?

During the lead up to the half year result for FY19 the Board arranged a Scheme to sell the company to CASA. It was a limited process, conducted over the Australian summer period, a time of low share market confidence. Since then global share markets have rallied, yet the deed of arrangement put in place means any competing bid would need to come in blind and be unsolicited.[3] The Board says

"… the Scheme reflects the outcome of negotiations between NetComm and Casa Systems and that no formal sale process in respect of NetComm was undertaken prior to entering into the Agreement with Casa Systems … shareholders should note exclusivity obligations on NetComm pursuant to the Agreement…"[4]

THE QUESTION IS WHY? WHAT IS THE IMPERATIVE TO SELL AND TO SELL AT SUCH A LOW PRICE?

This letter to you is from a group of long-term individual investors who believe in the prospects of NetComm. We recommend that shareholders read the Independent Expert's Report (IER) dated 1st May 2019 by Lonergan Edwards. The report presents an exciting opportunity for NetComm and the market that it operates in. The sections on "Profile of NetComm" and "Industry Overview" are very well written when assessing NetComm.

However the "Valuation of NetComm" section of the report does not reflect these positive industry prospects. The IER considers a number of methods to determine a "fair" value. They begin with a discounted cash flow (DCF) method but make extremely pessimistic assumptions:

1. No value has been given for any new contracts for Fixed Wireless and FTTdp beyond what has been contracted with NBN, AT&T and Bell Canada.
2. No value has been attributed to investment in 5G technologies at all, despite the board stating 5G has a big future.
3. The NBN contract is expected to end on time based on the NBN schedule, with no revenue post FY22, the AT&T contract is assumed to have no revenue post FY22 and Bell Canada no revenue post FY26. Why has no allowance has been made for repeat sales to these customers?

WHY THIS VALUATION METHOD IS TOO LOW

Typically, a DCF is calculated over a 10-year time period so with the 2 out of 3 major contracts sales revenues disappearing in the first 3-year period the calculated value per share is less than half the offer price - no precise share value is presented in the report. Given the low value provided by this valuation method the EIR concludes that the offer implies significant value to the potential for new contracts, but they do not attribute any value for those future contracts to the share price.[5]

The EIR explores historical earnings multipliers and determines that Sales Revenue is the most relevant earnings line to value NetComm. The IER seeks a comparable company – ADTRANS as a benchmark for the multiplier. The report adopts a very low revenue for NetComm, a low multiplier, a low control premium uplift and *excludes over $17million of net cash*.

You could argue the offer is too low on any of these assumptions but to use all these pessimistic assumptions in combination grossly undervalues NetComm. For example, NetComm is using cash to increase inventories to fulfil contracts which would likely increase sales revenue. So how can the EIR

[3] Refer to 14.4 No Due Diligence clause in the Scheme Implementation Deed
[4] Refer Page 36 of IER, Likelihood of an alternative offer
[5] Refer Pages 25-26 of IER

justify a revenue of $160M which is significantly less than FY18 ($182M) and forecast FY19 ($214M) sales revenues? And to compound matters exclude the net cash from the calculation on the basis management consider it working capital - Is NetComm's strategy to build-up inventories that it won't sell? Either the net cash should be included, or the revenue forecast figure should be increased that is driving the inventory build, or both!

WE BELIEVE YOUR SHARES ARE WORTH MUCH MORE THAN $1.10

To provide shareholders with a fairer value range to consider here is a range of alternative valuations when each aspect of the valuation method recognises a more realistic measure of the business.[6]

	EIR Report		Revenue changed		Multiplier changed		Control premium changed		Net Cash added	
	Low $m	High $m	Low $m	High $m	Low $m	High $m	Low $m	High $m	Low $m	High $m
Revenue adopted for valuation purposes	160.0	160.0	213.5	213.5	213.5	213.5	213.5	213.5	213.5	213.5
Revenue multiple for portfolio purposes	0.65	0.75	0.65	0.75	0.90	1.00	0.90	1.00	0.90	1.00
Control Premium	20%	25%	20%	25%	20%	25%	30%	35%	30%	35%
Revenue multiple	0.78	0.94	0.78	0.94	1.08	1.25	1.17	1.35	1.17	1.35
	124.8	150.0	166.5	200.2	230.6	266.9	249.8	288.2	249.8	288.2
Add net cash	-	-	-	-	-	-	-	-	17.4	17.4
Assessed equity value	124.8	150.0	166.5	200.2	230.6	266.9	249.8	288.2	267.2	305.6
Number os shares on issue (million)	146.3	146.3	146.3	146.3	146.3	146.3	146.3	146.3	146.3	146.3
Implied Value per share ($)	**$ 0.85**	**$ 1.03**	**$ 1.14**	**$ 1.37**	**$ 1.58**	**$ 1.82**	**$ 1.71**	**$ 1.97**	**$ 1.83**	**$ 2.09**

Recalculating this valuation method with fair assumptions gives a valuation range of <u>$1.83 to $2.09</u>.

SHARE PRICE HISTORY IMPLIES AN EVEN HIGHER SALE PRICE – UP TO $3.98

The EIR then uses recent trading history of the share and adopts a 30-35% control premium to arrive at a range of $0.85 to $1.08.[7] This is the time period of a general three-month sharemarket low. When the same valuation method is applied to longer periods we arrive at significantly higher prices:

Time Range to 21 Feb 2019	Approx VWAP	Low $	High $	Implied control premium
1 year	$0.89	$1.16	$1.20	23%
2 year	$1.19	$1.54	$1.60	-7%
3 year	$1.66	$2.16	$2.24	-34%
April 2016 equity raising	$2.95	$3.84	$3.98	-63%

The valuation used in the EIR focuses solely on the 6-month period with the lowest share price trading period since June 2015. This begs the question - why are we selling at the bottom of the cycle, in a disillusionment phase with the market? This is the worst time to sell, or have I missed something - are we going broke?

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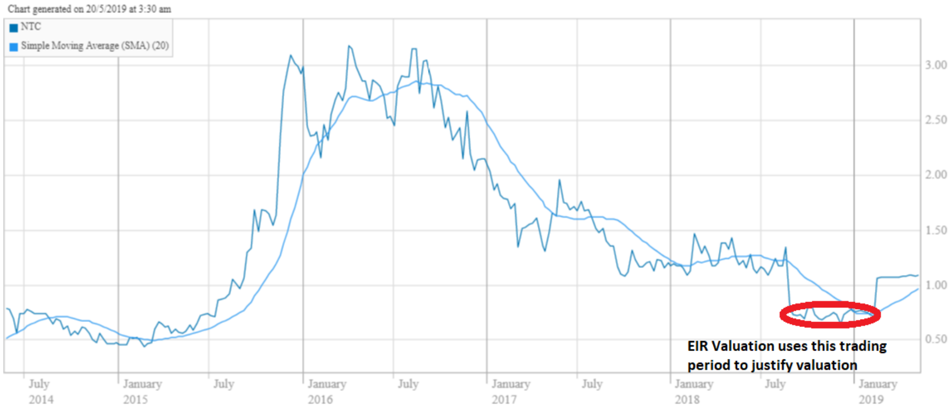
[6] Refer to IER Pages 28 to 31

[7] Refer to IER Pages 31 to 33



THE BOARD SAYS NetComm IS NOT GOING BROKE. INDEED, THE FUTURE IS VERY BRIGHT

If management's assertions that the disappointing revenue growth forecast for FY19 was revenue delayed, not foregone, then the share market price should return upwards on this revenue being realised in FY20. In FY18 results it clearly states:

"FY20 - A further step change up in revenue and earnings."[8]

Remember the IER places no value on NetComm's multimillion dollar investment into 5G. Why are we investing in 5G if there is no value in it? Recent announcements in the US might translate into significant value for 5G investments. Yet these have been given no recognisable value in the IER pricing.

YOU HAVE A CHOICE: SELL ON MARKET NOW AT THE OFFER PRICE OR VOTE AGAINST THE SCHEME

There is a risk that if the Scheme is voted against then the share price could fall back to pre-scheme prices or lower. The share price could also rise, the ASX has raced ahead to hit record highs in the three months since the offer. Please note that this letter is not from a financial adviser or fortune teller, we are Australian shareholders in an Australian business in a market with great prospects. You should not solely rely on this information to make your decision. Each shareholder should consider their own personal financial position, do their own research and seek advice as required.

OUR CALCULATIONS SHOW CASA'S OFFER OF $1.10 GROSSLY UNDERVALUES THE BUSINESS

IF YOU BELIEVE NetComm IS WORTH MORE, VOTE AGAINST

If you are happy to accept the offer you have an immediate opportunity to sell on market at a price near the $1.10 offer.[9]

If you believe the company is worth more than the scheme offer of $1.10 per share and are prepared for the risk the price volatility if the Scheme is rejected, then please attending the meeting on Friday, 7 June 2019 at the offices of Maddocks Lawyers, Level 27, 123 Pitt Street, Sydney.

If you can't attend the meeting you can assign a proxy vote against the Scheme.

Please note, if shareholders vote AGAINST the Scheme NetComm will not be liable to the Break Fee, provided the Directors adhere to their obligations under the Scheme.[10]

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[8] NetComm comment in FY18 results announcement to the ASX on 27th August 2018
[9] This is based on current buy orders of 3.4M at $1.09 – ASX – 20th May 2019 at 10.29am
[10] Refer Page 6 of the Scheme Booklet

If you would like to discuss any of these issues, please email me at tas@namsat.biz

We wish you all the best.

Yours faithfully,

Tas Davies CPA
Director of Namsat Pty Ltd
shareholder of NetComm Wireless Limited
on behalf of concerned shareholders who have paid for this mailing

Look beneath the surface; let not the several quality of a thing nor its worth escape thee

MARCUS AURELIUS, Meditations

Join the discussion at Hot Copper -> https://hotcopper.com.au/threads/why-does-the-netcomm-board-want-you-to-sell-your-shares-for-half-their-fair-value.4774240/