29 January 2019

**Starcom Plc**
("Starcom" or the "Company")

**Trading Update and Prospects**

**Historical Related Party Transaction**

**Nominated Adviser Update**

Further to the Business Update announcement of 11 January 2019, the Board of Starcom (AIM: STAR) is pleased to provide the following trading update for the year ended 31 December 2018 and an update on the Company's prospects for the current year.

The Company's audited results are expected to be announced in late March 2019. The Company's preliminary unaudited accounts for 2018 show an improvement over the previous year: revenues for 2018 were $5.98m, an increase of 9.9% (2017: $5.44m) and gross margin was 40% (2017: 38%). Subject to final audit, EBITDA is expected to be a loss of approximately $40k (2017: loss of $193k).

The revenue mix in 2018 improved on 2017, with the higher margin and recurring Software as a Service (SaaS) revenues increasing by 17.6% to $2m (2017: $1.7m), representing nearly 34% of total revenues (2017: 32%). The newer and more profitable products such as the Tetis, Kylos and Watchlock represented over half (52%) of hardware revenues (2017: 42%), demonstrating that the Company is becoming less reliant on the original, lower margin, Helios products which had dominated the Company's revenues in previous years. The Board expects this trend to continue in 2019 and beyond.

As announced on 11 January 2019, there was an unexpected delay with one large contract with the Company's North African distributor worth $1.1m. Therefore, only the SaaS revenues from this contract will be included in 2018's results whereas the hardware revenues are now expected to contribute to 2019's results. The Company has now been notified that the distributor has received the first payment from the governmental end-customer and that it has already initiated the onwards transfer of the down payment to Starcom, so the receipt of these funds is expected shortly. Whilst the Company's cash position is currently constrained, the Directors are confident that, with the banking facilities that are available to the Company, it can meet its financial obligations even in the unlikely event of further delay in the receipt of the funds from the North African distributor.

During the year, the Company continued to improve its product capabilities and the Directors consider that Starcom is now acknowledged to be amongst the technological leaders in various fields of tracking, monitoring, and IoT technology. Two new and promising products were successfully launched during 2018: the Watchlock Cube and the CropX Kylos, with the CropX Kylos also gaining certification by Verizon Wireless USA. Major technology upgrades released during the year included a new and longer-life battery pack for the Tetis, and various Helios adaptations, such as a CAN Fuel sensor (which enabled the Company to win the North African project). The upcoming version of the Watchlock has already generated much interest.

The Company has deepened its relationships with certain strategic clients viewed as having significant long-term potential, although purchase volumes in the short term from these clients are expected to remain low. These clients include Bosch and CropX as well as the electric motorcycle customer which the Company understands is planning to launch its new 2019 model where Starcom's Helios units are integrated under an OEM agreement. The Company believes the anticipated success of these strategic relationships could lead to additional opportunities in the respective vertical markets worldwide. Several pilots are already running.

**PROSPECTS**

The Company expects its revenues in 2019 to be generated from three sources: (i) the SaaS recurring revenues that are compulsory in respect of most active units; (ii) the large base of some 200-300 recurring clients and distributors who place many relatively small orders for new units each year and have historically contributed approximately half of the Company's revenues; and (iii) larger deals, from existing and new clients, maturing from the Company's pipeline of new opportunities, that result from business development and sales efforts.

The sales pipeline has increased significantly over the last year, thanks to the wider and more appealing product portfolio which Starcom can now offer.  Although it is very difficult to predict how many of these opportunities will materialise, the Directors believe this pipeline of larger potential deals, in addition to the recurring revenues and historic clients, should provide a good foundation for growth in 2019.

**HISTORIC RELATED PARTY TRANSACTION**

During the course of 2017, the Company's founder shareholders continued to support the Group by deferring part of their salaries and converting part of their shareholder loans into equity.  In addition, Uri Hartmann, one of the founder shareholders and, at the time, a substantial shareholder of the Company as defined in the AIM Rules for Companies, also advanced a loan of approximately $363k to the Group in the second half of 2017, $100k of which was repaid before the 2017 year end ("the Shareholder Loan").  The interest rate on the Shareholder Loan was agreed at 8% per annum for 2017 and at 4% per annum thereafter. The Shareholder Loan is deemed to be a related party transaction under the AIM Rules for Companies.  The Directors of the Company, having consulted with the Company's Nominated Adviser, consider that the terms of the Shareholder Loan are fair and reasonable so far as the shareholders of the Company are concerned.

During 2018, some further deferment of salaries took place from time to time to assist the working capital needs of the Group.  As at 31 December 2018 the total owed to the Company's founder shareholders was $595k, including $474k of outstanding loans and deferred salary owed to Uri Hartmann.

**NOMINATED ADVISER UPDATE**

As previously announced, the Company is in the process of appointing a replacement Nominated Adviser and Broker and has been working with that adviser during the last few weeks on the take-on process.  A further announcement will be made this week.

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