



INDEPENDENT REPORT IN RELATION TO THE PROPOSED ACQUISITION OF CORETEX LIMITED

Grant Samuel confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report; and
- has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

GRANT SAMUEL & ASSOCIATES LIMITED

JULY 2021

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GLOSSARY

TERM	DEFINITION
ARPU	Average revenue per unit
ASX	Australian Stock Exchange
CAC	Cost to acquire customers
Capital Raising	A \$64.4 million fully underwritten conditional placement to institutions and a \$16.1 million share purchase plan to retail investors
Companies Act	Companies Act 1993
Coretex	Coretex Limited
Coretex Vendors	The shareholders of Coretex
DVIR	Driver Vehicle Inspection Reports
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
ELD	Electronic Logging Device
EROAD	EROAD Limited
FM	Fleet management
Grant Samuel	Grant Samuel and Associates Limited
IoT	Internet of Things
LTL	Less than load
LTV	Lifetime value
NZX	New Zealand Stock Exchange
OIO	Overseas Investment Office
Proposed Transaction	The proposed acquisition of Coretex Limited by EROAD Limited
R&D	Research and development
RUC	Road user charging
SPP	Share purchase plan

1 Executive Summary

1.1 Introduction

On 14 July 2021 EROAD Limited (**EROAD**) announced it has entered a binding sale and purchase agreement to acquire 100% of the shares in Coretex Limited (**Coretex**) (the **Proposed Transaction**). The total purchase price is \$188.25 million (the **Consideration**) of which approximately 50% will be paid in cash with the balance being paid by issuing EROAD shares at \$6.00. The Proposed Transaction is subject to several key conditions that are set out in the investor presentation, including the approval of EROAD's shareholders, Commerce Commission and the Overseas Investment Office (**OIO**).

The Directors of EROAD have engaged Grant Samuel & Associates Limited (**Grant Samuel**) to prepare an Independent Report on the merits of the Proposed Transaction. This executive summary contains a summary of Grant Samuel's main conclusions in relation to the merits of the Proposed Transaction.

1.2 Merits of the Proposed Transaction

1.2.1 In Grant Samuel's opinion the strategic rationale for the Proposed Transaction is sound and management's assessment of the potential synergy benefits appears reasonable. However, the benefits of this merger cannot be reliably quantified in financial terms based on the actual financial performance of the two businesses. Success will be predicated on EROAD's ability to:

- **leverage Coretex technology, know-how and technical expertise to accelerate its own product development; and**
- **expand its in-house sales capability to deliver the projected revenue growth for the enlarged business in North America and Australia.**

In the short term, this is dependent on whether Cortex's core technology is able to be combined with EROAD products and the scalability of Coretex's new generation platforms.

A key aspect of the Proposed Transaction is EROAD's ability to leverage Coretex's technology to:

- develop more advanced Android solutions. This will enable EROAD to accelerate its own technology roadmap which will be delivered by a larger product and engineering team with complementary skills sets; and
- deliver the scale and market product fit to further accelerate growth in North America and enable Coretex's Australian business to benefit from the Australian sales and marketing capability and New Zealand based operational support from EROAD.

EROAD has an established sales and service team in North America and the combined entity would be better positioned to take advantage of Coretex's technology in targeted industry verticals by selling into enterprise and small to medium sized enterprise (**SME**) markets.

It is important to note that although Coretex's new generation platform has been well received by customers, the rollout of its hardware Corehub (the central vehicle and engine data collection hub of Coretex's system) is in its early stages. In FY20, Coretex installed over 10,000 units for one of the largest trucking companies in North America and this customer is using some of Coretex's new generation platforms. It provides a level of comfort that the underlying Core360 and Drive technology is scalable and demonstrates that Coretex is capable of securing large Enterprise customers.

If there are issues with scaling Coretex's supply chain and/ or platform it will impact the revenue growth of the combined entity.

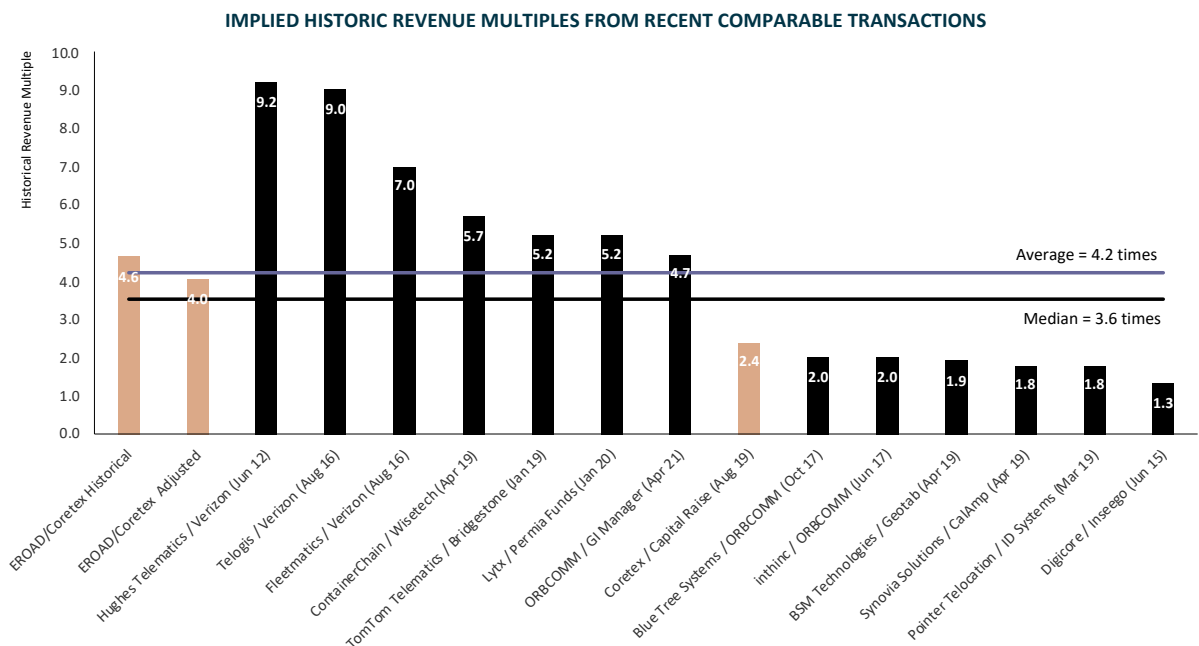


1.2.2 The Telematics industry is growing rapidly and market penetration in North America and Australia is still relatively low. In this context the opportunity to leverage the combined strengths of the two businesses to accelerate growth is attractive.

EROAD operates in the global telematics industry, which is estimated to have average revenue growth of 21% per annum over the next five years. The historical and forecast industry growth has led to an increase in investment from large well-funded competitors and new entrants that are looking to disrupt the industry. EROAD's management believe that the Proposed Transaction will enhance EROAD's market position in Australia and North America and enable the company to take advantage of the growing demand for Telematics services and compete more effectively in the highly competitive Telematics industry.

1.2.3 EROAD is paying a premium to acquire Coretex, which is consistent with transactions involving other Telematics companies and will be justified if EROAD can realise the strategic benefits of the merger going forward.

Under the Proposed Transaction, EROAD will acquire Coretex at an enterprise or ungeared value of \$188.25 million. This implies a capitalisation multiple of 4.0 times adjusted historical revenue and can be compared to the value parameters of past transactions involving broadly comparable businesses:



Source: Grant Samuel analysis and Capital IQ

The chart above shows that there have been transactions undertaken at implied historical revenue multiples that are in line with or higher than the historical multiples implied by the Proposed Transaction. Other transactions have taken place at much lower revenue multiples of 2 times or less. Grant Samuel believes that in most cases the higher multiples are explained by a combination of a premium for control and the purchaser being prepared to pay away strategic value to acquire the target. As an example, there is evidence of market consolidators paying a strategic premium for companies where the acquisition of the target company is expected to deliver the acquiror a competitive advantage or is expected to lead to realising material synergy benefits.

1.2.4 Management's assessment is that the Proposed Transaction will generate significant synergy benefits. If the majority of the quantified synergies are realised the Proposed Transaction will be value accretive.

EROAD and Coretex are New Zealand IT companies with complementary technologies and development teams. EROAD's management believe that the combined entity which joins the respective strengths of both businesses will allow faster development of products and accelerated customer growth in North America and Australia. This combination is expected to generate synergy benefits. Increased revenue and cost synergies are likely to be offset by one off integration and transition costs in the first two years following the acquisition. If the majority of the quantified synergies are realised the Proposed Transaction will be value accretive.

1.2.5 Grant Samuel observes that the contingent consideration mitigates some of the risk associated with the acquisition of Coretex.

The Proposed Transaction includes deferred consideration payable to the vendors of Coretex of \$30.6 million. The deferred consideration comprises \$14.5 million payable in cash and 2,683,000 new EROAD shares (\$16.1 million). The contingent consideration is payable at the end of the 12 months following completion of the Proposed Transaction if several criteria are met. The deferred consideration is intended to mitigate risk associated with customer retention and platform suitability. It may also provide some incentive for those Coretex shareholders who are employed in the business to remain involved post completion.

1.2.6 The Proposed Transaction will result in EROAD utilising a portion of its existing cash reserves to partially fund the cash cost of the acquisition and it is forecast to utilise existing bank facilities to fund the working capital and capital expenditure requirements over the next two years.

EROAD had a net cash position of \$22 million on 31 March 2021, which comprised banking facilities with a limit of \$64 million drawn down to \$35 million and cash at bank of \$57 million. To partially fund the cash cost of the Proposed Transaction (including \$4.5 million of transaction costs) EROAD plans to raise \$80.5 million of new equity by placing shares to institutional investors and a Share Purchase Plan (SPP) to retail investors.

EROAD's management are projecting net debt to a peak of ~\$50 million in 18 to 24 months, which largely reflects the investment in revenue growth that is predicated on ongoing investment in research and development and hardware purchases for client installations. The forecast capital requirements can be serviced by EROAD's existing banking facilities which mature on 31 March 2023.

1.2.7 The Proposed Transaction will have only a small dilutionary impact on shareholders who participate in the SPP and there will be no change in control of EROAD.

EROAD shares are being issued to Coretex shareholders at a small discount to the last price at which EROAD's shares traded on 9 July 2021 and a premium of 6% or more to the volume weighted average price at which EROAD shares have traded over a period of three months or longer.

The price of the share placement is \$5.58 a 9.5% discount to the 5 day VWAP of EROAD shares traded on the NZX during the five days up to 13 July 2021.

The SPP pricing will be based on the lower of the price paid by investors in the placement and the 5 day VWAP of EROAD shares traded on the NZX during the five days up to, and include, the closing date of the SPP on Tuesday 3 August 2021.

The Proposed Transaction and Capital Raising will have a minimal dilutive impact on the share price all other things being equal.

The Proposed Transaction and Capital raising will only result in the Coretex shareholders owning approximately 11.9% of all EROAD shares on issue at settlement (excluding the payment of contingent consideration).

The capital raising has been structured to enable the majority of EROAD's retail shareholders to maintain their pro-rata position via the SPP before the dilutionary impact of the Proposed Transaction. The level of dilution of the capital raising will therefore be impacted by the extent that each investor participates in the capital raising. Steve Newman, EROAD's CEO and largest shareholder intends to participate in the placement.

The number of shares being offered in the share placement to Coretex shareholders is not sufficient to result in a material change in control of EROAD.

1.2.8 The potential impact on EROAD's share price is difficult to assess because of recent share price volatility and the highly subjective nature of any assessment of the strategic benefits arising from the Proposed Transaction.

It is conceivable given the strategic rationale for the Proposed Transaction that EROAD may become a more attractive acquisition target post transaction for a larger competitor or a new entrant looking to disrupt the Telematics industry. Additional scale and diversification of revenue streams combined with ownership of next generation technology will also encourage investors to reassess growth potential and the associated risks, which may lead to a re-rating of EROAD shares.

It is likely investors will not know if EROAD has been successful in realising the strategic benefits arising from the Proposed Transaction for quite some time. In the interim, the company is forecasting to report material integration costs.

EROAD shares issued to Coretex shareholders will be held in escrow for up to 18 months. This is intended to prevent Coretex shareholders from selling shares immediately after the Proposed Transaction is settled. The release the shares in tranches from escrow over time also staggers the increase in the free float of EROAD shares.

1.2.9 The opportunity to realise significant strategic benefits by undertaking a large acquisition naturally comes with commensurate risk that should not be ignored.

The timing of the Proposed Transaction is directly linked to a window of opportunity for EROAD to leverage Coretex technology to accelerate its own product development. It is also timely from a Coretex perspective as existing EROAD sales capability will allow this historically engineering focused business to pivot more quickly into a sales orientated organisation. However, the merger is being undertaken during an ongoing global pandemic and there are headwinds facing participants in the IT industry globally that will present challenges for EROAD in terms of scaling up hardware production and product sales.

The timing of and extent to which EROAD realises the strategic benefits arising from the Proposed Transaction is uncertain. If the strategic benefits are realised EROAD's existing shareholders will receive a greater proportion of the upside. However, if the strategic benefits are not realised EROAD's shareholders assume a larger proportion of the downside risk because approximately 50% of the purchase price for Coretex is payable in cash.

1.2.10 There are several conditions precedent that could mean EROAD does not proceed with the Proposed Transaction, even if it is approved by its shareholders.

The Proposed Transaction is subject to conditions that are outside the control of EROAD shareholders. These include the receipt of Commerce Commission and OIO approvals and no material adverse change or prescribed breach event occurring. The sequencing of the conditions is therefore of interest to EROAD shareholders. The vote by EROAD shareholders is likely to occur



before the receipt of Commerce Commission and OIO approval and the conditions relating to prescribed breach events or material adverse changes will survive until completion. There is therefore no certainty that the Proposed Transaction will proceed until such time as those conditions have been satisfied.

The outcome of the shareholder vote on the Proposed Transaction is binary. If EROAD shareholders vote in favour of the Proposed Transaction and the other conditions are satisfied, the Proposed Transaction will be implemented. If EROAD shareholders do not pass the resolutions required to effect the Proposed Transaction, the Proposed Transaction would not proceed. EROAD would continue to be a growth company listed on the NZX and ASX, and no shares in the company would be allocated to Coretex.

1.3 Other Matters

This is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary. A detailed assessment of the Proposed Transaction and Capital Raising is outlined in section 7 of this report. Grant Samuel's opinion is to be considered as a whole. Selecting portions of the analyses or factors considered by it, without considering all the factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

GRANT SAMUEL & ASSOCIATES LIMITED

July 2021

2 Overview of the Proposed Transaction

2.1 Transaction Terms

EROAD Limited (**EROAD**) was established in 2000 and provides telematics solutions to fleet managers in New Zealand, North America and Australia. It has grown significantly since that time and is now New Zealand's largest telematics solutions provider, with over 6,600 customers. It offers electronic on-board units and software as a service to the transport industry. EROAD listed on the New Zealand Stock Exchange (**NZX**) in 2014 and has a market capitalisation of approximately \$500 million.

Coretex Limited (**Coretex**) was formed in 2015 through the merger of International Telematics Holdings Limited and Imarda Pty Limited. Coretex provides mobile resource management solutions to organisations in the ready mix, waste and recycling, vehicle leasing, refrigerated transport and general haulage verticals. It has operations in New Zealand, North America and Australia.

On 14 July 2021 EROAD announced that a wholly owned subsidiary of EROAD, had entered a binding sale and purchase agreement of shares to acquire 100% of the shares in Coretex (the **Proposed Transaction**). The total purchase price is \$188.25 million (assuming a normalised level of working capital in the business) (the **Consideration**).

EROAD and Coretex have complementary technologies, development teams and platforms. The purpose of acquiring Coretex is to combine the strengths of both entities in order to allow the faster development of products and accelerated customer growth, especially in Australia and North America. Together, EROAD and Coretex aim to compete with larger global telematics companies. EROAD will remain as a listed company on the NZX and ASX.

The \$188.25 million Consideration consists partly of the payment of cash and an issue of shares in EROAD to the shareholders of Coretex (**Coretex Vendors**). The breakdown of the Consideration is set out below:

- **Cash:** The cash part of the Consideration is \$92.25 million. EROAD will fund this through using existing cash and a \$64.4 million fully underwritten conditional placement to institutions and a \$16.1 million share purchase plan (**SPP**) to retail investors (the **Capital Raising**).
- **Shares:** The share component of the Consideration is \$96 million which will be satisfied through the issuance of 16 million shares in EROAD at a price of \$6.00 to Coretex vendors.

The payment of the above is subject to certain criteria, the key aspects of which are set out below:

- **Completion Consideration:** The Consideration consists of a payment on completion of approximately \$77.75 million in cash and the issue of 13.3 million shares in EROAD at \$6.00 per share (being \$79.9 million). The total consideration to be paid on completion will be \$157.65 million.
- **Contingent Consideration:** The Consideration consists of a deferred component of \$14.5 million in cash and 2,683,000 shares in EROAD at \$6.00 per share (being \$16.1 million), which is payable at the end of the 12 months following completion of the Transaction, provided several criteria are met (**Contingent Consideration**). The total Contingent Consideration is \$30.6 million. The criteria for the Coretex Vendors to receive the Contingent Consideration includes:
 - **Customer Retention:** \$6.5 million in cash and 1,283,000 shares are contingent on the combined entity at the end of the 12 month period following completion of the Transaction retaining 60% of Coretex's customers representing recurring revenue in Australia and North America.¹
 - **Platform Suitability:** \$8 million in cash and 1.4 million shares are contingent on an additional 5,000 CoreHub units being used by customers within 12 months of completion of the Transaction. CoreHub units are described in section 5.2 below. Production testing for CoreHub units and customer satisfaction requirements from Coretex offerings must also be met.

¹ This recurring revenue based on the preceding 12 months revenue as at the date of completion.



Failure to meet certain requirements will mean the Contingent Consideration will not be payable by EROAD or will only be partially payable to the Coretex Vendors.

- **Escrow:** In relation to the 13.3 million EROAD shares that will be issued on completion to the Coretex Vendors there will be restrictions on selling and transferring the shares as set out in the escrow agreement. The key terms of the escrow agreement are as follows:
 - 40% of issued shares will be held in escrow for 6 months following completion, 20% will be held in escrow for 12 months from completion and the remaining shares issued on completion will be held in escrow until 18 months after completion. However, shares can be sold or transferred within these periods if at least five business days' written notice is given to EROAD and prior written approval to sell or transfer shares is obtained from EROAD.
 - Additional exceptions to the escrow restrictions include transferring shares to affiliated persons and parties to the escrow agreement and transferring interests in shares between shareholders. In addition, if a full or partial takeover offer is made under the Takeovers Code or similar scheme of arrangement then the restrictions on selling or transferring shares will not apply.

2.2 Shareholder Approval

The Proposed Transaction requires the shareholder approval of EROAD shareholders. There will be three resolutions to be voted on and all three resolutions must be passed in order for any of them to be effective:

- **Resolution 1 – Acquisition of Coretex (Ordinary Resolution).** To ratify, confirm and approve for all purposes the acquisition by a wholly owned subsidiary of EROAD of 100% of the shares in Coretex under an agreement for sale and purchase of shares dated 14 July 2021, and to authorise the directors of EROAD to take all actions, do all things and execute all documents and agreements necessary or considered by them to be necessary or expedient to give effect to the Transaction.
- **Resolution 2 – Issue of shares to Coretex Vendors (Ordinary Resolution).** To approve, for the purposes of NZX Listing Rule 4.1.1, the issue of 16 million fully paid ordinary shares in EROAD to the Coretex Vendors under the Agreement, at an issue price of NZ\$6.00 per share in partial satisfaction of the purchase price payable under the Agreement (the **Consideration Shares**) on the date of the settlement of the Transaction, and to authorise the directors of EROAD to take all actions, do all things and execute all documents and agreements necessary or considered by them to be necessary or expedient to issue the Consideration Shares, such Consideration Shares, when issued, to rank equally with all existing ordinary shares of EROAD.
- **Resolution 3 – Issue of Capital Raising Shares to investors (Ordinary Resolution).** To approve, for the purposes of Rule 4.1.1 of the NZX Listing Rules, the issue of 14.4 million fully paid ordinary shares in EROAD to subscribers in the capital raising being undertaken in connection with the Transaction (the **Capital Raising Shares**), at an issue price of NZ\$5.58 per share, and to authorise the directors of EROAD to take all actions, do all things and execute all documents and agreements necessary or considered by them to be necessary or expedient to issue the Capital Raising Shares, such Capital Raising Shares, when issued, to rank equally with all existing ordinary shares of EROAD.

The Transaction does not amount to a Major Transaction for the purposes of section 129 of the Companies Act 1993 and therefore shareholder approval by way of special resolution is not required.

The Shareholder Meeting to consider the Proposed Transaction is to be held 30 July 2021.

3 Scope of the Report

3.1 Purpose of the Report

The Directors of EROAD have engaged Grant Samuel & Associates Limited (**Grant Samuel**) to prepare an Independent Report on the merits of the Proposed Transaction. A copy of this report will accompany the Notice of Meeting to be provided to EROAD's shareholders, and this report is for the benefit of the shareholders. The report should not be used for any purpose other than as an expression of Grant Samuel's opinion of the Proposed Transaction. This report should be read in conjunction with the Qualifications, Declarations and Consents outlined at Appendix A.

3.2 Basis of Evaluation

The term "merits" has no definition either in the Takeovers Code itself or in any statute dealing with securities or commercial law in New Zealand. While the Takeovers Code does not prescribe a meaning of the term "merit" the Panel has interpreted the word "merits" includes both positives and negatives in respect of a transaction.

Grant Samuel has evaluated the Proposed Transaction by:

- gaining an understanding of management's strategic rationale for the Proposed Transaction;
- assessing the financial projections and potential financial benefits arising from the Proposed Transaction;
- comparing the implied value parameters for the acquisition of Coretex with market evidence;
- reviewing the other terms of the Proposed Transaction;
- considering the potential impact on EROAD's share price;
- assessing the disadvantages and risks associated with the Proposed Transaction; and
- considering other factors that shareholders may need to understand the implications of, including the timing and circumstances surrounding the Proposed Transaction.

This report has been prepared without taking into account the objectives, financial situation or needs of individual EROAD shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Notice of Meeting issued by EROAD in relation to the transition to the Proposed Transaction.

Voting for or against the Proposed Transaction is a matter for individual shareholders based on their views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in EROAD. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote for or against the Proposed Transaction. Shareholders should consult their own professional adviser in this regard.

4 Profile of EROAD

4.1 Introduction

Founded in New Zealand in 2000, EROAD has grown to become the largest provider of telematics² services to New Zealand's heavy vehicle sector with a growing presence in the United States and Australia.

EROAD designs and manufactures in-vehicle hardware, operates secure payment and merchant gateways and offers web-based value-added services.

In 2009, EROAD implemented the world's first network-wide GPS/cellular-based road user charging (**RUC**) system, which revolutionised the paper-based RUC framework in New Zealand. Due to the implementation of EROAD's technologies more than 80% of heavy transport RUC is collected electronically in New Zealand and this technology has been launched in the United States. Since the launch of its RUC system in 2009 EROAD has continually innovated and developed new services focused on replacing paper-based systems with easy-to-use electronic systems. These systems:

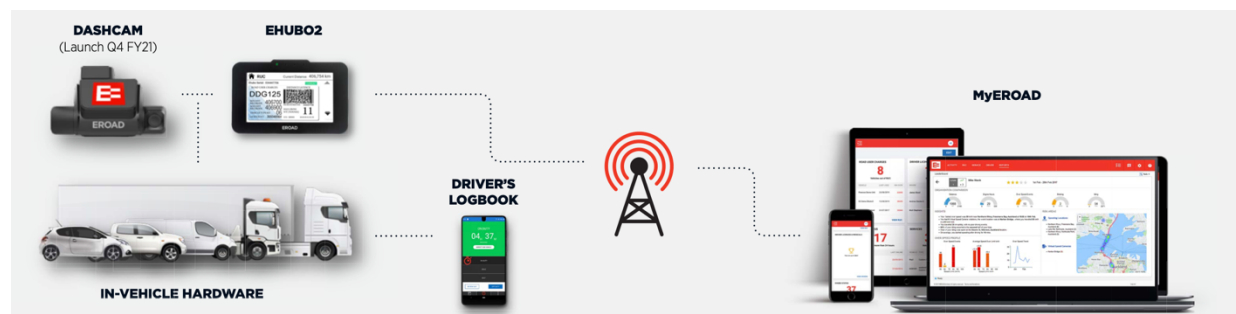
- manage vehicle fleets;
- support regulatory compliance (e.g. health and safety and tax);
- improve driver safety; and
- reduce costs of operating a fleet of vehicles and assets.

EROAD is listed on the NZX and on the ASX. The company is headquartered in Auckland, New Zealand and it also has an office in Portland, Oregon, United States.

4.2 Platform Overview

Regulatory telematics requires industry leading service reliability and accuracy. EROAD has built its technology platform to meet strict technical and security requirements as well as to protect customer data. System performance and redundancy is a key focus, and EROAD achieves an industry-leading 99.99% service uptime. EROAD's systems integrate with government agencies to enable EROAD to electronically retrieve records and to complete transactions on behalf of its customers. Due to this level of integration its systems undergo regular audits by regulatory bodies in the markets it operates in. The platform also has a bank-grade payment gateway to manage and pay road user charges.

SIMPLIFIED DIAGRAM OF EROAD PLATFORM



A core element of EROAD's system is its electronic distance recorder, the Ehubo, which sits within the vehicle and records, stores and continuously transmits encrypted data via the cellular network. The regulatory approved Ehubo captures distance, location, route and a variety of additional operational data from the vehicle.

² Telematics encompasses telecommunications, vehicular technologies (e.g. road transport and road safety), electrical engineering (e.g. sensors, instrumentation and wireless communications) and computer science (multimedia and Internet, etc.).

The Ehubo measures distance travelled with a high degree of accuracy, using a combination of internal and external sensors including vehicle data, GPS and micro-electrical-mechanical systems. Other in vehicle hardware includes large and small asset trackers and cameras.

In vehicle hardware often includes the following SaaS services:

- **Logbook** which reduces the administrative burden of managing driver compliance. Logbook simplifies record keeping and provides investigative tools to examine the driver's workday.
- **Inspect** which allows drivers to carry out before and after trip vehicle inspections and record any defects to be fixed or maintenance to be completed.

Vehicle information is processed by EROAD's application server and made available to users via a secure website, called MyEROAD. The MyEROAD platform is used by dispatch operators, fleet managers, safety officers and operations employees. It provides fleet operators with the following tools and services:

- **Regulatory compliance** - Software varies across jurisdictions to meet the requirements of different regulatory jurisdictions.
- **Driver management and road safety** - MyEROAD monitors driver fatigue and behaviour.
- **Fleet management** - MyEROAD offers mapping functions, tracking and utilisation analytics.

4.3 Capabilities and Expertise

EROAD's core capabilities and expertise is in regulatory and compliance which includes:

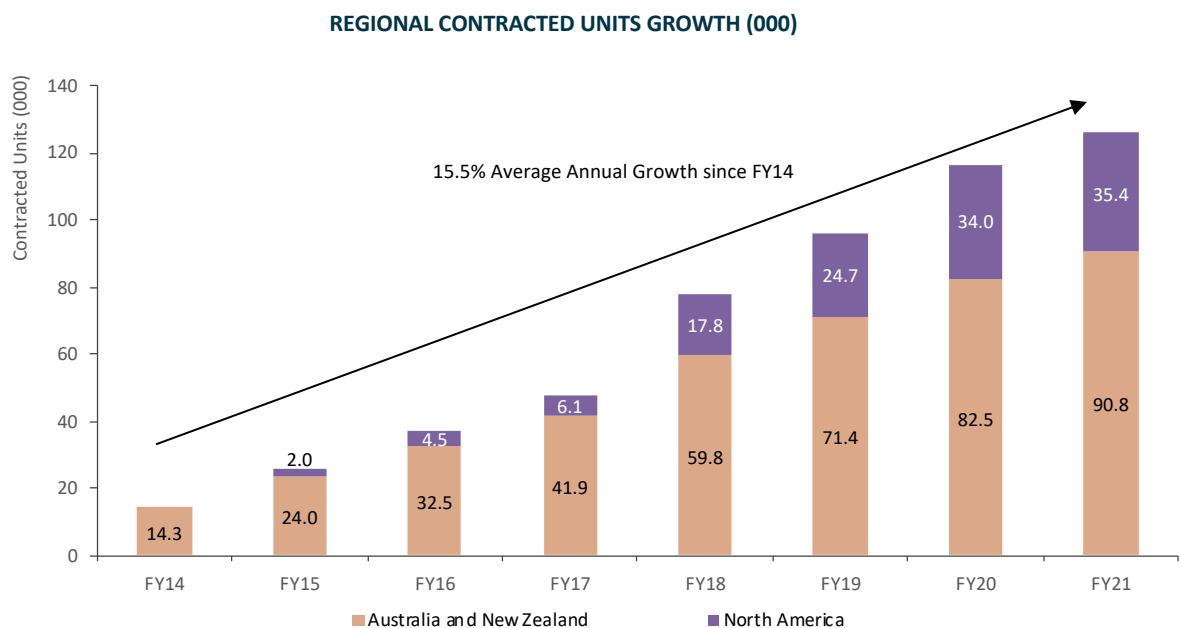
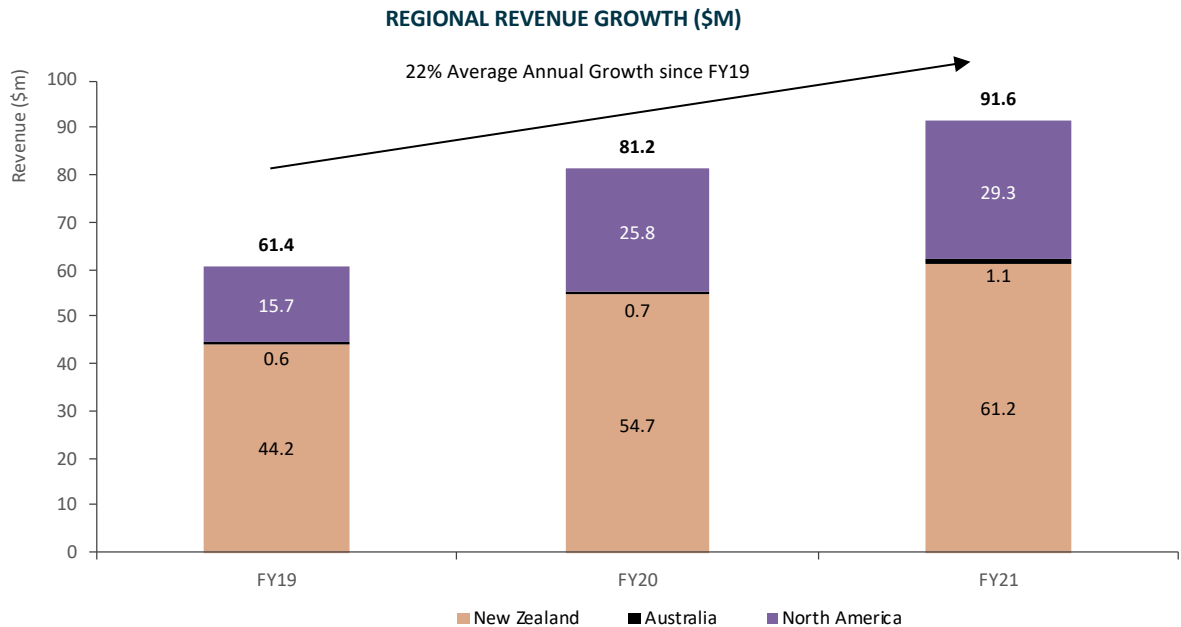
- **RUC** - EROAD's RUC solution can be applied to any road network to support distance, mass, time, location, emission based and interoperable vehicle charging. EROAD is the largest electronic RUC agent in New Zealand, achieving an annualised RUC collection rate of approximately NZ\$0.75 billion. The business relies on voluntary adoption by commercial carriers and the deployment was undertaken at no cost to the New Zealand Government. In 2014, EROAD implemented the first American electronic RUC system in the State of Oregon. It is currently the only RUC technology provider approved within the State of Oregon. EROAD has also implemented pilots of its RUC solution in California and Sweden.
- **Fuel Tax** - EROAD's solution around fuel and fuel taxes delivers significant savings to clients and reduces the administrative burden for all parties through automation.
- **Electronic Logging Devices / Hours of service** - EROAD's fatigue management solution has been designed to be flexible and capable of supporting different jurisdictional driver hours of service rule sets and technical requirements.
- **Health and Safety** - EROAD's solution enhances driving behaviour, encourages safer journeys and vehicles by using technology to support and supervise drivers remotely.

EROAD has also developed strong data insight capabilities. EROAD collaborates with transportation planners and research partners to develop new tools to improve the evaluation of transportation projects, economic forecasting, business planning, risk and insurance analysis, logistics and sector benchmarking.

EROAD has a range of products and services which are packaged and sold as solutions and charged on a monthly subscription basis. The plans include both the in-vehicle hardware and use of MyEROAD. A key component of EROAD's growth story is expanding products and services into existing customer accounts. This enables EROAD to grow contracted units and average revenue per unit (**ARPU**).

4.4 Regional Overview

EROAD markets and sells its products in New Zealand, North America and Australia. In FY20 and FY21 New Zealand represented approximately 67% of total revenue with the balance largely being generated in North America. A graph showing regional revenue and contracted unit growth is shown below:



- Revenue growth slowed in FY21 due to the impact of Covid-19 and longer sales lead times.
- Despite Covid-19, EROAD achieved relatively strong growth in New Zealand in FY21, albeit slightly lower than prior years due to economic uncertainty.
- Growth in North America was challenging in FY21 due to the impacts of Covid-19 lockdowns, wildfires and political uncertainty.

4.5 New Zealand

EROAD has a broad customer base of both heavy and light vehicle fleets across many industries in New Zealand. New Zealand's key financial metrics over the last three financial years are summarised below:

EROAD NEW ZEALAND KEY FINANCIAL METRICS

YEAR END 31 MARCH	2019	2020	2021
Revenue (\$m)	44.2	53.4	59.8
EBITDA (exc corporate services) (\$m)	27.9	34.9	38.8
Revenue growth (%)	27.0%	23.8%	11.9%
EBITDA margin (%)	63.1%	63.8%	63.4%
Contracted Units	70,110	80,366	87,892
Asset Retention Rate (%)	na	96.1%	95.8%
SaaS Monthly ARPU (\$)	\$53.74	\$55.78	\$56.18

Source: EROAD Annual Reports and Grant Samuel analysis

- In New Zealand EROAD has a very low annual churn of approximately 4% which generates strong recurring revenues and a high lifetime value (**LTV**) per customer.
- In New Zealand, EROAD grew by approximately 7,500 contracted units in FY21. This was due to growth with existing customers and new customer acquisitions in construction and civil engineering, freight and road transport, services and trades industries. During Q3 FY21, EROAD signed an agreement with Toll New Zealand to supply almost 1,000 units and EROAD SaaS products, across their heavy vehicle, light vehicle and trailer fleet.
- EROAD's management expects to add approximately 9,000 contracted units in FY22. EROAD's management believe that there are still significant growth opportunities with health and safety compliance, Elective Vehicle adoption, ESG reporting, insight and prediction being the main driver of future sales.
- As at 31 March 2021 approximately 45% of the customer base were enterprise customers (i.e. a fleet size of over 150).

4.6 North America

EROAD entered the North American market in FY15 and over the last six years it has established a market presence in the heavy transport telematics segment across targeted industries and regions. North America's key financial metrics over the last three financial years are summarised below:

EROAD NORTH AMERICA KEY FINANCIAL METRICS

YEAR END 31 MARCH	2019	2020	2021
Revenue (\$m)	15.7	25.8	30.6
EBITDA (exc corporate services) (\$m)	0.4	7.5	10.0
Revenue growth (%)	98.7%	64.3%	13.6%
EBITDA margin (%)	2.5%	29.1%	34.1%
Contracted Units	24,660	34,002	35,437
Asset Retention Rate (%)	na	95.2%	92.8%
SaaS Monthly ARPU (\$)	\$60.08	\$65.73	\$65.03

Source: EROAD Annual Reports and Grant Samuel analysis

- In FY21 EROAD's North America annual revenue growth and churn was largely impacted by Covid-19. However, management expect churn to stabilise to historical levels in FY22 and beyond. North America's low EBITDA margin %, compared with New Zealand, is impacted by its scale. If revenue



growth is achieved, it is likely that North America's EBITDA margin % will improve materially as it has in New Zealand due to the scalability of the EROAD platform.

- In FY21 EROAD benefited from the forgiveness of a US Government Covid-19 support loan in North America of \$1.6 million. The loan forgiveness was partially offset by a one-off adjustment for superannuation costs (\$1.1 million) and an increased doubtful debt provision (\$0.4 million).
- The growth outlook for FY22 is more positive as the US economy has been stimulated by the increase in government support and workers are returning to their workplaces across the region. Reflecting this, EROAD currently has two enterprise customer prospects in pilot for its Ehubo delivered services (approx. 1,500 units) as well as a solid mix of mid-market pilots either launched or beginning soon.
- In March 2021 EROAD was awarded the number one Electronic Logging Device (**ELD**) in North America by FreightWaves Ratings which is an independent body.
- EROAD are forecasting strong growth over the next 18-24 months in North America. Following the Federal 2017-19 ELD mandate almost 100% of interstate vehicles over 10,000 pounds have adopted telematics. It is expected many of EROAD's North American SME customers will upgrade to more than an ELD only solution when contracts are renewed which includes the adoption of cameras for insurance exoneration. In addition to this EROAD expects a significant number of its customers to upgrade following the AT&T & 3G network shutdown which is to occur in February 2022.
- As at 31 March 2021 approximately 30% of the North American customer base were enterprise (i.e. businesses with a fleet size of over 500).

4.7 Australia

EROAD entered the Australian market in 2018 and it is slowly growing as the company builds its brand and leverages Trans-Tasman opportunities on the back of regulatory reforms. Australia's key financial metrics over the last three financial years are summarised below:

EROAD AUSTRALIA KEY FINANCIAL METRICS

YEAR END 31 MARCH	2019	2020	2021
Revenue (\$m)	0.6	0.7	1.4
Revenue growth (%)	50.8%	16.7%	57.1%
Contracted Units	1,336	2,120	2,874
SaaS Monthly ARPU (\$)	na	\$37.28	\$35.50

Source: EROAD Annual Reports and Grant Samuel analysis

- In the later stages of FY21 EROAD secured a five year contract with its largest Trans-Tasman customer, Ventia (2,500 units in Australia and 1,500 units in New Zealand) which will be deployed throughout FY22. This contract alone almost doubles the size of EROAD's Australian revenue. EROAD also has 300 New Zealand customers that also have Trans-Tasman Fleets for EROAD to target.
- Australia remains a large growth opportunity for EROAD due to the country's continued focus on health and safety. Video telematics is seen as an important added service to improve health and safety outcomes and EROAD management expects that further significant regulatory change over the next five years will drive further growth.
- As at 31 March 2021 approximately 32% of the customer base were enterprise (i.e. businesses with a fleet size of over 150).



4.8 EROAD Financial Performance

The historical financial performance of EROAD for the years ended 31 March 2019 to 2021 (**FY19-FY21**) is summarised below:

EROAD FINANCIAL PERFORMANCE (NZ\$ MILLIONS)

YEAR END 31 MARCH	2019	2020	2021
SaaS	57.4	76.3	85.0
Transaction fees	2.4	2.4	2.6
Grant income	0.9	0.9	2.6
Other	0.7	1.6	1.4
Total Revenue	61.4	81.2	91.6
Personnel expenses	(21.2)	(26.3)	(29.7)
SaaS platform costs	(6.7)	(8.6)	(9.8)
Administrative and other operating expenses	(17.9)	(19.2)	(21.4)
Total operating expenses	(45.8)	(54.1)	(60.9)
EBITDA	15.6	27.1	30.7
Depreciation of property, plant and equipment	(6.6)	(8.6)	(9.6)
Amortisation of intangible assets	(6.5)	(7.5)	(9.9)
Amortisation of contract and customer acquisition assets	(4.8)	(6.5)	(6.8)
EBIT	(2.3)	4.5	4.4
Net financing costs	(2.8)	(3.1)	(2.5)
Income tax	0.2	(0.4)	0.1
Net profit	(4.9)	1.0	2.0

Source: EROAD Annual Reports and Grant Samuel analysis

EROAD KEY FINANCIAL METRICS

YEAR END 31 MARCH	2019	2020	2021
Revenue growth	40.2%	32.2%	12.8%
EBITDA margin %	25.4%	33.4%	33.5%
EBIT margin %	(3.7%)	5.5%	4.8%
Annualised Monthly Recurring Revenue (\$m)	66.5	84.0	88.4
Future contracted income (\$m)	117.4	134.4	141.9
R&D as a % of Revenue (%)	22.0%	19.0%	23.0%
ARPU (\$)	\$55.08	\$58.38	\$58.30
Asset retention rate (%)	94.4%	95.2%	94.9%
Cost to acquire customers as a % of revenue (%)	22%	20%	13%
Contracted units	96,390	116,488	126,203

Source: EROAD Annual Reports and Grant Samuel analysis

- Annualised monthly recurring revenue in FY21 reflects growth in new units, which was partly offset by unfavourable foreign exchange movements which reduced annualised monthly recurring revenue by \$4.5 million. ARPU was also impacted by a strong US\$. If the NZD/USD foreign exchange rate was consistent across FY21 and FY20, ARPU would have increased to \$58.95 due to plan and hardware upgrades.
- EROAD often has multi-year contracts with its customers. As at 31 March 2021 EROAD has \$142 million of future contracted income.



- As a percentage of revenue the cost to acquire customers (**CAC**) have trended downwards due to low customer churn. EROAD anticipates that CAC reductions may be partially offset by investment in Australian customer acquisition growth in the next two years.
- As a percentage of revenue research and development (**R&D**) increased in FY21 as EROAD invested in the platform to be able to capitalise on the growth opportunities and growth that may become available as markets recover from the impact of Covid-19. In FY21 a total of \$21.3 million was invested in R&D, of which \$13.1 million was capitalised.
- EROAD acts as an agent for transport authorities in the market that it operates in. Where fees are collected on their behalf, EROAD charges a commission. The revenue recognised is the net amount of the commission fee earned.
- In FY21, EROAD received \$2.6 million in grants which included \$1.6 million from the US Government.
- EROAD capitalises incremental costs of fulfilling customer contracts (e.g. installation costs). EROAD also capitalises costs that it incurs when signing contracts with customers (e.g. sales commissions). Fulfilment and contract acquisition costs are amortised evenly over the period of the contract. The majority of contracts are for three years and can be for a term of up to five years.
- Despite revenue growing by \$10.4 million in FY21, EBIT remained relatively flat due to an increase in operating expenses of \$6.8 million and a \$3.7 million increase in depreciation and amortisation. The increase in depreciation and amortisation reflects the growing customer base (and related assets), the increase in R&D and significant investment in new generation business systems during FY20.
- Platform costs include the purchase of customer equipment from contract manufacturers, original equipment manufacturers (that are sometimes modified) and third party vendors. EROAD also purchases raw materials and parts for use in a refurbishment of units line in Auckland. Contract manufacturing is primarily from a company called IMI based in the Philippines and EROAD have points of distribution out of Auckland, Portland and Brisbane.

4.9 Financial Position

The financial position of EROAD as at 31 March 2019, 2020 and 2021 is summarised below:

EROAD - FINANCIAL POSITION (NZ\$ MILLIONS)

AS AT 31 MARCH	2019	2020	2021
Trade and other receivables	10.5	10.7	8.2
Restricted bank accounts	12.7	14.0	10.5
Contract and customer acquisition assets	4.6	5.9	5.5
Total Current Assets	27.8	30.6	24.2
Property, plant and equipment	27.9	32.3	30.6
Intangible assets	33.1	42.1	45.3
Contract and customer acquisition assets	4.8	4.8	3.4
Deferred tax assets	7.5	7.5	7.3
Total Non-Current Assets	73.3	86.7	86.6
Trade payables and accruals	(6.1)	(8.2)	(7.8)
Payables to transport agencies	(12.5)	(13.9)	(10.5)
Contract liabilities	(5.8)	(3.6)	(3.9)
Employee entitlements	(1.3)	(1.8)	(2.3)
Current liabilities	(25.7)	(27.5)	(24.5)
Contract liabilities	(4.2)	(4.6)	(2.7)
Right of use net liabilities	(1.0)	(1.2)	(1.1)
Deferred tax liabilities	(0.3)	(0.3)	-
Non current liabilities	(5.5)	(6.1)	(3.8)
Cash and cash equivalents	16.1	3.4	57.1
Borrowings	(34.7)	(35.8)	(35.0)
Net cash	(18.6)	(32.4)	22.1
Net assets	51.3	51.3	104.6

Source: EROAD Annual Reports and Grant Samuel analysis.

- Restricted bank accounts relate to road users tax collected from clients due for payment to the relevant government agency.
- The right-of-use net lease liability relates to the adoption of NZ IFRS 16. Grant Samuel has adjusted the balance sheet to remove the asset from property, plant and equipment and offset it against the right of use liability.
- Property, plant and equipment decreased in FY21 due to a combination of lower new unit volumes and tight inventory management. The decrease in inventory also reflects a lift in the provision for obsolescence in preparation for the network changes in North America in FY21.
- The increase in intangible assets reflects the investment made in R&D in FY20 and FY21 on hardware and software development.
- Cash increased by \$53.7m because of the share placement during September and positive free cash in FY21. The decrease in other assets within the current assets category is because of the combination of an increase in the doubtful debt provision by an additional \$1.5 million in FY21 reflecting uncertainty due to the current economic conditions and a provision of \$1.0 million for inventory.
- EROAD's revenue is recognised over time as the customer receives the service. Where EROAD receives a portion of the transaction price of a contract in advance, this is recognised as a contract liability and released over the contract period as EROAD satisfies its performance obligations. As at 31 March 2021 EROAD has contract liabilities of \$5.9 million.



- Contract fulfilment and customer acquisition assets decreased by \$1.8 million due to subdued growth during the 12 months because of Covid-19 lockdowns.

4.10 Cash Flow

EROAD's cash flow from FY19 to FY21 is summarised below:

EROAD CASH FLOW (NZ\$ MILLIONS)

YEAR END 31 MARCH	2019	2020	2021
EBITDA	15.6	27.1	30.7
Interest paid	(2.8)	(3.1)	(2.5)
Movement in working capital	2.0	0.6	1.0
Other	(0.6)	(1.5)	(1.1)
Net cash from operating activities	14.2	23.1	28.1
Payments for investment in property, plant & equipment	(10.9)	(11.6)	(4.7)
Payments for investment in intangible assets	(9.7)	(16.5)	(13.1)
Payments for investment in contract fulfilment assets	(3.5)	(4.4)	(3.5)
Payments for investment in customer acquisition assets	(3.2)	(3.4)	(1.5)
Net cash outflow from investing activities	(27.3)	(35.9)	(22.8)
Payment of lease liability	(0.9)	(1.1)	(1.6)
Net cash flow before capital raising and repayments	(14.0)	(13.9)	3.7
Net movement in borrowings	8.2	1.2	(0.8)
Net proceeds from equity raise	-	-	50.8
Net cash flow	(5.8)	(12.7)	53.7

Source: EROAD Annual Reports and Grant Samuel Analysis

- In FY21 EROAD's net cash flow before capital raising and repayments was positive for the first time due to EBITDA growth and a \$13.1 million reduction in capital expenditure.
- In FY21 EROAD raised \$42 million of equity via a share placement and a further \$11 million was raised via a share purchase plan.

4.11 Capital Structure and Ownership

EROAD has 81,896,340 shares on issue. As at 18 June 2021 EROAD had 3,724 registered shareholders. The top five shareholders hold 40.0% of the shares in EROAD. The Current EROAD share register is weighted toward institutional ownership. The following are EROAD's largest shareholders:

EROAD - SHAREHOLDERS AS AT 18 JUNE 2021

	NUMBER OF SHARES (000s)	PERCENTAGE
Steven Newman	12,951	15.8%
Jarden Limited	6,009	7.3%
Australian Ethical Investments Limited	5,800	7.1%
First Sentier Investors Limited	5,128	6.3%
Allianz Global Investors Asia Pacific	2,856	3.5%
Top 5 shareholders	32,744	40.0%
Others	49,152	60.0%
Total	81,896	100.0%

Source: EROAD Internal Reporting

EROAD also operates a long term incentive plan, where eligible senior employees are invited by the CEO, with the approval of the Board, to purchase EROAD shares. EROAD grants the eligible senior employees a loan to purchase the shares. Shares issued under the scheme are held in trust for the senior employees during a three year restrictive period by a trustee company. If the employee ceases to be an employee during the restrictive period, the trustee will repurchase the shares at the original issue price.

4.12 Share Price Performance

4.12.1 Liquidity

The following table shows the volume of EROAD shares traded in the 12 months prior to 9 July 2021.

EROAD - SHARE PRICE HISTORY TO 9 JULY 2021

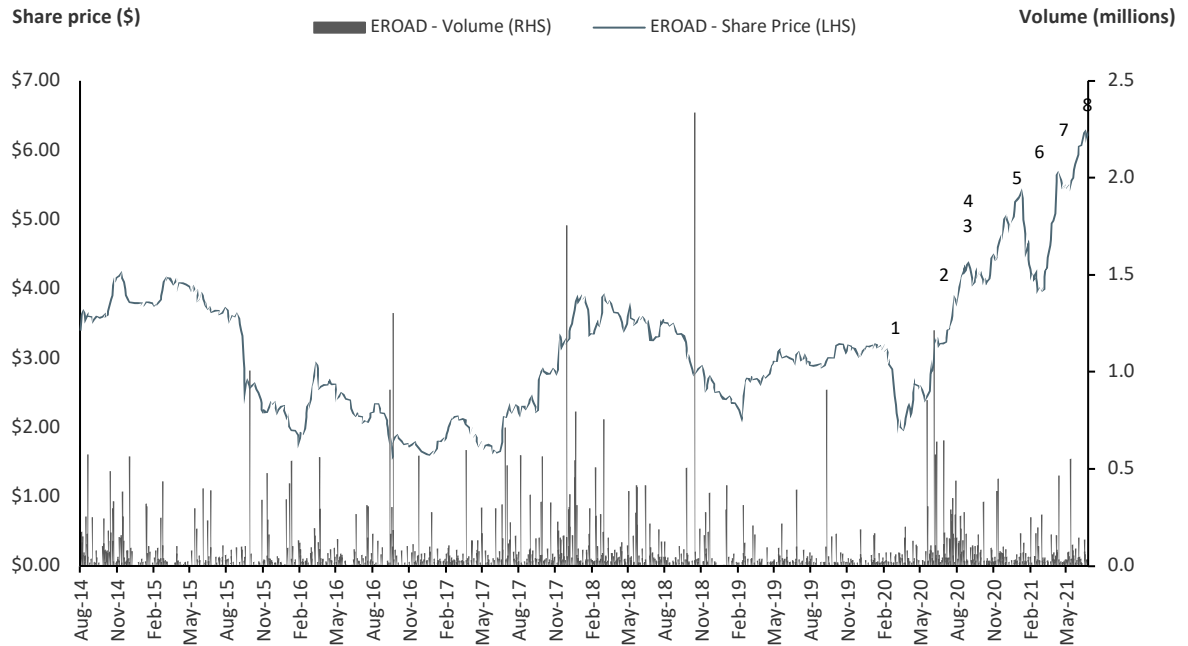
TIME PERIOD	LOW	HIGH	VWAP	VOLUME (000s)
1 month	\$5.75	\$6.35	\$6.10	815
3 months	\$4.94	\$6.35	\$5.64	3,444
6 months	\$3.90	\$6.35	\$5.14	6,222
12 months	\$3.15	\$6.35	\$4.45	15,980

Source: NZX Company Research

4.12.2 Share Price Performance

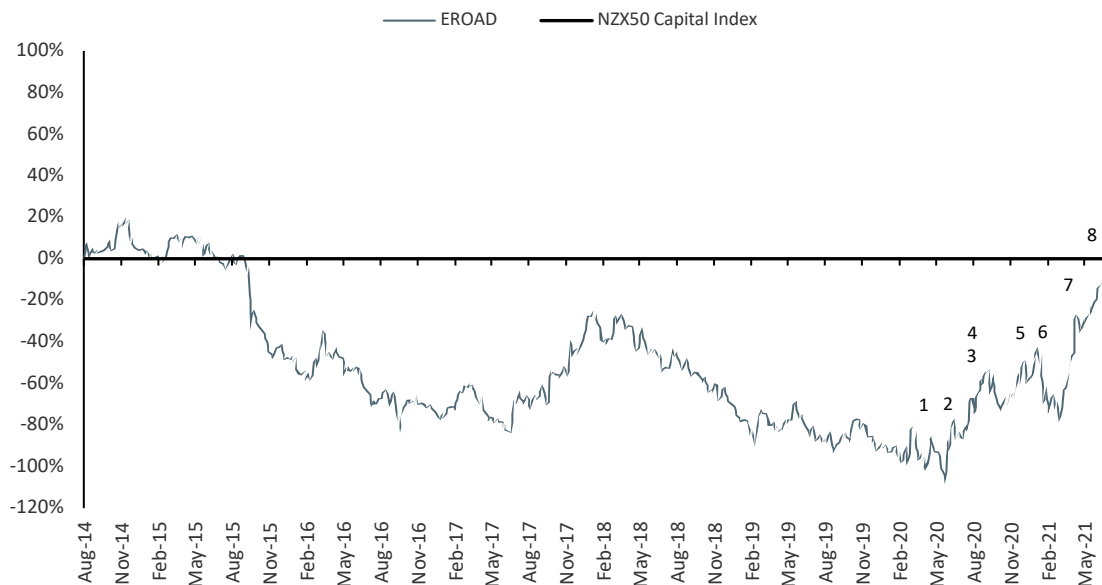
The share price and trading volume history of EROAD shares since listing on 15 August 2014 to 9 July 2021 is depicted below:

EROAD SHARE PRICE PERFORMANCE SINCE LISTING



EROAD's share price ranged between \$1.53 (on 5 October 2016) to \$6.35 (on 2 July 2021) since listing. EROAD's share price against the NZX50 Capital Index since listing is shown in the graph below:

EROAD SHARE PRICE PERFORMANCE VERSUS NZX50 CAPITAL INDEX





The following reference points are referred to numerically in the charts above and relate to recent events in EROAD's history:

- 1) On 25 March 2020 the New Zealand Government announced a state of national emergency as a result of the Covid-19 pandemic.
- 2) On 19 June 2020 EROAD reported earnings results for the full year ended 31 March 2020. EROAD reported profit before tax of \$1.4 million, up from a loss of \$5.1 million in the prior year.
- 3) On 21 August 2020 EROAD announced it had lodged an application with the Australian Stock Exchange (**ASX**) to list as a foreign exempt listing. On 25 August 2020 EROAD confirmed its participation in the 2020-2021 MBUF truck pilot which was being conducted by the Eastern Transportation Coalition in North America.
- 4) On 16 September 2020 EROAD was admitted onto the ASX as a foreign exempt listing.
- 5) On 26 November 2020 EROAD released its financial results for the first half of the 2021 financial year. This included a period on period increase in revenue of 19% from H1 FY20 and an increase in EBITDA of 29% from H1 FY20. H2 FY21 guidance was for a small increase in revenue, with FY22 guidance being that the percentage of revenue growth would strengthen but not the level experienced in FY20.
- 6) On 29 January 2021 EROAD released its quarterly update for the three months ended 31 December 2020. EROAD also reaffirmed its H2 FY21 and FY22 guidance provided on 26 November 2020.
- 7) On 9 April 2021 EROAD announced it had signed up its largest Australian enterprise customer, Ventia.
- 8) On 28 May 2021 EROAD reported earnings results for the full year ended 31 March 2021. Revenue grew to \$91.6m, up 13% from FY20 and EBITDA grew by 13% to \$30.7m.

5 Profile of Coretex

5.1 Introduction

Coretex was formed in October 2015, as a result of the merger of two New Zealand based companies: International Telematics Limited and Imarda Pty Limited. The merged companies have a combined history of over 35 years in telematics.

Coretex has approximately 750 customers and it is focused on creating customer value within industry verticals. Over the last five years Coretex has focused on less than load (**LTL**) transportation in the construction, mixed fleet and waste and recycling industries. The size of Coretex's customers have also grown in fleet size and now the majority of new customers are enterprise customers.

Coretex's head office is located in Auckland, New Zealand and it has offices in New Jersey, San Diego and Sydney.

5.2 Platform Overview

The Coretex solution is a comprehensive end-to-end fleet management solution that provides visibility and control of fleet assets, sensors, engine management alerts, exception-based reports, workflow management and driver communication.

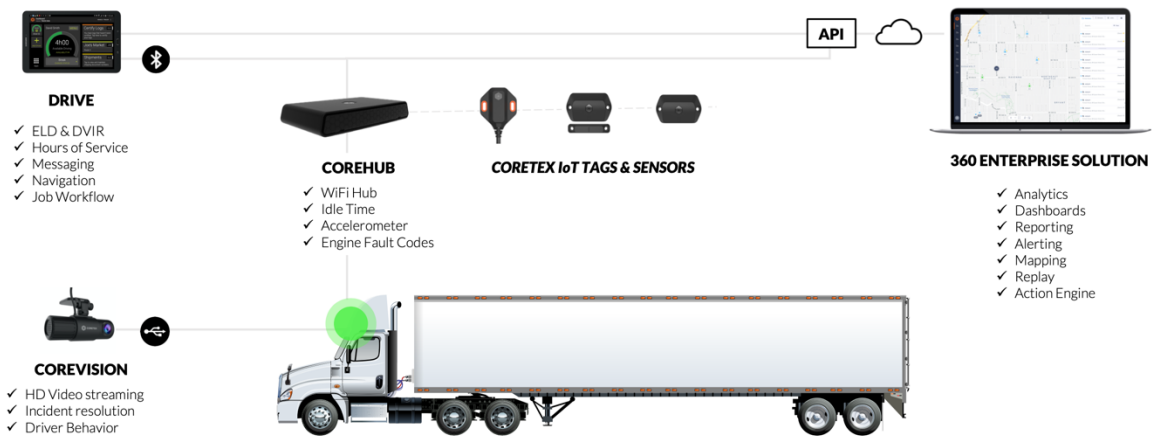
The Coretex solution is comprised of the following components:

- **Corehub.** The Corehub is the central hub of Coretex's system. It transforms every vehicle into an Internet of Things (**IoT**) hub with wireless sensor connection. Corehub connects directly with the vehicle diagnostics port and also has an inbuilt 3-axis accelerometer to provide accurate accident insights. Corehub operates has dual SIM cards capability which provides internet connection redundancy when the vehicle is operating in low cell phone coverage areas. Corehub also includes data storage for more than two months to reduce data loss when vehicles have no coverage.
- **Coretex Drive.** Coretex Drive is an application that runs on an in-cab Android device display. Coretex Drive provides features including real time job information, ELD, navigation and messaging and can also integrate and provide custom applications.
- **Coretex 360.** Coretex 360 is a cloud based management platform that is used by dispatch operators, fleet managers, safety officers and operations workers. It provides fleet operators with an extensive set of tools and services including detailed reporting, real time fleet tracking and health and safety management.
- **CoreVision.** CoreVision combines driver and vehicle data with high definition video to provide deeper and more accurate records of events.
- **CoreTemp.** CoreTemp is a SaaS solution that provides continuous product temperature monitoring to enable product and brand assurance to a refrigerated supply chain. CoreTemp is used by one of America's largest quick service restaurant chains and it is considered by market research to be market leading.
- **Connected Devices.** Coretex has a suite of connected IoT devices which are used to create tailored solutions for industry verticals. These include hydraulic temperature sensors, water meters, door sensors and advanced temperature monitors.

Over the last three years Coretex's platform has been redesigned to deliver a single platform that can deliver Safety and Compliance, Video and Sensors for Trucks and Trailers for industry verticals (Reefer, Waste, Construction, LTL). In the last 12 months new hardware such as Corehub has enhanced the functionality of the platform. In FY20 Coretex installed over 10,000 units for one of the largest LTL trucking companies in North America. The scale of this implementation was materially larger than the previous implementation of

2,500 units which has provided Coretex with market endorsement and the confidence that its Coretex 360 and Coretex Drive is capable of winning large enterprise contracts. The Corehub hardware was launched in 2020 and is slowly being rolled out to existing customers and is being used for new customer acquisitions.





SIMPLIFIED DIAGRAM OF CORETEX PLATFORM (LTL EXAMPLE)



Coretex is now at the end of a three year R&D roadmap. Coretex management believe that the upgrade of its technology to a single platform, which has been designed to be best in class at Industrial IoT for Enterprise fleets, has positioned the company for strong growth in the next three to five years.

5.3 Capabilities and Expertise

Coretex's point of difference is its focus on high growth, high margin and highly defensible industry verticals. By leveraging its platform and IoT devices Coretex creates tailored solutions with a focus on the following verticals. Within the cold chain vertical Cortex is considered a market leader.

			
COLD CHAIN	CONSTRUCTION	WASTE	LTL
<ul style="list-style-type: none"> CoreTemp Alerting Two-way Reefer 	<ul style="list-style-type: none"> E-Tickets Auto-Status Real Time 	<ul style="list-style-type: none"> High Deflection Polling GPS Proof of delivery Routing 	<ul style="list-style-type: none"> Back office integration Insights Workflow

Coretex has also developed a range of compliance and regulatory solutions to meet the demands of its customer base and to provide complementary service suite to its highly specialised industry solutions:

- **Preventative Maintenance & DVIR.** Coretex provides paperless Driver Vehicle Inspection Reports (DVIRs). The DVIR feature offers fully customisable pre- and post-trip checklists to ensure mechanics are aware of the work that needs to be performed before the truck goes back out on the road.
- **Electronic Logging Device Compliance.** Coretex's ELD with integrated industry vertical rulesets captures critical in-cab performance data, such as hours of service for new intrastate safety regulation compliance, GPS location, engine idle times and ignition on and off time stamps.
- **RUC.** Coretex eRUC replaces unreliable hubodometers and paper records with a single device and maximises off-road claims with automatic second-by-second tracking, refund reporting and claim forms.



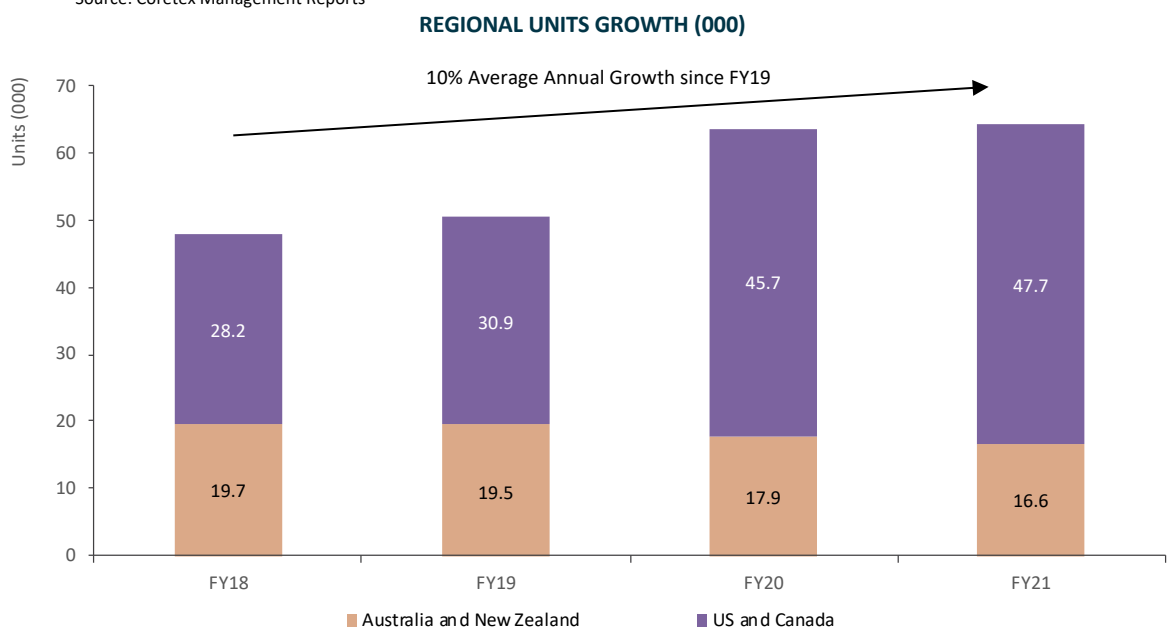
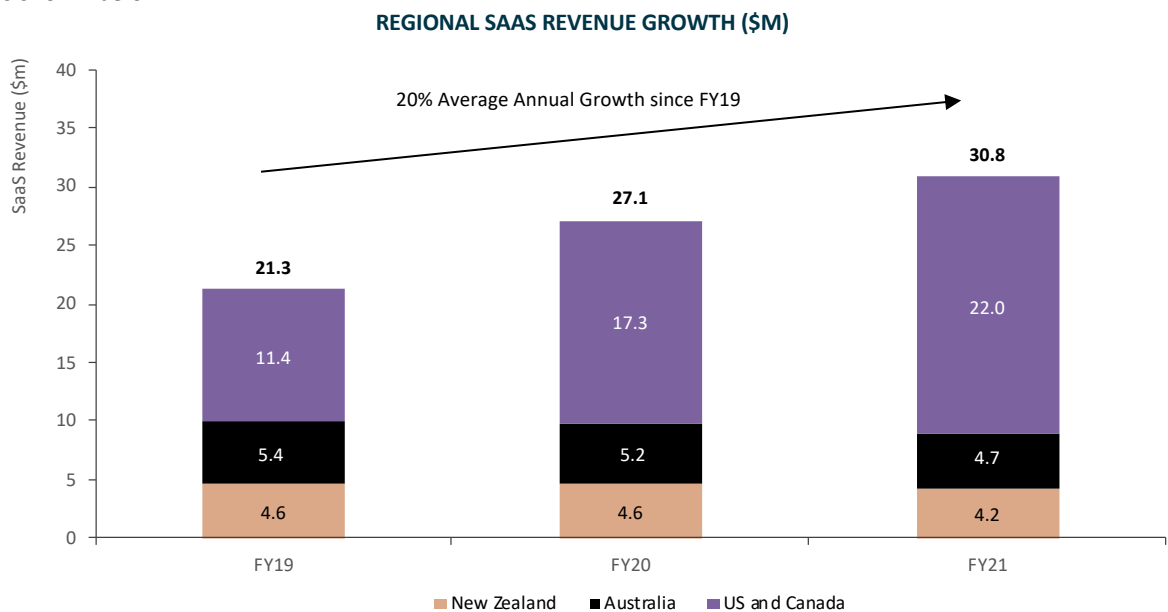
It displays licenses in an in-cab digital unit and gives clients the choice of manual or automated RUC purchasing and management via an online portal.

- **Health and Safety.** Coretex's solution enhances driving behaviour, encourages safer journeys and vehicles by using technology to support and supervise drivers remotely.

5.4 Regional Overview

Coretex markets and sells its products in New Zealand, North America and Australia. In North America Coretex uses a blended sales model leveraging its own direct sales resource and a dealer network. The dealer network represented approximately 36% of North America revenue in FY21.

In FY21 in North America represented approximately 71% of SaaS revenue with the balance largely being generated in New Zealand and Australia. A graph showing regional SaaS revenue and contracted unit growth is shown below:





Over the last four financial years Coretex has primarily been focused its sales and R&D resource on growing in North America, which has resulted in declining revenue in Australia and New Zealand. In FY20 Coretex completed the rollout of 15,000 new units in North America which delivered significant revenue growth. Coretex has developed its technology to work in a wide range of geographies and believes it is well placed to take advantage of:

- proposed legislative changes around Electronic Log Books in Canada and Electronic Work Diaries In Australia; and
- sales opportunities that will arise when hardware upgrades are required to migrate from 3G mobile networks to LTE/4G.

Coretex's North American sales growth in FY21 was impacted by Covid-19 due to lockdowns, wildfires and political uncertainty. Coretex sells its hardware upfront in conjunction with ongoing software subscriptions. Due to market uncertainty caused by Covid-19, cash constrained customers generally preferred the hardware rental model (which is in line with EROAD) which also impacted Coretex sales in FY21.

5.5 Coretex Financial Performance

The historical financial performance of Coretex for the years ended 31 March 2019 to 2021 (**FY19-FY21**) and the forecast for the year ending 31 March 2022 (**FY22**) is summarised below:

CORETEX FINANCIAL PERFORMANCE (NZ\$ MILLIONS)

YEAR END 31 MARCH	2019	2020	2021	2022
SaaS	21.3	27.1	30.8	35.2
Service revenue	2.7	3.1	1.3	1.9
Hardware sales	18.3	22.8	8.5	15.3
Total Revenue	42.3	53.0	40.6	52.4
Grant and other income	1.0	1.2	1.9	-
Personnel expenses	(13.4)	(16.5)	(13.0)	(18.9)
Administrative and other operating expenses	(29.2)	(37.4)	(30.2)	(38.8)
Restructuring costs	-	(1.0)	(0.1)	-
Total operating expenses	(42.6)	(54.9)	(43.3)	(57.7)
EBITDA	0.7	(0.7)	(0.8)	(5.3)
Depreciation and Amortisation	(1.3)	(1.1)	(1.5)	(2.0)
EBIT	(0.7)	(1.8)	(2.3)	(7.3)
Net financing costs	-	0.3	(0.1)	-
Income tax	(0.1)	(0.3)	(0.3)	-
Net profit	(0.8)	(1.8)	(2.6)	(7.3)

Source: Coretex Management Reports and Grant Samuel analysis

CORETEX KEY FINANCIAL METRICS

YEAR END 31 MARCH	2019	2020	2021	2022
Revenue growth	8.6%	25.5%	(23.4%)	28.9%
Adjusted Revenue/Adjusted EBITDA margin %	na	23.0%	34.5%	17.6%
ARPU (\$)	\$35.00	\$39.70	\$40.35	\$39.30
Contracted units	50,388	63,571	64,355	85,574

- Coretex sells its hardware upfront and charges a monthly subscription for services over a three to five year period. Coretex intends to transition to a rental based model (like EROAD) over the next two to three years. To enable comparison with EROAD, the following table adjusts revenue by removing the

one off hardware sales in each year and replacing it with an approximation for the revenue that would have been received in a financial year under a subscription model.

CORETEX REVENUE ADJUSTED FOR A MONTHLY SUBSCRIPTION MODEL (NZ\$ MILLIONS)

YEAR END 31 MARCH	2020	2021	2022
Reported Revenue	53.0	40.6	52.4
Adjustment to align revenue models	(3.8)	6.0	(1.6)
Adjusted Revenue	49.2	46.6	50.8

- Coretex's SaaS revenue grew in FY21 due to the growth in contracted units and a high retention rate. FY20 revenue was higher than FY21 due to the acquisition of a very significant new customer in FY20, resulting in a one-off boost to revenue arising from initial hardware sales. In addition, Covid-19 impacted Coretex's ability to generate new sales in FY21.
- Coretex has multi-year contracts with the majority of its customers.
- Coretex has continued to invest in the platform which included the development and delivery of CoreHub and a migration from legacy systems.
- In FY21 a total of \$7.4 million was invested in R&D, none of which was capitalised which is consistent with prior years. EROAD capitalises a large proportion of its R&D. To enable comparison with EROAD, the following table adjusts historical EBITDA by aligning the revenue models (as noted above) capitalising the R&D costs and other adjustments to align accounting policies:

CORETEX ADJUSTED EBITDA (NZ\$ MILLIONS)

YEAR END 31 MARCH	2020	2021	2022
Reported EBITDA	(0.7)	(0.8)	(5.3)
Adjustment for R&D capitalisation	6.0	6.2	7.7
Revenue, cost of sales and other adjustments	6.0	10.7	6.5
Adjusted EBITDA	11.3	16.1	8.9

- In response to Covid-19 Coretex choose to restructure the business. Coretex retained 95% of its staff. Personnel expenses declined due to redundancies and a large number of staff working four day weeks.
- Despite revenue growing by \$11.0 million in FY20, EBIT remained relatively flat due to an increase in operating expenses of \$6.8 million, which included a \$2.0 million increased investment in R&D. The increase in R&D reflects the investment in new generation and business systems during FY20 and FY21.
- Coretex outsources the majority of its manufacturing to China. Recently, Coretex has outsourced manufacturing of the new Corehub product to a New Zealand based contract manufacturer, based in Christchurch. This contract manufacturer also has facilities in Australia and China which will assist in scaling production and cost reduction over time.
- Coretex has forecast a significant increase in contracted units in FY22. Due to the timing of customer acquisitions the FY22 forecast does not recognise the full annualised impact the acquisitions will have on revenue. A large proportion of the increased growth is from North America in Coretex's cold chain category.
- Coretex's forecast increase in personnel expenses largely reflects the planned investment in establishing sales and service support in North America.

5.6 Financial Position

The financial position of Coretex as at 31 March 2019, 2020 and 2021 is summarised below:

CORETEX - FINANCIAL POSITION (NZ\$ MILLIONS)

AS AT 31 MARCH	2019	2020	2021
Trade and other receivables	13.2	14.3	11.0
Inventories	3.8	3.2	2.4
Total current assets	17.0	17.5	13.4
Property, plant and equipment	1.0	3.2	2.7
Intangible assets	7.8	8.4	9.0
Finance lease receivable	1.4	-	-
Total non-current assets	10.2	11.6	11.7
Trade payables and accruals	(6.2)	(6.7)	(6.0)
Payables to transport agencies	(0.4)	(0.1)	(0.4)
Warranty provision	(0.3)	(0.5)	(0.9)
Contract liabilities	(0.3)	(0.3)	(0.3)
Right-of-use net lease liabilities	-	(1.8)	(1.2)
Income Tax Payable	-	(0.3)	(0.5)
Employee entitlements	(1.2)	(1.3)	(1.6)
Total liabilities	(8.4)	(11.0)	(10.9)
Cash and cash equivalents	3.0	7.6	8.9
Borrowings	-	(0.8)	(2.0)
Net cash	3.0	6.8	6.9
Net assets	21.8	24.8	21.1

Source: Coretex Management Reports

- The right-of-use net lease liability relates to the adoption of NZ IFRS 16 in FY20. Grant Samuel has adjusted the balance sheet to remove the asset from property, plant and equipment and offset it against the right of use liability.
- The increase in intangible assets reflects the investment made in R&D in FY20 and FY21 on hardware and software development.
- Intangible assets include goodwill from acquisitions (\$4.1 million), intellectual property, capitalised R&D, software and other intangible assets.
- In FY19 Coretex raised approximately \$10.1 million of new capital from the issue of shares and convertible notes and in FY20 Coretex issued \$4 million of shares. In both capital raising events the equity was raised at \$1.23 per share. In FY20 this implied an equity value of approximately \$108 million.

5.7 Cash Flow

Coretex's cash flow from FY19 to FY21 is summarised below:

CORETEX CASH FLOW (NZ\$ MILLIONS)

YEAR END 31 MARCH	2019	2020	2021
Net cash from operating activities	(2.3)	1.7	2.6
Payments for investment in property, plant & equipment	(0.4)	(1.0)	(0.9)
Payments for investment in intangible assets	-	(0.7)	(0.8)
Net cash outflow from investing activities	(0.4)	(1.7)	(1.7)
Payment of lease liability	-	(0.7)	(0.6)
Net cash flow before capital raising and repayments	(2.7)	(0.7)	0.3
Net movement in borrowings	(4.8)	-	-
Net proceeds from equity and convertible notes	10.1	4.0	-
Net cash flow	2.6	3.3	0.3

Source: Coretex Management Reports

- In FY19 Coretex raised approximately \$10.1 million of new capital from the issue of shares and convertible notes.
- Coretex issued \$4 million of shares in FY20 and it achieved positive net cash flow in FY21 due to a positive movement in working capital. The key drivers of this net working capital movement were the payment by a major customer which was acquired in FY20 (which made payment in FY21), slower revenue growth in FY21 due to Covid-19 and a decline in inventory.

6 Profile of the Combined Group

6.1 Overview

If the Proposed Transaction proceeds, EROAD and Coretex will merge and EROAD's market position will strengthen in North America and Australia and it will gain access to Coretex's new generation IoT platform solutions that have been tailored for industry verticals (e.g. cold chain, construction and waste). EROAD will still remain a relatively small player in the Australian and North American market but it will be in stronger position to compete and grow aggressively by leveraging its direct sales channel and the complementary technology platforms of both businesses. The combination of EROAD and Coretex is expected to generate significant benefits in terms of quality of offering and service to customers, as well as quantifiable revenue and cost synergies.

6.2 Proforma Financial Performance and Key Metrics

The historical financial performance and key metrics of EROAD and proforma analysis of the combined entities for the year ended 31 March 2021 is summarised below:

PROFORMA FINANCIAL PERFORMANCE AND KEY METRICS (NZ\$ MILLIONS)

YEAR END 31 MARCH 2021	EROAD	COMBINED
Total Revenue	91.6	138.2
Total operating expenses	(60.9)	(91.4)
EBITDA	30.7	46.8
Free cash flow	5.3	7.0
R&D Spend	21.3	28.7
Key Metrics		
EBITDA margin	33.5%	33.8%
R&D % of revenue	23.3%	20.8%
Connections	126,203	190,380
ARPU	\$58.30	\$58.10
Asset retention rate	94.9%	91.6%
Annualised monthly recurring revenue (\$m)	88.4	131.1
Enterprise customers as a % of connections	40.0%	53.0%

Source: EROAD Investment Presentation

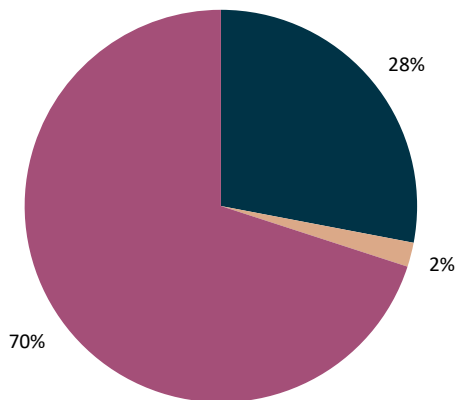
- The Coretex financials used in section 6 of this report are on a normalised basis and have been adjusted to align with EROAD's accounting policies and its revenue model (i.e. subscription based charging). Coretex recognises hardware and subscription revenue along with associated costs in the year it occurs. EROAD recognises both revenues over the term of the subscription contract. To enable comparison with EROAD, Coretex's revenue and associated costs have been adjusted to align with the term of the service obligation. Coretex has not recognised intangible assets resulting from R&D investment. To enable comparison with EROAD an asset has been capitalised in the financials of Coretex.³

³ EROAD and Coretex's financial statements are prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). EROAD's financial statements comply with New Zealand equivalents to International Reporting Standards (NZ IFRS) for Tier 1 entities, other New Zealand accounting standards, and authoritative notices that are applicable to entities that apply NZ IFRS. The financial statements also comply with International Financial Reporting Standards (IFRS). Coretex's financial statements comply with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR) for Tier 2 entities, on the basis that it does not have public accountability and is not a large for-profit public sector entity, and other applicable Financial Reporting Standards as appropriate for for-profit entities.



- EROAD's broad based Telematics solution which has largely been focused on regulatory compliance has led to a focus on the Transport market in North America. If the Proposed Transaction is implemented EROAD will have less exposure to the Transport vertical and it will have a more diverse customer base with the addition of Food Safety and Construction clients.
- In the first two years post acquisition scale and synergy benefits are unlikely to result in a material improvement in free cash flow. These benefits are likely to offset by investment in growth, one off integration and transition costs in the first two years. If the Proposed Transaction is implemented, EROAD plans to invest approximately \$8.0 million in the first two years on the integration of the two product sets and business systems.
- If the Proposed Transaction is implemented the number of EROAD connections will increase from 126,203 to 190,380 with a strategic plan to accelerate growth to the targeted 250,000 connections.
- If the Proposed Transaction is implemented EROAD's proportion of Enterprise customers increases from 40% to 53%.
- If the Proposed Transaction is implemented EROAD will have a higher proportion of revenue being generated from Australia and North America as highlighted by the difference in connected units by region in the graphs below:

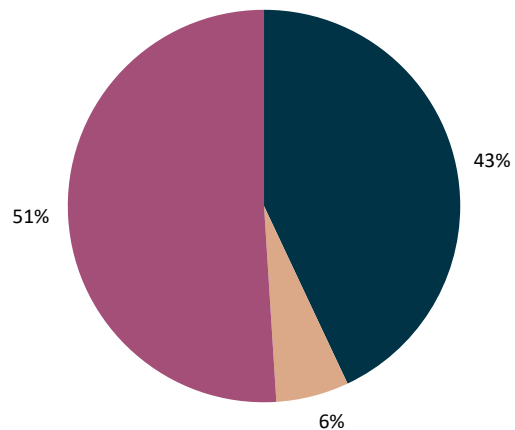
EROAD FY21 CONNECTED UNITS BY REGION (%)



■ North America ■ Australia ■ New Zealand

EROAD FY21 CONNECTED UNITS BY REGION

AFTER THE PROPOSED TRANSACTION (%)



■ North America ■ Australia ■ New Zealand

6.3 Proforma Financial Position

The historical financial position of EROAD, Coretex and proforma analysis of the impact of the Proposed Transaction as at 31 March 2021 is summarised below:

PROFORMA FINANCIAL PERFORMANCE (NZ\$ MILLIONS)⁴

AS AT 31 MARCH 2021	EROAD	CORETEX	ADJUSTMENTS	COMBINED AT SETTLEMENT	ADJUSTMENTS FOR CONTINGENT LIABILITIES	COMBINED AFTER PAYMENT OF CONTINGENT LIABILITIES
Net Operating Assets	82.5	14.2	143.4	240.2	30.6	270.8
Net cash (debt)	22.1	-	(1.8)	20.4	(14.5)	5.9
Net Assets	104.6	14.2	141.7	260.5	16.1	276.6

Source: EROAD and Grant Samuel analysis

⁴ Cash adjustments includes \$80.5 million from the capital raising, less \$77.8 million paid to Coretex Vendors on settlement less the payment of \$4.5 million for Transaction costs.

- If the Proposed Transaction is implemented EROAD will pay \$77.8 million in cash on settlement, with \$14.5 million held as Contingent Consideration. To fund the Proposed Transaction, EROAD plans to raise \$80.5 million by placing shares to institutional investors and via a SPP to retail investors. Based on the financial position at 31 March 2021, on settlement EROAD will have net cash of \$20.4 million. If the Contingent Consideration is paid EROAD would have a net cash position of \$5.9 million
- As at 31 March 2021 Coretex had net operating assets of approximately \$14.2 million. Coretex has not capitalised its development costs which largely explains its relatively low net operating assets when compared with EROAD. If the Proposed Transaction is implemented intangible assets will increase materially. The net movement in net assets reflects the increase in intangible assets, which is partially offset by the movement in net debt.

6.4 Industry Size and Key Drivers

The global commercial telematics industry generated annual revenues of approximately US\$40.3 billion in 2020. The global commercial telematics market grew at an annualised average growth rate of around 11% during 2014-2019 and the telematics market is expected to register an annualised average growth rate of 21% over the forecast period from 2021 to 2026.⁵

The strong historical and forecast revenue growth is due to:

- **Regulatory environment** – Road transportation is subject to extensive regulations. The regulatory environment has had a strong influence on the developments of GPS tracking and Fleet Management (FM) solutions globally. Health and safety regulations have also impacted the telematics industry as several FM applications are relevant to ensure the health and safety of drivers.
- **Macroeconomic environment** – Macroeconomic factors are a driver for the FM market. Utilisation of commercial vehicles, fleet sizes and new vehicle sales are all impacted by broader economic factors. For example, Covid-19 had an impact on vehicle utilisation and on new vehicle sales in 2020 which resulted in reduced hardware sales across telematics companies. Rising fuel costs have also been a driver behind of adoption of FM solutions. Fuel is a large part of the cost for commercial fleet operators and FM solutions in combination with driver training have been proven to significantly reduce fuel consumption.
- **Technology environment** – The technology used for FM solutions is evolving rapidly with key components from computing equipment to software and displays delivering better performance and lower prices. The IT infrastructure of enterprises is also improving along with their ability to process data and deliver meaningful information to managers. Vehicles are demanding environments with special requirements on reliability and there is a need for customised solutions to meet the specific needs of the customer (i.e. specialised industry solutions). The integration of mobile devices as part of the infrastructure is a growing trend. Smartphones and tablets are being increasingly used to enable remote vehicle location tracking, data collection and in-cab functionality.
- **Competitive environment** – Market pressure to reduce costs is one of the strongest drivers for the adoption of FM solutions. Road transportation is characterised by strong competition where even small efficiency gains can be important to improving competitiveness.
- **COVID-19** – Although Covid-19 impacted industry growth in 2021, it is driving future growth as it has increased the demand for paperless systems, and global supply chains are demanding increased visibility of where products are located.

⁵ Source: ResearchAndMarkets.com Global Commercial Telematics Market (2021 to 2026) - Industry Trends, Share, Size, Growth, Opportunity and Forecasts

The growth in the industry has attracted investment from large corporates and investors. In the last five years the industry has seen:

- Silicon Valley investors providing capital to EROAD competitors Samsara and KeepTruckin;
- several large acquisitions (Verizon Connect, Orbcomm, TeleTrac/Navman); and
- the entry of large corporates both directly (Michelin, Bridgestone, Verizon, Blackberry) and indirectly (Google and AWS).

The increased level of investment in the industry has been aimed at establishing a technology advantage by enhancing customer functionality and in some instances moving to IoT based platforms to build more diverse and capable product and service offerings. The industry players are primarily focused on growth and a technology advantage can improve customer acquisition and retention and grow ARPU.

EROAD's management believe that the proposed acquisition of Coretex will provide EROAD with the technology platform to compete aggressively in key industry verticals against larger well-funded competitors.

6.5 The North American Market

The North American market is among other things driven by regulatory developments such as the ELD mandates in the US and Canada. Berg Insight, an industry analyst and consulting firm, expects the FM market to show healthy growth between 2021 to 2024. In North America, the number of systems in active use is forecasted to grow at an annualised average growth rate of 15.0% p.a. from 11.0 million units in 2019 to 22.2 million units by 2024. The penetration rate in the total population of non-privately owned commercial vehicles is estimated to increase from 34.9% in 2019 to 62.0% in 2024. The forecast increase in market penetration over the next three years is a key driver of the Proposed Transaction. Coretex's IoT platform will provide EROAD with complementary technology that may enable it to win a greater proportion of market growth.

EROAD's strategic priorities for the North American market are to:

- grow connected units to 50,000 over the next 18 months;
- extend product offering in the freight, road transportation fleets and the areas of health and safety;
- extend the range of telematics solutions beyond trucks into trailers and associated light vehicles and large assets;
- grow the monthly run rate business in small to medium sized fleets; and
- support the National Road User Charging pilot for heavy vehicles.

The acquisition of Coretex accelerates EROAD's North American strategic priorities and will enable EROAD to:

- improve market position with the addition of 47,625 units (average fleet size of 3,800);⁶
- become a market leader in refrigerated telematics, a fast growing and regulated vertical with strong upside opportunity;
- extend product offering and telematics solutions for food safety, construction and waste and recycling;
- de-risk and accelerate required short term development efforts;
- enhance product and engineering capability to enable greater levels of new to market innovation; and
- enhance Enterprise sales capability.

⁶ Based on 31 March 2021

The historical key metrics of EROAD and proforma analysis of the combined entities in North America for the year ended 31 March 2021 are summarised below:

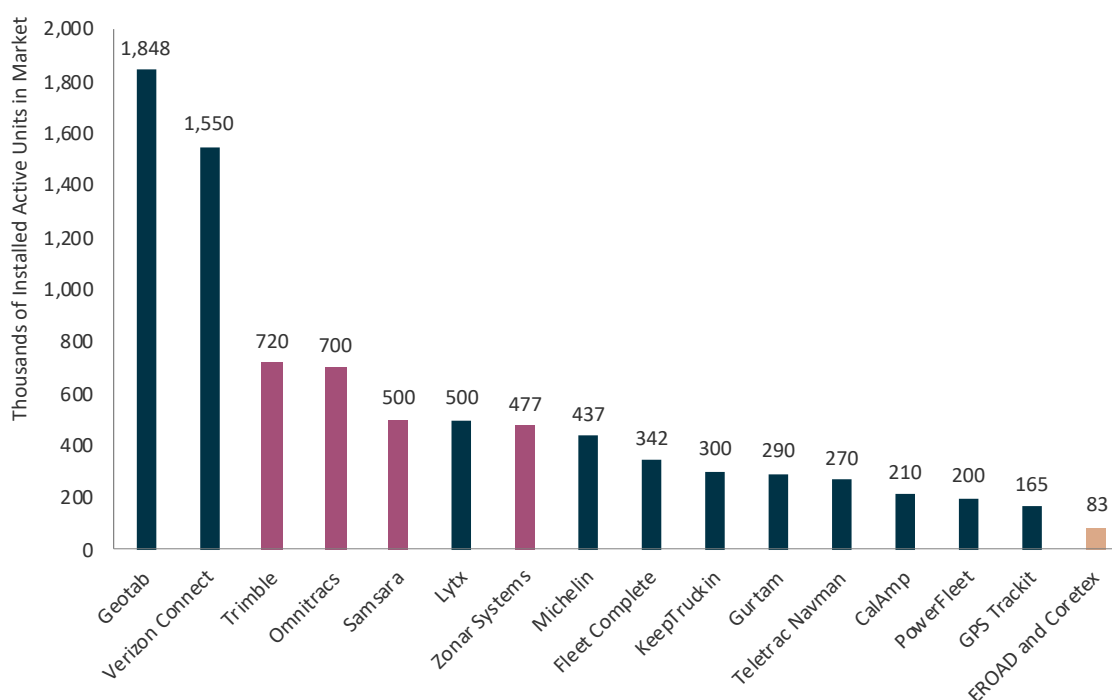
PROFORMA NORTH AMERICA KEY METRICS

YEAR END 31 MARCH 2021	EROAD	COMBINED
Total Revenue (\$m)	30.6	64.3
Key Metrics		
Connections	35,437	83,062
ARPU (NZ\$)	\$65.03	\$61.00
Enterprise customers as a % of connections	30%	62%

Source: EROAD Investment Presentation

Geotab and Verizon Connect are the largest fleet telematics providers in North and South America (**the Americas**) with approximately 1.85 million and 1.55 million installed units respectively. EROAD'S key competitors are Trimble, Omnitrac and Zonar, which have both been active in the industry for decades, followed by the relative newcomer Samsara and the major video telematics player Lytx. The other top-10 players are Michelin, Fleet Complete and KeepTruckin. The following chart shows the top 15 market participants based on Berg Insight's estimate of the number of active installed units. EROAD and Coretex combined are also provided for reference.

KEY MARKET PARTICIPANTS BY NUMBER OF ACTIVE INSTALLED UNITS IN THE AMERICAS



Source: Berg Insight – December 2020 Fleet Management in the Americas. EROAD and Coretex actuals as at 31 March 2021.

On a combined basis EROAD and Coretex will have approximately 83,000 installed units in North America. If the Proposed Transaction is implemented the strategic target is to be a top 15 player in the Americas within 24 months.

6.6 The Australasian Market

In 2019, there was estimated to be almost 1.0 million active FM systems in use in Australia and New Zealand and this number is forecasted to grow to over 1.8 million by 2024, representing a CAGR of 13.5% p.a. At the end of January 2020 there were 4.148 million commercial vehicles in Australia and 0.650 million in New

Zealand. The penetration rate of the available market is forecast to increase from just under 20% in 2019 to approximately 33% by 2024.

EROAD has established a market presence in New Zealand, therefore its strategic priorities are focused on the Australian market which include:

- grow the number of connected units to 10,000 over the next 18 months;
- extend its product offering in the civil engineering, government fleets, areas of driver fatigue, health & safety as well as vehicle service & maintenance;
- establish an Australian leadership team to support enterprise and market development activities;
- grow the monthly run rate business in small to medium sized fleets;
- increase EROAD's brand awareness using targeted digital marketing; and
- support National Road User Charging pilots and transport regulatory developments using telematics technology.

The acquisition of Coretex accelerates EROAD's Australian strategic priorities and will enable EROAD to:

- improve its market position by adding approximately 7,900 connections (which will exceed the 10,000 target);⁷
- accelerate growth with a focused in-market sales team to target key verticals with more complete product offerings; and
- deliver a shorter time to profitability due to the speed advantage of using Coretex's platform versus building a comparable solution.

The historical key metrics of EROAD and proforma analysis of the combined entities in Australia for the year ended 31 March 2021 are summarised below:

PROFORMA AUSTRALIA KEY METRICS

YEAR END 31 MARCH 2021	EROAD	COMBINED
Total Revenue (\$m)	1.4	8.7
Key Metrics		
Connections	2,874	10,750
ARPU (NZ\$)	\$35.50	\$57.57
Enterprise customers as a % of connections	32%	61%

Source: EROAD Investment Presentation

The historical key metrics of EROAD and proforma analysis of the combined entities in New Zealand for the year ended 31 March 2021 are summarised below:

PROFORMA NEW ZEALAND KEY METRICS

YEAR END 31 MARCH 2021	EROAD	COMBINED
Total Revenue (\$m)	59.8	65.4
Key Metrics		
Connections	87,892	96,568
ARPU (NZ\$)	\$56.18	\$55.61
Enterprise customers as a % of connections	45%	45%

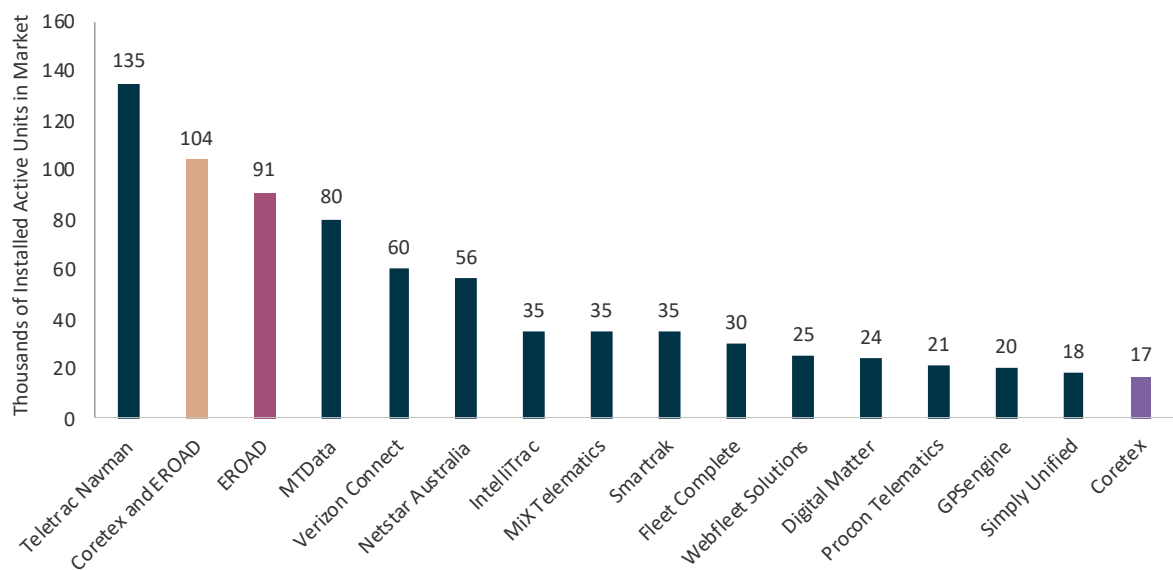
Source: EROAD Investment Presentation

⁷ Based on 31 March 2021



Many vendors are active in the Australasian FM market including several international players and several small and medium sized companies. Teletrac Navman⁸ is estimated to be the largest provider in Australasia with more than 100,000 units installed in Australia alone. Other key players in the market include MTData (a division of Telstra), EROAD, Verizon Connect and Netstar Australia. The following chart shows the top 15 market participants in Australasia based on Berg Insight's estimate of the number of active installed FM units. EROAD is currently the 3rd largest provider and Coretex is the 15th largest provider. The merger of EROAD and Coretex would make the combined business the second largest FM provider in Australasia. EROAD is the number one competitor in New Zealand and it has a relatively small market presence in Australia (it is only in the top 25). If the Proposed Transaction is implemented the strategic target is to be a top 5 player in Australia within 24 months, which will likely make it the number one player in Australia and New Zealand combined.

KEY MARKET PARTICIPANTS BY NUMBER OF ACTIVE INSTALLED UNITS IN AUSTRALIA AND NEW ZEALAND



Source: Berg Insight – November 2020 Fleet Management in Australia and New Zealand. EROAD and Coretex actuals as at 31 March 2021.

⁸ Teletrac Navman is owned by US listed Vontier Corporation.

7 Evaluation of the Proposed Transaction

7.1 Rationale of the Proposed Transaction

The global telematics market is forecast to achieve strong annual growth in the next three to five years due to favourable industry dynamics. These include digital transformation to improve productivity and profitability, regulatory reforms, the move to contactless systems, and a higher level of service demanded from customers who have become highly dependent on efficient supply chains.

The growth of the Telematics industry has attracted new entrants and existing competitors have increased investment in research and development to meet customer requirements, which are growing in complexity, to retain and grow market share.

Over the last five years EROAD has achieved strong growth by having a solution set that is trusted, accurate, reliable, secure, easy to use and backed up with great customer service. EROAD has invested in developing its own direct sales force in Australasia and North America which has targeted the SME market. Coretex has focused on Enterprise solutions and in the last two years it has focused on moving its business from Telematics to Industrial IoT solutions that have been tailored for industry verticals (e.g. cold chain, construction and waste).

EROAD and Coretex have complementary technologies, development teams and platforms. EROAD's management believe that the combined entity which combines the respective strengths of both businesses will allow faster development of products and accelerated customer growth in North America and Australia. In particular, it is expected that the joint business would:

- leverage Coretex's next generation platform and develop more advanced Android solutions. This will enable EROAD to accelerate its own technology roadmap which will be delivered by a larger product and engineering team with complementary skill sets;
- deliver the scale and market product fit to further accelerate growth in North America;
- enable Coretex's Australian business to benefit from the Australian sales and marketing capability and New Zealand based operational support from EROAD;
- provide a more balanced mix of enterprise and SME customers;
- provide greater territorial and industry diversification; and
- have a combined technology solution set that is positioned to compete aggressively with larger global telematics companies. EROAD management believe that the ability of Coretex's technology to deliver Safety and Compliance, Cameras and Sensors, Productivity and Efficiency for Trucks and Trailers products and services all on a single platform will be disruptive in the market.

7.2 Strategic Benefits

The combination of EROAD and Coretex is expected to generate significant benefits in terms of quality of offering and service to customers, as well as quantifiable revenue and cost synergies. EROAD and Coretex have completed a detailed review and quantification of the likely synergies, including an assessment of both revenue and cost synergies.

Revenue synergies are expected to be achieved by:

- The combination of EROAD's broad telematics and regulatory offering with Coretex's expertise in cold chain supply, construction and waste.
- Leveraging EROAD's more mature in-market presence and reputation to win new customers with Coretex's CoreHub and Coretex 360 product which has a broader range of functionality (outside of logbook compliance), and it has specialised industry vertical solutions.



- The use of EROAD's sales and services team in North America. EROAD has a strong track record delivering telematics solutions for fleet sizes between 50 and 500. Coretex's solutions are aimed at enterprise (2,000+) fleet and is likely to appeal to the SME customers EROAD has experience reaching.
- The use of Coretex's Enterprise sales expertise and customer references to sell a combined solution set into large customers in North America.
- An increased ARPU of existing customers by upselling additional functionality.

The following is a summary of the key revenue synergies by market vertical:

- **Food Safety** - Coretex's platform is a market leader in food safety Telematics. Coretex's solution provides the ability to trace and provide whole of supply chain evidence of temperature control, including both in-cab regulatory telematics and points of failure monitoring. If the Proposed Transaction is implemented EROAD will aspire to be a market leader in this vertical in both North America and Australia.
- **Transportation** - The CoreHub device avoids the need for EROAD to invest in developing its next generation platform. Having a readily available device which, from a technology standpoint is market competitive, enables EROAD to create sales momentum and win market share in the Transportation market segment.
- **Civil/Construction** - Coretex's Ready mix product allows the tracking of efficiency metrics for construction clients such as concrete workflow and spread rates of aggregates. The ability to track these metrics is expected to assist clients in preparing infrastructure asset quality certifications (a requirement of regulatory authorities). Coretex has some marquee Enterprise customers in the construction sector which EROAD plans to leverage as references to drive revenue growth through its direct sales channel.

Cost synergies include:

- reductions in overhead due to consolidation and benefits of scale (e.g. governance costs, insurance, facilities, professional fees); and
- reductions in IT operational platform costs (e.g. ERP) in the longer term. In the short to medium term the businesses have assumed they will run separate systems.

Revenue and cost synergies are likely to offset by one off integration and transition costs in the first two years. If the Proposed Transaction is implemented, EROAD plans to invest approximately \$8.0 million in the first two years on the integration of the two product sets and business systems.

Partially offsetting the integration and transition costs is a potential tax benefit arising from the Proposed Transaction. Coretex had \$12.9 million of tax losses carried forward (i.e. approximately \$3.6 million of net tax benefit) at 31 March 2021. EROAD has received external advice that these tax losses will be retained if the Proposed Transaction is implemented. The tax losses can be offset against future taxable profit, which will improve EROAD's free cashflow in future years.

7.3 Comparison of the Consideration with Market Evidence

Having considered the market evidence and the information provided in relation to the Proposed Transaction, Grant Samuel believes that EROAD is paying a strategic premium to acquire Coretex. This higher price can be justified if EROAD can successfully:

- leverage Coretex's intellectual property and telematics engineering capabilities to accelerate its own product development roadmap; and
- realise material synergy benefits over the longer term.

Under the Proposed Transaction, EROAD will acquire Coretex at an enterprise or ungeared value of \$188.25 million. This implies the following capitalisation multiples of revenue:

CORETEX IMPLIED MULTIPLES⁹

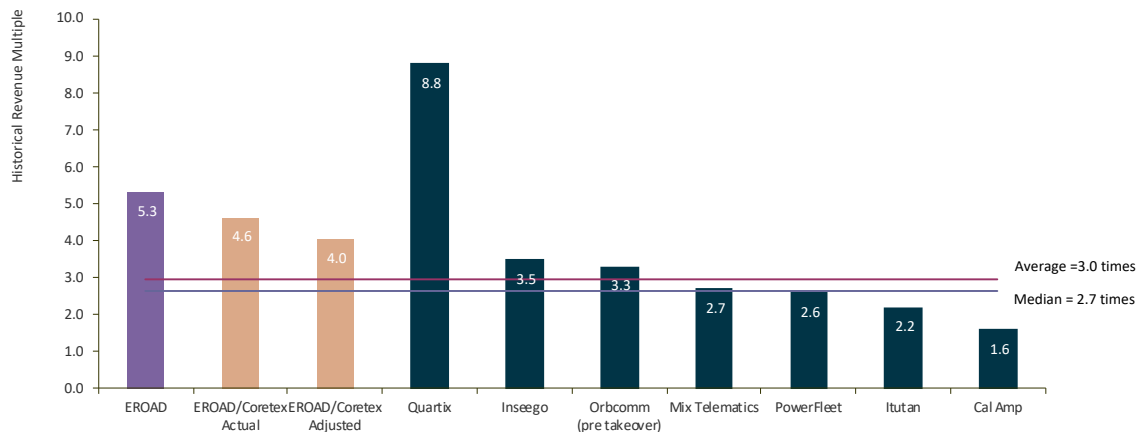
Multiple of Revenue (Actual) – year ended 31 March 2021	4.6
Multiple of Revenue (Forecast) – year ending 31 March 2022	3.6
Multiple of Adjusted Revenue (Actual) – year ended 31 March 2021	4.0
Multiple of Adjusted Revenue (Forecast) – year ending 31 March 2022	3.7

Appendix B provides some commentary on interpreting the capitalisation multiples.

Coretex sells hardware separately and recognises revenue and the cost of sale in the year it is sold. The adjusted Coretex historical and forecast revenue multiple implied by the Proposed Transaction has been adjusted to align with EROAD's business model which charges the cost of hardware as part of a monthly revenue/subscription charge.

The chart below compares the implied historical revenue multiples with listed companies with operations in the Telematics industry including EROAD:

IMPLIED HISTORICAL REVENUE MULTIPLES OF LISTED COMPARABLE COMPANIES AS AT 5 JULY 2021



Source: Grant Samuel analysis and Capital IQ

Appendix D provides more information in relation to the sharemarket evidence that Grant Samuel has considered in evaluating the Proposed Transaction.

EROAD shares are currently trading at implied multiples of 5.3 times historical revenue. This multiple is higher than the implied capitalisation multiples for Coretex. It should also be noted that shares in a listed company normally do not include a premium for control and trade at a discount of 15-25% to the full underlying value of the company as a whole. As such, the implied multiple for EROAD based on its current

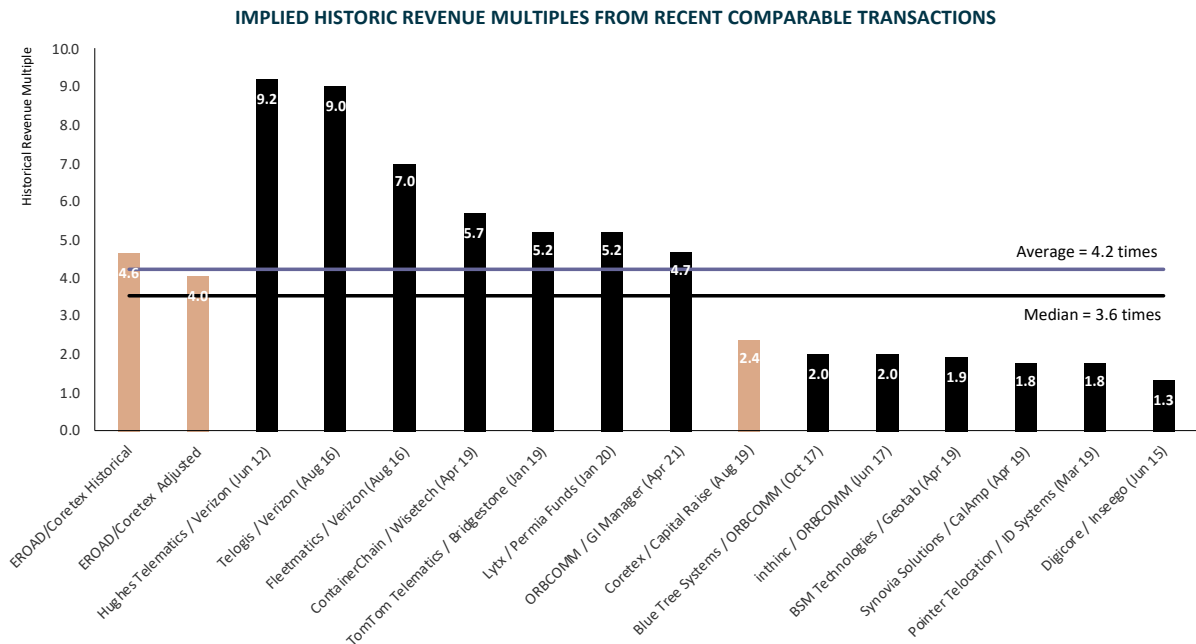
⁹ Enterprise Value / Revenue



share price is likely to reflect a discount to the full underlying value whereas the purchase price for Coretex represents full underlying value.

It is also evident from the chart above that EROAD shares are currently trading at a premium to the revenue multiples of most of the listed Telematics companies that Grant Samuel has selected for its analysis. The average historical revenue multiple implied by the share market prices for these listed international comparable companies is 3.0 times.

The capitalisation multiples implied by the Proposed Transaction can also be compared to the value parameters of past transactions involving broadly comparable businesses:



Source: Grant Samuel analysis and Capital IQ

Appendix C provides more information in relation to the transaction evidence that Grant Samuel has considered in evaluating the Proposed Transaction.

The chart above shows that there have been transactions undertaken at values that implied historical revenue multiples that are in line with or higher than the historical multiples implied by the Proposed Transaction. Other transactions have taken place at much lower revenue multiples of two times or less. Grant Samuel believes that in most cases the higher multiples are explained by a combination of a premium for control and the purchaser being prepared to pay away strategic value to acquire the target. As an example, there is evidence of market consolidators paying a strategic premium for companies where the acquisition of the target company is expected to deliver the acquirer a competitive advantage or is expected to lead to the realisation of material synergy benefits.

Coretex was formed in 2015 following the merger of International Telematics Limited and Imarda Pty Limited. In FY19 and FY20 Coretex raised ~\$14.1 million of equity placing non-controlling parcels of shares with Movac Fund 4 Custodial Limited and Milford Active Growth Fund. The implied historical revenue multiple of the last transaction in August 2019 was approximately 2.4 times. It is important to note that the capital raise in August 2019 was on the same terms as the previous capital raise to avoid the distraction of a wider capital raise process and to provide access to capital to support large customer acquisitions in a timely manner.

7.4 Contingent Consideration

The Proposed Transaction includes Contingent Consideration payable to the Coretex Vendors of \$30.6 million. The Contingent Consideration comprises \$14.5 million payable in cash and 2,683,000 new EROAD shares (\$16.1 million). The Contingent Consideration is payable at the end of the 12 months following completion of the Proposed Transaction shares if several criteria are met.

Grant Samuel observes that the Contingent Consideration mitigates some of the risk associated with the acquisition of Coretex. More specifically, the mechanism is intended to address:

- **Customer Retention.** A key strategic benefit of the Proposed Transaction is to use EROAD's sales and service resource to grow the number of Enterprise customers in North America and Australia by leveraging Coretex's platform and by referencing its existing Enterprise customer base. To date Coretex has not had the sales and service resource to take advantage of these customer references. There is a risk that some of Coretex's existing Enterprise customers churn. In that event the Consideration will be adjusted to compensate for the loss in recurring revenue. The maximum Consideration that will not be paid under the Proposed Transaction is \$14.2 million (\$6.5 million in cash and 1,283,000 shares). In Grant Samuel's opinion, although the Contingent Consideration provides some protection as it is unlikely to be sufficient to compensate for the potential valuation impact if such a loss eventuates. Telematics companies are often valued based on revenue multiples. As noted in section 7.3 the Proposed Transaction implies adjusted historical and forecast revenue multiples of 4.0 and 3.7 times respectively. If all things remained constant and a single customer churned, then the potential impact on valuation is likely to exceed the compensation by a reasonable quantum. The loss of marquee customers in key regions may also impact some of the synergy benefits that are anticipated if the Proposed Transaction is implemented.
- **Platform suitability.** A critical component of the transaction is to leverage Coretex's platforms which were launched in 2020. As at 31 May 2021 approximately 1,000 connections are using the new generation Coretex platform with Corehub. Coretex's stand-alone FY22 plan requires a significant increase in the number of CoreHubs manufactured and installed in order to meet their sales growth targets. If Coretex's platforms are not capable and scalable and cannot support EROAD's forecast growth the purchase price will be adjusted. The maximum Consideration that will not be paid in this instance is \$16.4 million (\$8.0 million in cash and 1,400,000 shares). In Grant Samuel's opinion, although the Contingent Consideration provides some protection it is unlikely to be sufficient to compensate for the potential valuation impact if such a loss eventuates. If Coretex's platform does not meet the required criteria the impact on value will depend on the time required to remedy the issues which could be related to a range of factors including development of software, hardware or supply chain issues.

7.5 Financial Impact of the Proposed Transaction

Grant Samuel observes the Proposed Transaction will have the following financial impact:

- EROAD and Coretex are businesses which are focused on revenue growth, investment in sales and R&D. Over the last three years this has resulted in negative or low levels of free cash flow. If the Proposed Transaction takes place EROAD will require capital to fund projected revenue growth that is predicated on ongoing investment in research and development and hardware purchases for client installations. As a consequence, management are projecting that it will take time before EROAD begins to generate positive free cash flows. From that point onwards synergies and scale benefits are expected to have a material positive impact on the net earnings and net cash flows from operations.
- EROAD currently has a net cash position of \$22 million, which comprises banking facilities with a limit of \$64 million drawn down to \$35 million and cash at bank of \$57 million. EROAD's management are projecting net debt to peak at ~\$50 million in 18 to 24 months, which largely reflects the investment in revenue growth. The forecast capital requirements can be serviced by EROAD's existing banking facilities.

7.6 Dilutionary Impact of the Proposed Share Issues

Under the terms of the Proposed Transaction EROAD will acquire Coretex for \$188.3 million. The breakdown of the Consideration is set out below:

- **Cash:** The cash part of the Consideration is \$92.3 million.
- **Shares:** The share component of the Consideration is \$96.0 million which will be satisfied through the issuance of 16.0 million shares in EROAD at a proposed issue price of \$6.00.

The table below shows the proposed issue price of \$6.00 represents a small discount to the last price at which EROAD's shares traded on 9 July 2021 and a premium of 6% or more to the volume weighted average price at which EROAD shares have traded over a period of 3 months or longer:

COMPARISON OF THE PROPOSED ISSUE PRICE WITH EROAD SHARE PRICES PRIOR TO 9 JULY 2021

	Price	Premium / (Discount)
Share issue to Coretex Vendors	\$6.00	-
Average five day VWAP as at 9 July 2021	\$6.22	(3.5%)
Closing price as at 9 July 2021	\$6.15	(2.4%)
1 month VWAP	\$6.10	(1.7%)
3 month VWAP	\$5.64	6.3%
6 month VWAP	\$5.14	16.8%
12 month VWAP	\$4.45	34.9%

Section 4.12 of this report provides some commentary on EROAD's recent share price performance. Grant Samuel considers an issue price of \$6.00 to be at or about the current listed market price for EROAD shares and therefore will have little or no dilutionary impact. To fund the cash component of consideration payable under the Proposed Transaction EROAD plans to raise \$80.5 million by issuing shares via a placement to institutions and via a SPP to retail investors. The price of the share placement is \$5.58 a 9.5% discount to the 5 day VWAP of EROAD shares traded on the NZX during the five days up to 13 July 2021 (the day before the announcement of the Proposed Transaction).

The SPP pricing will be based on the lower of the price paid by investors in the placement and the 5 day VWAP of EROAD shares traded on the NZX during the five days up to, and including, the closing date of the SPP on Tuesday 3 August 2021.

The discount being applied to the shares issued in the capital raising is relatively consistent with the level of discount that was applied in September 2020 when EROAD raised \$50.0 million via a fully underwritten placement of shares and a \$8 million SPP (at a 10% discount to the last close price on 14 September 2020).

The following table sets out the potential dilutive impact on EROAD's share price of \$6.22 (the average five day VWAP as at 9 July 2021) and the price of the capital raise:¹⁰

¹⁰ Note the Consideration payable for Coretex under the proposed transaction includes issue 16 million shares to be issued at price of \$6.00, including 2.7 million shares that will be issued in 12 months time contingent on customer retention and Coretex's platform suitability. The analysis below only includes the 13.3 million shares that are issued on settlement.

POTENTIAL IMPACT ON THE SHARE PRICE

	(000s)
Number of shares on issue prior to the announcement of the Proposed Transaction	81,896
Number of shares issued to Coretex shareholders (excluding the contingent component)	13,317
Number of shares issued in the capital raise	14,427
Number of shares after the Proposed Transaction and capital raise (excluding the contingent component)	109,640
Average five day VWAP as at 9 July 2021	\$6.22
Share price issued as consideration to Coretex shareholders	\$6.00
Price of share issue to retail and institutional shareholders	\$5.58
Weighted average value of shares	\$6.11
Dilution impact on share price	(1.8)%

The Proposed Transaction will have a minimal dilutive impact on the share price all other things being equal. As noted above, the price of the SPP may be lower if the average five day VWAP is lower at the closing date of the SPP. This analysis assumes the price of the SPP issuance is not materially different to the price of the placement.

7.7 No Change of Control

The following table summarises the potential impact on the ownership of EROAD if the Proposed Transaction takes place:

POTENTIAL CHANGE OF OWNERSHIP

	Shareholding before the Proposed Transaction	Shareholding after the Proposed Transaction
Existing EROAD shareholders	100.0%	72.9%
Shares issued in the capital raise	-	12.8%
EROAD shareholders after the capital raise	-	85.8%
Coretex shareholders	-	11.9%
Coretex shareholders Contingent Consideration	-	2.4%
Total Shareholding	100.0%	100.0%

- The Proposed Transaction will result in the Coretex Vendors owning approximately 11.9% of all EROAD shares on issue. This ownership percentage will increase potentially up to 14.3% if further EROAD shares are issued to Coretex Vendors in 12 months in payment of the Contingent Consideration.
- Coretex has 48 shareholders and no single shareholder holds more than 25% of all Coretex shares on issue. Accordingly, no single Coretex shareholder will hold more than 3.5% of EROAD shares on issue if the Proposed Transaction takes place.
- No single EROAD shareholder currently controls more than 20% of the shares on issue. The planned share issuance to fund the cash component of consideration payable for Coretex has been structured to enable the majority of EROAD's retail shareholders to maintain but not increase their pro-rata ownership of the enlarged EROAD.
- As is common with SPPs, the allocation of shares to investors is capped, in this case at A\$30,000 per retail investor. EROAD's largest retail shareholders that do not have the opportunity to participate in the placement will not be able to maintain their pro-rata ownership of the enlarged EROAD.
- Existing Institutional investors have had the ability to participate in the capital raising via a share placement but will not be able to acquire more than 10.3% of all EROAD shares on issue post the Proposed Transaction.
- Steve Newman is EROAD's CEO and largest shareholder and intends to participate in the placement.



- Existing Institutional investors that participate in the share placement are not entitled to vote on the resolution to approve the capital raising.
- There is not expected to be any material change in the control or ownership of EROAD as a result of the Proposed Transaction.
- As noted earlier the Proposed Transaction has a dilutionary impact for EROAD's existing shareholders. However, the extent of the dilutionary impact will depend on whether or not EROAD shareholders elect to participate in the proposed share issuance.

7.8 Potential Impact on EROAD's Share Price

A key consideration for EROAD shareholders is whether the Proposed Transaction is likely to result in EROAD shares trading at prices higher than the value of the shares prior to the announcement of the Proposed Transaction. Judgements regarding the price at which shares in the EROAD might trade are not straightforward. Grant Samuel has considered the following:

- The strategic rationale for the Proposed Transaction is to strengthen EROAD's market position in North America and Australia. This may lead to accelerated growth and a re-rating of its shares. However, it is important to note that EROAD shares appear to be trading at a premium when comparing it with the implied revenue multiples of listed Telematics comparable companies that Grant Samuel has used in its analysis of the Proposed Transaction (refer section 7.3). Grant Samuel observes that:
 - some market analysts are of the view that EROAD's revenue multiple is reasonable when compared with listed Telematics companies because of its forecast revenue growth; and
 - other market analysts believe EROAD is trading at a discount when compared to Australian listed software companies.
- The Proposed Transaction will diversify EROAD's revenue. If the Proposed Transaction is implemented EROAD will have a larger presence in North America and Australia, it will provide services to a wider range of industry verticals and it will have a much higher proportion of enterprise customers. In most circumstances diversification reduces the risk of an investment. Coretex currently has exposure to a few key customers in North America and Australia which reduces the diversification benefits in the short term.
- EROAD, with the support of Coretex representatives and external advisors, has undertaken an extensive review of the potential financial benefits arising from the Proposed Transaction. Their assessment of the potential incremental revenue growth and cost savings suggests that EROAD shares will increase materially in value over time if these merger synergies can be fully realised. They also concluded that it is likely to take two to three years before EROAD's results begin to show signs of a net positive improvement as any short term benefits that are realised are expected to be offset by one off integration costs.
- The analysis supporting the assessment of the potential synergies is also highly subjective and commercially sensitive, which renders further disclosure inappropriate at this time. In the absence of any meaningful information on potential synergies it is difficult for investors to attach much value to synergy benefits.
- EROAD is focused on revenue growth which requires capital. Given EROAD's strategic goals the Proposed Transaction is unlikely to materially influence dividend payments as any available capital will likely be reinvested in the company to accelerate growth.
- The shares to be issued to Coretex shareholders on completion of the Proposed Transaction will be held in escrow and released in tranches over a period of 18 months, as summarised in the table below:



SHARE CONSIDERATION - ESCROW TRANCHES

	% Released	Shares Issued	Shareholding % After the Proposed Transaction
6 months from the date of settlement	40.0%	6,400	5.8%
12 months from the date of settlement	20.0%	3,200	2.9%
18 months from the date of settlement	40.0%	6,400	5.8%
Total shares issued	100.0%	16,000	14.4%

The escrow is intended to prevent Coretex Vendors from selling shares immediately after the Proposed Transaction is settled. Releasing the shares in tranches from escrow over time also staggers the increase in the free float of EROAD shares.¹¹

The decision to sell EROAD shares will be dependent on each individual shareholder's personal circumstances and taking into consideration a range of factors including the price of EROAD shares, the outlook for the business and industry dynamics at the time.

- It is conceivable given the strategic rationale for the Proposed Transaction that EROAD may become a more attractive acquisition target post transaction for a larger competitor or a new entrant looking to disrupt the Telematics industry.
- There are further factors that complicate judgements regarding the price at which shares in the EROAD might trade in the short term following the Proposed Transaction. Since EROAD's shares were listed on the NZX on 15 August 2014, the share price has increased from \$3.00 per share to \$6.35 on 2 July 2021 (a 11.5% average annual capital return). However, since it listed in 2014 the share price has underperformed the NZX50 Capital Index, it has been volatile, and it has fallen as low as \$1.53. Most share price gains have been achieved since the middle of 2020. Since June 2020, EROAD shares have gone from trading at prices below \$3.00 per share to over \$6.00 per share (i.e. more than doubled in value). The volatility of recent trading in EROAD shares means that any forecast of future share prices is highly problematic.
- Coretex's customer base is comprised largely of Enterprise customers, while EROAD has targeted SME sized fleets. Securing Enterprise customers requires a different sales approach and skill set. The time and resource required when compared to winning a SME customer is often materially different. Securing Enterprise customers can have a material impact on revenue, but the timing is also less predictable which can make it challenging for listed companies to forecast revenue and provide guidance to the market. If the Proposed Transaction is implemented and if EROAD shifts resource to focus on Enterprise customers, revenue may become less predictable and the share price may become more volatile.
- On a conference call presenting FY21 results to market commentators on 28 May 2021 EROAD management alluded to the possibility that an acquisition may be imminent in the next 12 months. EROAD's share has risen since then from \$5.56 to over \$6.35 on 2 July 2021. It is conceivable that this appreciation in its share price may, in part, be attributable to some recognition of the potential value uplift from a pending acquisition but in the absence of any transaction details it is unlikely to be anything more than speculation.

¹¹ It is also noted that shares can be sold or transferred within the escrow period if a Coretex shareholder provides at least five business days' written notice and in return receives the prior written approval to sell or transfer shares from EROAD.

7.9 Disadvantages and Risks

The Proposed Transaction does involve several disadvantages and risks which are summarised below:

- A key risk for EROAD shareholders is that Coretex may not deliver the level of projected revenue and earnings expected. Coretex's strength has been its engineering of Enterprise Grade solutions for industry verticals but does not currently have the sales resource to deliver the projected revenue growth and in the absence of the Proposed Transaction was planning to expand its direct sales team to augment its dealer channels in North America. EROAD has a substantial sales office in Portland, Oregon, USA and plans to leverage this in-house capability to drive Coretex product sales.
- A fundamental rationale for the Proposed Transaction is that it will improve the strategic positioning of EROAD and consequently over time this will result in improved earnings through the delivery of revenue and cost synergies. Coretex management has recent experience with business integration¹² and some of the learnings from this may prove a useful guide as the management teams look to bring the two businesses together. However, the integration of EROAD and Coretex will involve challenges of a substantially different scale and complexity, which may be exacerbated by the travel limitations imposed by Covid-19. As a consequence, some of the identified potential merger benefits may take longer to realise and may be less than expected.
- Covid-19 has had a material effect on the global economy and adversely impacted the financial performance of EROAD and Coretex. It is likely that there will be further adverse change caused by Covid-19 moving forward, which may impact EROAD's ability to execute its acquisition strategy. Covid-19 has had a material impact on the global supply chain, which is impacting EROAD and Coretex's ability to manufacture hardware in a cost effective manner and within desired timeframes. If supply chains continue to be impacted by Covid-19 this will impact EROAD's ability to achieve its growth targets.
- Coretex manufactures Corehub in New Zealand and this will need to scale up substantially to achieve the level of projected revenue growth underpinning the Proposed Transaction. If Coretex cannot source locally the volume of hardware that management are projecting to sell then it will need to find an offshore alternative or it will limit revenue growth. Globally the production of telematics equipment is being impacted by logistical challenges caused by Covid-19 and tight supply of key raw materials. Coretex is also only a very small market participant in a global context. Against these headwinds, Coretex management have advised that they are confident the business can reliably source the hardware in the volumes needed to meet sales projections.
- EROAD is acquiring Coretex by issuing approximately \$160.4 million of new shares on completion. However, the new shares are not all being issued to the Coretex Vendors. EROAD is raising \$80.5 million from its existing shareholders and new investors and paying approximately 50% of the purchase price of Coretex in cash. As consequence, Coretex shareholders will effectively cash out a substantial portion of their investment in the business pre-merger and therefore not share, to the same extent, the risks and rewards that are associated with the Proposed Transaction.
- Several Coretex shareholders are senior members of its management team and their ongoing involvement with the business is considered critical to achieving a successful merger with EROAD and realising strategic benefits going forward. Coretex is not a widely held company and some key people will receive a material cash payment on settlement. The shares issued as consideration (which are held in escrow for a period up to 18 months) and Contingent Consideration may provide sufficient incentive for all key people to continue to drive performance of the enlarged business through a period of change over the next two to three years. Equally, it would not be the first time that having received a large cash payment a key executive in a target company became less motivated to perform in what will be new working environment.

¹² Coretex was formed in 2015 by merger of Imarda and International Telematics and acquired Air-Track shortly thereafter.



- EROAD expects that its total transaction costs for the Proposed Transaction will be approximately \$4.5 million, of which approximately \$1.5 million will have been committed by the time shareholders vote on the Proposed Transaction.

7.10 Conditions Precedent

The Proposed Transaction is subject to satisfying several conditions precedent and in assessing these, EROAD shareholders should consider the following:

- The outcome of the shareholder vote on the Proposed Transaction is binary. If EROAD shareholders vote in favour of the Proposed Transaction and the other conditions are satisfied, the Proposed Transaction will be implemented. If EROAD shareholders do not pass the resolutions required to effect the Proposed Transaction, the Proposed Transaction would not proceed. EROAD would continue to be a growth company listed on the NZX and ASX, and no shares in the company would be allocated to Coretex. The terms of the Proposed Transaction are set and must be either rejected or accepted in their entirety by EROAD shareholders.
- If the Proposed Transaction is rejected by EROAD shareholders or the other transaction conditions are not satisfied, the parties to the Proposed Transaction could theoretically elect to renegotiate the transaction terms. In that circumstance the process could start again and a new set of resolutions could be put to EROAD shareholders. However, such an outcome would appear unlikely given the complexity of the Proposed Transaction. If the Proposed Transaction does not proceed, it would appear more likely that there will be no follow up transaction.
- The Proposed Transaction is subject to conditions that are outside the control of EROAD shareholders. These include the receipt of Commerce Commission and OIO approvals and no material adverse change or prescribed breach event occurring. The sequencing of the conditions is therefore of interest to EROAD shareholders. The vote by EROAD shareholders is likely to occur before the receipt of Commerce Commission and OIO approval and the conditions relating to prescribed breach events or material adverse changes will survive until completion. There is therefore no certainty that the Proposed Transaction will proceed until such time as those conditions have been satisfied.

7.11 Alternative to the Proposed Transaction

The alternative to not undertaking the Proposed Transaction is for EROAD to continue on its own for the foreseeable future. Grant Samuel makes the following observations:

- EROAD has demonstrated relatively consistent year on year growth since it listed on the NZX in 2014, although FY21 was impacted by Covid-19. EROAD has a strong balance sheet with approximately \$22.1 million of net cash for investment. EROAD will continue to execute on its strategic plan, which is forecast to deliver similar levels of year on year revenue growth for next three to five years (which is relatively in line with forecast industry growth).
- EROAD's management have undertaken extensive due diligence on Coretex including synergy analysis. The outcome of this analysis was that an acquisition of Coretex will enable EROAD to accelerate its growth in North America and Australia and if the majority of the quantified synergies are realised it will be value accretive to EROAD shareholders. If EROAD does not proceed with the Proposed Transaction these synergy benefits will not be available and EROAD will be left to continue to focus on its own strategic plan, which includes investment in migrating its technology to be Android based. EROAD's management believe that its new Android based IoT platform is 18 to 24 months from completion.
- The Telematics industry is extremely competitive. Over the last 12 months EROAD's solution in the small to medium business segment, when combined with its sales capability, has proven to be sufficient to continue to win and retain customers, including its largest Enterprise customer in Australia, Ventia. EROAD's competitors are aggressive and some have a technology advantage in certain markets. The

extent this technology advantage impacts EROAD's growth while it develops its next generation solution is difficult to predict. The Proposed Transaction mitigates the build risk presently faced by EROAD and it accelerates EROAD's migration to an Android based platform which will enable it to leverage a broader feature set, more stable codebase and increase innovation speed.

- EROAD is well positioned in North America in the small to medium enterprise segment of the market. Its technology and customer base are likely to be attractive to larger competitors or new entrants looking to disrupt the Telematics industry. EROAD's shareholders could choose to vote against the Proposed Transaction in the expectation that they might realise superior value through some alternative change of control transaction in the future. However, there can be no assurance that any alternative proposal would be put to EROAD shareholders, either in the immediate future or over the longer term. The need for ongoing development to move to an Android based IoT platform may also discourage a competing takeover offer from another market participant at this time.

7.12 Investment Decision

- Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Proposed Transaction. In any event, the decision whether to vote for or against the Proposed Transaction is a matter for individual shareholders, based on their own views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional adviser.
- Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in EROAD. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote for the Proposed Transaction. Shareholders should consult their own professional adviser in this regard.

GRANT SAMUEL & ASSOCIATES LIMITED

July 2021

APPENDIX A - QUALIFICATIONS, DECLARATIONS AND CONSENTS

1. *Qualifications*

The Grant Samuel group of companies provides corporate advisory services in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally. One of the primary activities of Grant Samuel is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 400 public expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Peter Jackson BCom, CA, Christopher Smith, BCom, PGDipFin, MAppFin, Jake Sheehan BCom (Hons) and Myles Snaddon, LLB, BCom, CFA. Each has a significant number of years of experience in relevant corporate advisory matters.

2. *Limitations and Reliance on Information*

Grant Samuel believes that its opinions must be considered in their entirety and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of opinions such as those set out in this report is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by EROAD, Coretex and their respective advisers. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, enquiry, and review for the purposes of assessing the Proposed Transaction. However in such assignments time is limited and Grant Samuel does not warrant that these enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate enquiries for the purposes of forming its opinions, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, product disclosure statements or profit forecasts is beyond the scope of an independent expert.

The limited timeframe restricts the ability to undertake a detailed investigation of EROAD or Coretex. Grant Samuel has not undertaken a due diligence investigation of EROAD or Coretex. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of EROAD or Coretex. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice and in a manner consistent with methods of accounting used in previous years.

An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of the management of the relevant enterprise. That information was also evaluated through analysis, enquiry and review to the extent practicable. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included projections of future revenues, expenditures, profits and cash flows of EROAD and Coretex was prepared by their respective management teams and advisers. Grant Samuel has used these projections for the purpose of its analysis. Grant Samuel has assumed that these

projections were prepared accurately, fairly and honestly based on information available to management at the time and within the practical constraints and limitations of such projections. It is assumed that the projections do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise.

However, Grant Samuel in no way guarantees or otherwise warrants the achievability of the projections of future profits and cash flows for EROAD and Coretex. Projections are inherently uncertain. Projections are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results may be significantly more or less favourable.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue. In forming its opinion, Grant Samuel has assumed, except as specifically advised to it, that:

- the title to all such assets, properties, or business interests purportedly owned by EROAD and Coretex is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;
- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators other than as publicly disclosed, and that all required licences, rights, consents, or legislative or administrative authorities from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the businesses of EROAD and Coretex, other than as publicly disclosed;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of EROAD and Coretex, other than as publicly disclosed.

3. Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Proposed Transaction. Grant Samuel expressly disclaims any liability to any EROAD security holder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees to the extent allowed by law for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Notice of Meeting issued by EROAD and has not verified or approved any of the contents of the Notice of Meeting. Grant Samuel does not accept any responsibility for the contents of the Notice of Meeting.



4. Independence

Grant Samuel and its related entities do not have any shareholding in or other relationship or conflict of interest with EROAD or Coretex that could affect its ability to provide an unbiased opinion in relation to the Proposed Transaction. Grant Samuel had no part in the formulation of the Proposed Transaction. Its only role has been the preparation of this report. Grant Samuel will receive a fixed fee for the preparation of this report. This fee is not contingent on the outcome of the Proposed Transaction. Grant Samuel will receive no other benefit for the preparation of this report.

5. Sources of Information

The following information was used and relied upon without independent verification in preparing this report:

Publicly Available Information

- annual reports for EROAD for FY18-FY20;
- EROAD NZX announcements;
- EROAD Notice of Meeting;
- brokers' reports and press articles on EROAD and the telematics industry; and
- share market data and related information on EROAD and other businesses engaged in the telematics industry.

Non Public Information Provided by EROAD

- EROAD/Coretex joint business plan;
- EROAD/Coretex EY Synergies and MergeCo valuation; and
- transaction related presentations (including presentations from financial advisers).

Non Public Information Provided by Coretex

- Coretex Board minutes May 2018-February 2021;
- Coretex annual reports FY18-FY20;
- Coretex five year forecast model;
- Coretex FY22 budget;
- confidential industry reports; and
- due diligence report and other information provided in the Coretex virtual data room.

Grant Samuel has also had discussions with and obtained information from Senior Management of EROAD and Coretex.

**6. Declarations**

EROAD has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a Court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. EROAD has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by EROAD are limited to an amount equal to the fees paid to Grant Samuel.

Advance drafts of this report were provided to the directors and executive management of EROAD. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

7. Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included with the Notice of Meeting to be sent to security holders of EROAD. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

APPENDIX B – INTERPRETATION OF MULTIPLES

Earnings multiples are normally benchmarked against two primary sets of reference points:

- the multiples implied by the share prices of listed peer group companies; and
- the multiples implied by the prices paid in acquisitions of other companies in the same industry.

In interpreting and evaluating such data it is necessary to recognise that:

- multiples based on listed company share prices do not include a premium for control and are therefore often (but not always) less than multiples that would apply to acquisitions of controlling interests in similar companies. However, while the premium paid to obtain control in takeovers is observable (typically in the range 20-35%) it is inappropriate to simply add a premium to listed multiples. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by share market investors;
- acquisition multiples from comparable transactions are therefore usually seen as a better guide when valuing 100% of a business but the data tends to be less transparent and information on forecast earnings is often unavailable;
- the analysis will give a range of outcomes from which averages or medians can be determined but it is not appropriate to simply apply such measures to the company being valued. The most important part of valuation is to evaluate the attributes of the specific company being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it belongs;
- acquisition multiples are a product of the economic and other circumstances at the time of the transaction. However, each transaction will be the product of a unique combination of factors, including:
 - economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
 - strategic attractions of the business – its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
 - the company's own performance and growth trajectory;
 - rationalisation or synergy benefits available to the acquirer;
 - the structural and regulatory framework;
 - investment and share market conditions at the time, and
 - the number of competing buyers for a business;
- acquisitions and listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall share market levels and rating between countries, economic factors (economic growth, inflation, interest rates), market structure (competition etc.) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or share market levels;
- acquisition multiples are based on the target's earnings but the price paid normally reflects the fact that there were cost reduction opportunities or synergies available to the acquirer (at least if the acquirer is a "trade buyer" with existing businesses in the same or a related industry). If the target's earnings were adjusted for these cost reductions and/or synergies the effective multiple paid by the acquirer would be lower than that calculated on the target's earnings;



- while EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:
 - EBIT multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable guide. In addition, there can be differences between companies in the basis of calculation of depreciation; and
 - businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher as capital expenditure.

APPENDIX C – TRANSACTION EVIDENCE

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. A selection of recent transactions involving Telematics businesses is set out below:

RECENT TRANSACTION EVIDENCE

DATE	TARGET	ACQUIRER	IMPLIED ENTERPRISE VALUE (MILLIONS)	REVENUE MULTIPLE (TIMES)	
				HISTORIC	FORECAST
Apr 21	ORBCOMM	GI Manager	US\$1,187	4.7	4.2
Jan 20	Lytx	Permia Funds	CA\$1,536	5.2	n.a.
Jan 20	Coretex	Capital raising	NZ\$108	2.4	n.a.
Apr 19	BSM Technologies	Geotab	CA\$133	1.9	1.8
Apr 19	ContainerChain	Wisetech Global	A\$92	5.7	n.a.
Apr 19	Synovia Solutions	CalAmp	US\$50	1.8	n.a.
Mar 19	Pointer Telocation	ID Systems	US\$137	1.8	1.5
Jan 19	TomTom Telematics	Bridgestone Europe	EUR906	5.2	n.a.
Oct 17	BlueTree Systems	ORBCOMM	US\$43	2.0	2.0
Jun 17	Inthinc	ORBCOMM	US\$35	2.0	2.0
Aug 16	Telogis	Verizon	US\$900	9.0	5.6
Aug 16	Fleetmatics	Verizon	US\$2,184	7.0	5.8
Jun 15	Digicore	Inseego	US\$93	1.3	n.a.
Jun 12	Hughes Telematics	Verizon	US\$713	9.2	6.6
Average				4.2	3.7
Median				3.6	3.1

Source: Grant Samuel analysis¹³ n.a. means not available.

A brief description of each of the transactions is provided below:

ORBCOMM Inc. / GI Manager

On 8 April 2021, ORBCOMM Inc. (**ORBCOMM**) announced that entered into an agreement to be acquired by private investment firm GI Partners for US\$11.50 per share in cash, implying an enterprise value of approximately US\$1.1 billion. The purchase price represented a 52% premium to ORBCOMM's closing share price on 7 April 2021, the day before the deal was announced. ORBCOMM is a provider of IoT and telematics solutions and the company generated total revenues in 2020 of \$248m and adjusted EBITDA of US\$55m. 64% of its revenues were from services and 36% were from product sales. The company has 725 people comprising 305 engineers and has 15 offices globally. GI Partners will focus on advancing ORBCOMM's growth strategy by investing in key areas such as sales, marketing and innovation. The purchase price implies multiples of 4.7 times historical revenue and 4.2 times forecast revenue. As well as providing telematics solutions, ORBCOMM also owns its own satellite infrastructure. GI Manager plans to invest in key areas of the business such as sales, marketing and innovation to support the company's expansion. The transaction is expected to close in the second half of 2021.

¹³ Grant Samuel analysis based on company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

Lytx Inc / Permia Funds

On 8 January 2020 Lytx Inc. announced that it had signed an agreement for a funding round that would result in a majority stake in the company being acquired by Permira Advisers and other investors including the Canadian Pension Plan. The round was raised at a post money valuation of US\$2.5 billion. The capital raising implied a multiple of 5.2 times Lytx's historical revenues. The revenue multiple implied by the capital raising reflects the company's strong growth track record and its attractive video based technology.

Coretex / Capital raising

In FY19 Coretex raised approximately \$10.1 million of new capital from the issue of shares and convertible notes and FY20 Coretex issued \$4 million of shares. In both capital raising events the equity was raised at \$1.23 per share. In FY20 this implied an equity value of approximately \$108 million which implied a historical revenue multiple of approximately 2.4 times. The transactions did not materially impact the level of control in Coretex and therefore it reflects the value of a portfolio interest at that time. The last share issuance at this price was in January 2020 when an option was exercised.

Synovia Solutions / Cal Amp

On 15 April 2019 CalAmp Corp. (**CalAmp**) announced that it had acquired Synovia Solutions LLC for approximately US\$50 million in cash. Synovia is a North American market leader in fleet safety and management for K-12 school bus and state and local government fleets. In 2018 Synovia posted over US\$28 million in SaaS recurring revenue with double digit growth and EBITDA margins of approximately 30%. The acquisition boosted CalAmp's high value SaaS revenue and builds its fleet management and vehicle safety portfolio across the US and Canada. The purchase price implies a revenue multiple of 1.8 times. CalAmp is a listed comparable company.

BSM Technologies Inc. / Geotab Inc.

On 8 April 2019, Geotab Inc. (**Geotab**) entered into an agreement to acquire BSM Technologies Inc. (**BSM**) from various shareholders for CA\$117.3 million. BSM provides GPS fleet and asset management solutions in Canada, the United States and internationally. For the trailing 12 months to 31 March 2018 BSM generated EBITDA of CA\$2.9m on revenues of CA\$60 million. In the 3 months to 31 December 2018, subscription services contributed 73% of revenue, hardware products contributed 21% of revenue and the remaining revenue was from professional services. The acquisition allowed BSM's technology and know-how in important verticals such as government and rail to be made available through Geotab's fleet management platform. Geotab develops and manufactures fleet management and vehicle tracking products. The purchase price implied multiples of 1.8 times forecast revenues and 1.9 times historical revenues.

Containerchain / Wisetech Global

On 26 February 2019, Wisetech Global Limited (**Wisetech**) announced that it had agreed to acquire Containerchain for A\$98 million. Containerchain is a leading provider of container optimisation solutions to the container shipping and landside container logistics industry in Asia Pacific, Europe and the United States. Containerchain's solutions provide real time tracking, automation, connectivity, operational planning and container visibility across the supply chain and covers more than 5 million import and export container movement notifications annually. The purchase price implied a multiple of 6.4 times historical revenue. Containerchain was a strategic acquisition for Wisetech because it provided the technology for being able to provide additional visibility, notifications and decision making capability to Wisetech's existing offering.

Pointer Telocation / ID Systems Inc.

On 13 March 2019, I.D. Systems Inc. (now known as **PowerFleet**, Inc.) entered into an agreement to acquire Pointer Telocation Ltd (**Pointer**) for approximately US\$140 million. The consideration was paid as \$8.50 per share in cash and 1.272 shares per each Pointer share held. Pointer provides mobile resource management (MRM) products and services for the automotive and insurance industries. For the 12 months to 31 December 2018, the company generated EBITDA of US\$12.7m on revenues of US\$77.8m (16.3% EBITDA margin) and EBIT of US\$10.1m (13% EBIT margin). PowerFleet provides telematics software and solutions to fleet owners of material handling equipment, heavy duty and light duty trucks, tractor trailers, containers, cargo and vehicles. The purchase price implied multiples of 1.8 times historical revenue and 1.5 times forecast revenue. The acquisition combined ID Systems'

market and product leadership in North America with Pointer's technology leadership, supply chain acumen and broad international footprint. Powerfleet is a listed comparable company.

Tomtom Telematics / Bridgestone Europe

On 22 January 2019, Bridgestone Europe NV/SA entered into an agreement to acquire TomTom Telematics BV (renamed **Webfleet** in October 2019) from TomTom N.V. for EUR 910 million in cash. In 2018 Webfleet generated EBIT of EUR 52.6 million on revenues of EUR 174 million (30% EBIT margin). Webfleet provides SaaS solutions for fleet management including vehicle telematics solutions including the WEBFLEET platform to avoid traffic jams and inefficient driving. At the time of the acquisition Webfleet had 670 employees and was the leading telematics provider in Europe. This transaction was Bridgestone's major entry into the telematics industry.

Headquartered in Tokyo, Bridgestone manufactures and supplies tyres internationally and is the world's largest tyre and rubber company. Bridgestone Europe is present in 38 countries in the region employing 18,300 people across 15 tyre plants. TomTom is a provider of maps, navigation software and real-time traffic information and services. The purchase price implied a multiple of 5.2 times historic revenues.

Fleetmatics Group PLC / Verizon Communications

On 1 August 2016, Verizon Communications Inc. (**Verizon**) entered into an agreement to acquire Fleetmatics Group PLC Fleetmatics for US\$60 per share in cash, implying an equity value of approximately US\$2.35 billion. Fleetmatics provides SaaS mobile workforce solutions for small and medium sized businesses globally. The company's products offer fleet operators with visibility into vehicle location, fuel usage, speed and mileage and other insights. At the time of the acquisition Fleetmatics was a market leader in North America with over 37,000 customers and 737,000 subscribers and a team of 1,200 people. Following the acquisition, Verizon's telematics business comprised Verizon Telematics, Fleetmatics and the Telogis Inc., which was also acquired closed on 29 July 2016. The purchase price implied multiples of 5.8 times forecast revenues and 7.0 times historic revenues. As an owner and operator of telecommunications infrastructure, Verizon can generate synergies from using its own infrastructure to deliver telematics services.

Telogis / Verizon Communications

On 21 June 2016, Verizon signed an agreement to acquire Telogis Inc for an enterprise value of US\$900 million. Telogis provides fleet management solutions. Its solutions include Telogis Fleet, which provides real-time location and status for various assets on one dashboard, Telogis Progression, a Software-as-a-Service work order management solution that includes job creation, routing, mobile asset management and monitoring, and real-time communication; Telogis Mobile that enables companies to stay connected to their workers through two-way messaging, forms, work orders, and commercial navigation; and Telogis Route that reduce miles and travel times with optimized planned routes and instant reroutes, as well as actual vs. planned reporting. The transaction implied multiples of 9.0 times historical revenue and 5.6 times forecast revenue.

Digicore Holdings Limited / Inseego Corp.

On 18 June 2015 Novatel Wireless Inc. (now **Inseego Corp**) made a non-binding offer to acquire DigiCore Holdings Limited (**DigiCore**) for approximately ZAR 960 million from various shareholders. Digicore designs, manufactures, sells and supports GPS/GSM fleet management and vehicle tracking solutions in South Africa and internationally. The business was later rebranded as CTrack under the Inseego's ownership. For the 12 months ended 31 March 2015, Digicore generated EBITDA of ZAR 102 million on revenues of ZAR 887 million (11.5% EBITDA margin). At the time of the acquisition Digicore had 980 employees. Inseego provides 4G/5G and intelligent IoT device-to-cloud solutions in the USA. The purchase price implied multiples of 1.3 times historic revenues.

***Blue Tree Systems and inthinc / ORBCOMM***

During 2017 ORBCOMM acquired Blue Tree Systems for an enterprise value of US\$42.5 million and inthinc for an enterprise value of US\$60 million. Both companies were acquired for multiples of approximately 2.0 times historic revenue. Blue Tree Systems provides fleet management solutions for both refrigerated and unrefrigerated trucks and trailers and had 300 customers and inthinc provided fleet management solutions to more than 100 customers who operate large commercial fleets. The acquisitions of both companies strengthened ORBCOMM's offering so that it could offer a more complete telematics solution covering nearly every asset class including in-cab, fleet vehicles, refrigerated assets and dry vans. ORBCOMM is a listed comparable company that is currently subject to a takeover.

Hughes Telematics / Verizon

On 1 June 2012 Verizon Communications Inc. signed an agreement to acquire Hughes Telematics Inc. (**Hughes**) for approximately US\$570m including the assumption of debt, implying an enterprise value of approximately US\$713 million. The acquisition expanded Verizon's capabilities in the automotive fleet telematics market and accelerated its growth in key vertical segments including the emerging machine-to-machine, or M2M, segment. The purchase price implied a multiple of 6.6 times forecast revenue.

APPENDIX D – SHAREMARKET EVIDENCE

There are several listed international companies with operations in the Telematics industry. While none of these companies are directly comparable to Coretex, sharemarket data does provide some guidance as to the multiples at which a portfolio interest in its shares may trade:

SHAREMARKET RATINGS OF SELECTED LISTED FLEET TELEMATICS COMPANIES¹⁴

ENTITY	HEADQUARTERS	MARKET CAP. (NZ\$ MILLIONS)	REVENUE MULTIPLES		
			HISTORIC	FORECAST YEAR 1	FORECAST YEAR 2
EROAD	NZ	506	5.3	4.7	4.1
Inseego Corp.	USA	1,400	3.5	4.3	3.5
ORBCOMM Inc. (pre takeover share price)	USA	830	3.2	3.0	2.7
Powerfleet Inc.	USA	350	2.6	2.2	1.8
Ituran Location & Control Limited	USA	800	2.2	2.0	1.8
CalAmp Corp.	USA	630	1.6	1.6	1.5
MiX Telematics	USA	520	2.7	2.5	2.3
Quartix Technologies PLC	UK	460	8.8*	8.8*	8.3*
Average (excluding outlier)			3.0	2.9	2.5
Median (excluding outlier)			2.7	2.5	2.3

Source: Grant Samuel analysis. n.m. means not meaningful =. * denotes outlier

The following points should also be noted when reviewing the table above:

- EROAD is trading at a premium to most other fleet telematics businesses which comprise PowerFleet, Mix Telematics, CalAmp and Ituran. These companies are all headquartered in the USA and trading at multiples between 2.2-2.7 historical revenues and 2.0 to 2.5 times forecast revenues.
- The comparable companies typically recognise hardware sales upfront when the systems are sold to the customer. As such the revenue make up of each company varies from year to year depending on the level of hardware sales and between companies based on how fast they are growing. On average, subscription and recurring revenues comprised approximately 65% of revenues in the most recent financial period but the range across the companies was between 37% to nearly 90%. On average across the telematics companies, subscription and hardware revenues typically earn gross margins of 60% and 30% respectively.
- The multiples are based on closing share prices as at 5 July 2021. The share prices, and therefore the multiples, do not include a premium for control. Shares in a listed company normally trade at a discount to the underlying value of the company as a whole.
- Other listed companies that are involved in fleet telematics include Danaher Corporation, Vontier Corporation (which owns Teletrac Navman), Trimble Inc., Verizon Communications Inc., Michelin and Bridgestone. Danaher Corporation and Trimble are both very large technology businesses in the USA with telematics only forming a small part of their overall businesses. Verizon is a very large telecommunications business in North America and the size of its telematics business is not material compared to its other operations. The primary businesses of Michelin and Bridgestone are the manufacture of tyres and associated products. Vontier is involved in providing software products to the vehicle repair industry as well as providing telematics solutions through its Teletrac Navman businesses. It is arguably the most comparable of the other companies considered from this analysis. Vontier is trading at revenue multiples of 2.5 times historical revenue and 2.4 times forecast revenues, which is in line with the median multiples for the telematics companies.

¹⁴ The companies selected have a variety of year ends. The financial information presented in the Historic column corresponds to the most recent actual annual result. The forecast column corresponds to the forecast for the subsequent year.



- There are considerable differences between the operations and scale of the comparable companies when compared with Coretex. In addition, care needs to be exercised when comparing multiples of New Zealand companies with internationally listed companies. Differences in regulatory environments, share market and broader economic conditions, taxation systems and accounting standards hinder comparisons.

A summary of the comparable listed companies is outlined below:

Quartix Technologies Plc (AIM: QTX)

Quartix Technologies Plc (**Quartix**) was founded in 2001 in the UK and provides vehicle tracking systems for operators in the US, the UK and Europe. The company operates in two segments, Total Fleet and Insurance. The company's systems have been installed in over 600,000 vehicles and the company has more than 19,000 fleet customers. In 2020 Quartix generated adjusted EBITDA of GBP 7.9 million on revenues of GBP 25.8 million (30.6% EBITDA margin). Subscription revenues represented 94% of total revenues in 2020. Quartix is trading at higher revenue multiples relative to its peer companies (8.8 times historical and forecast revenues). The company has a strong track record of growth and the outlook is for continued strong subscription growth in Europe and the USA, which have large addressable markets and where Quartix has low market share. Quartix's EBIT margin is approximately 28% with good cash flow conversion from its SaaS subscription revenue base.

ORBCOMM Inc. (NasdaqGS:ORBC)

Founded in 1993, ORBCOMM Inc (**ORBCOMM**) is a global provider of industrial IoT and machine-to-machine communication solutions that remotely track, monitor and control fixed and mobile assets. In 2020, ORBCOMM recorded adjusted EBITDA of US\$55 million on total revenues of US\$248 million. 64% of revenues were from services and 36% from product sales. In 2020, the company generated 56% its revenue from the transportation market, 18% from the marine market, 14% from heavy equipment, 5% from natural resources and 7% from government and other markets. The company has 725 employees with 305 engineering personnel and operates from 15 global offices.

On 8 April 2021, private equity firm GI Partners entered into an agreement to acquire ORBCOMM for approximately US\$940 million. The acquisition price implies multiples of 4.2 times forecast 2021 revenues and 4.7 times historical 2020 revenues. The transaction is expected to close following the satisfaction of customary closing conditions, including approval by ORBCOMM stockholders and the receipt of required regulatory approvals.

Prior to the announcement of the acquisition ORBCOMM's market capitalisation was approximately US\$600 million and the company was trading at multiples of 3.2 times historical revenue and 3.0 times forecast revenues.

Inseego Corp. (NasdaqGS: INSG)

Founded in 1996, Inseego Corp (**Inseego**) designs and develops of fixed and mobile wireless solutions, industrial internet of things and cloud solutions worldwide. The two primary business divisions are IoT & Mobile and Telematics & Asset Tracking. IoT and mobile focuses on applications for large enterprises. These applications include city infrastructure management, remote monitoring and control and enterprise connectivity. This division contributed 83% of Inseego's total revenues during 2020. Its Telematics & Asset Tracking division designs, develops and sells a range of asset management and monitoring systems using GPS satellite positioning, advanced cellular communications and advanced sensory technologies. The fleet telematics business of this division trades as *Ctrack*. This business contributed 17% of Inseego's revenues in 2020. Inseego is trading at 3.5 times historical revenue and 4.3 times forecast revenues.



PowerFleet, Inc. (NasdaqGM:PWFL)

PowerFleet Inc (**PowerFleet**) was incorporated in 1993 and provides wireless Internet-of-Things and machine-to-machine solutions in the United States, Israel, and internationally. It provides telematics software and solutions to fleet owners of material handling equipment, heavy duty and light duty trucks, tractor trailers, containers, cargo and vehicles. During 2020, the company generated US\$113m in revenues, of which approximately 60% was from recurring sources. The company had greater than 590,000 monthly subscriptions as at 31 December 2020. Adjusted EBITDA in 2020 was US\$9.1m (8% adjusted EBITDA margin). PowerFleet is trading at 2.6 times historical revenue and 2.2 times forecast revenue.

MiX Telematics Limited (JSE:MIX)

Founded in 1996 MiX Telematics Limited (**MiX**) provides fleet and mobile asset management solutions through a software-as-a-service delivery model. MiX has more than 750,000 subscribers across more than 120 countries. During FY20 MiX generated 63% of its revenues from premium fleet customers, 20% from light fleet customers and 17% from asset tracking. MiX Telematics is trading at 2.7 times historical revenue and 2.5 times forecast revenue.

CalAmp Corp. (NasdaqGS:CAMP)

CalAmp Corp (**CalAmp**) was founded in 1981 and is a provider of telematics systems to the transportation, logistics and supply chain management industries. The company has more than 20 million connected telematics devices and for the financial year ended 28 February 2021 the company generated revenues of US\$309m. 42% of revenues were from SaaS services and 58% from the sale of telematics systems. Approximately two thirds of revenue is derived from the US market and approximately one third from international markets. CalAmp generated adjusted EBITDA of US\$32 million in FY21 (10% EBITDA margin). CalAmp is trading at 1.6 times historical and forecast revenues.

Ituran Location and Control Limited (NasdaqGS: ITRN)

Ituran Location and Control Limited (**Ituran**) was incorporated in 1994 and provides location-based services and wireless communications products. Ituran's solutions comprise fleet management and tracking using GPS, stolen vehicle recovery and usage based insurance using in-vehicle telematics. As of December 31, 2020, it served approximately 17,680,000 end-users in Israel, Brazil, Argentina, Mexico, Ecuador, Colombia, and the United States. Approximately 50% and 25% of its revenue was generated from Israel and Brazil respectively. Ituran is trading at 2.2 times historical revenue and 2.0 times forecast revenue.