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Thursday, 28 January 2021

## SUMMARY:

- 2020 revenues and EBITDA limited by stock shortages, the cause of which has been solved, enabling significantly more product to be ordered and sold in 2021
- More stock is currently on order from manufacturers than was able to be ordered for the entirety of 2020
- Material Subsequent Event: in January the company completed a US\$10m debt reduction, removed all manufacturing exclusivity obligations, and commenced standard payment terms enabling much larger volumes of inventory to be procured for 2021
- Company discloses “Big Eight Goals” for 2021
- New product announcement – LIFX Switch US
- LIFX Clean update
- Buddy will provide revenue and EBITDA guidance to the market for the first time in 2021; including positive EBITDA guidance for both halves of CY2021

Dear Shareholders,

On behalf of the Board of Directors, management and the Australian, US, European and Asian based staff of Buddy Technologies Limited, welcome to 2021. Over the past half decade, I've made it a tradition to write a welcome to the new year shareholder letter either as part of our January Appendix 4C commentary, or as a standalone long-form communique. I do this to summarise the past year and to outline high level plans for the year to come.

The year 2021, while already demonstrating itself to be remarkable in its own way, is a year I expect great things from. On September 2<sup>nd</sup>, 2021 our company will celebrate ten (10) years since formation and on December 30<sup>th</sup>, 2021 we will celebrate six (6) years as an ASX listed entity. When, at the end of the year, we celebrate the anniversary of ringing the ASX bell in Bridge Street, Sydney, I anticipate that we'll be looking back on 2021 as the Company's best performing year yet.

### ASX:BUD Market Stats

First of all, let's look at some stats from the year just gone. In 2020, Buddy's share price appreciated nearly 53%, rising from A\$0.034 per share at market close on December 31<sup>st</sup>, 2019 to A\$0.052 at market close on December 31<sup>st</sup>, 2020. Liquidity was also markedly improved during the year – in 2019 there were 1.3 billion shares of BUD traded over 21,708 transactions (for a total value of A\$48.2 million). However, in 2020 there were 5.6 billion shares of BUD traded over 64,680 transactions (for a total value of A\$253.1 million).

**Buddy.com**

## 2020 in Review

I doubt very much there is a new adjective I could use to describe 2020 that we all haven't heard countless times before. Yes, it was a remarkable and unprecedented year, and yes it challenged our business in ways we never could have expected. The onset of the COVID-19 pandemic, and the subsequent lockdowns and changes in consumer behaviour, had the potential to be devastating to the business. However, we exit calendar year 2020 with the business being overwhelmingly more robust than ever before, and despite the clear impact the pandemic had on revenues relative to 2019, we will certainly achieve very significant improvements in EBITDA for the year by way of meaningfully reduced losses.

Put another way, the pandemic allowed us to accelerate the structural improvements to the business that were needed to put the business on the path to near-term positive EBITDA and self-sustainability. Clear evidence of this is demonstrated by the fact that (as of writing) we had two months and one quarter of positive EBITDA in 2020, despite reduced revenues, store closures, and restrictive commercial terms from our manufacturer precluding us from being able to build anywhere near enough inventory to meet demand.

In practice, we've now demonstrated that on our present expenses trajectory (which also was reduced very significantly during calendar year 2020), any month where we can drive more than approximately A\$3.7 million in revenue (using % margins achieved in 2020, this generates approximately A\$1.5 million of margin, which is what our fixed monthly costs are) can be EBITDA positive. Looking to 2021, this is a very achievable bar to exceed.

2020 began in earnest for the Company with the annual Consumer Electronics Show held in Las Vegas, Nevada. As LIFX has done for several years, we rented a hotel suite as our demonstration facility, and replaced every light bulb in the suite with LIFX products. We then conducted a four day, more than 40-partner meeting schedule to review product roadmap and retail sales planning for our worldwide business. Highlights of CES included the negotiation of what was to become our Amazon bundle relationship for Prime Day, and LIFX Switch winning several "Best of" awards at CES as a new product.



Figure 1. LIFX exhibiting at the Aria Hotel and Casino in Las Vegas, Nevada at the 2020 Consumer Electronics Show

In February 2020, we were pleased to announce further expansion into Europe by way of mobile carrier partners 43 Three (Austria) and Vodafone (UK and Ireland). The first signs that COVID-19 was going to be a serious issue for 2020 were evident in March, but that didn't slow us from entering into a new vendor agreement with American consumer electronics retailing giant, Best Buy. Of all our retail partnerships around the world, this one was crucial for us to successfully renegotiate, and we did so, achieving savings of more than US\$1.1 million over the 12-month life of the agreement (compared to the arrangement the year prior).

Only a couple of days later in early March 2020, the Company announced that it would be bringing a sub-\$10 White smart light to market as the entry point product for the LIFX ecosystem. This would go on to become the product bundled with Amazon's Echo voice assistant device that was so successful during the Amazon Prime Day sales event.



Figure 2. March saw the announcement of LIFX White – the Company's first sub-\$10 smart light product

Progress in Europe continued in March, with the announcement that the Company was trialling the purchase of smart lights for customers via salary sacrifice in Germany, in partnership with a subsidiary of the American Express Group. March ended with news that nearly A\$4 million of orders had been received for the new LIFX White smart light, while at the same time the Company announced cost savings measures that would see it preserve cash and dramatically cut expenses through 2020, while preventing the need for retrenchments or layoffs and preserving the talent base that was the result of some years of prior investment.

In early May the Company was pleased to share that it had launched sales in Singapore and that LIFX products would be sold at Apple Stores in Singapore. Two weeks later, Microsoft formally certified the LIFX Power Automate Connector, which allows LIFX lights to be responsive to triggers within the Microsoft Office ecosystem (such as flashing lights a certain colour when an email is received, or a meeting is running over). On 20 May 2020, LIFX was featured in a keynote at Microsoft's annual Build conference, highlighting the integration of LIFX into home office/work office environments.

The Company announced that it would be launching sales in Costco UK and Telefonica Germany in June 2020, with additional retail partners announced in Portugal and Ireland. Bundles in Europe continued, with Google Home Mini and LIFX White being paired together in a “hard bundle” offered in France via supermarket chain “LeClerc”.

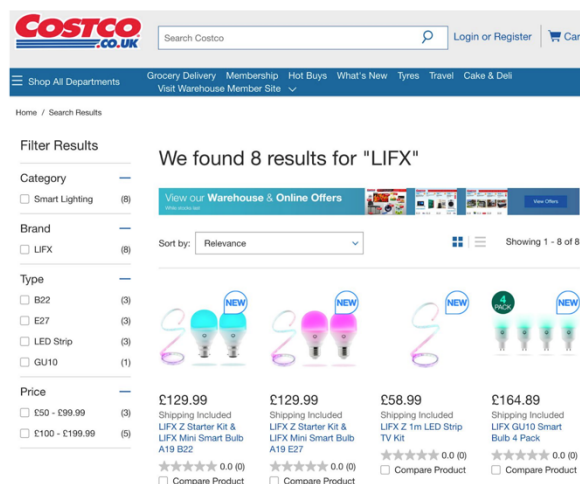


Figure 3. Costco UK joined the ranks of vendor partners to the Company, launching sales in June.

The balance of June saw the launch of the new 100mm White to Warm Downlight and the new White to Warm Candle light, while July 2020 heralded the launch of sales into Apple Stores in Hong Kong. The following week the Company’s new US\$9.99 LIFX White was launched at Amazon, and in twin-packs at Best Buy. At the end of July, the Company began rolling out next generation point of sale systems in Europe, with our German launch partner Bauhaus (displacing German lighting powerhouse Osram in the process!).

The normally quieter northern summer month of August kicked off with the news that the world’s second largest DIY chain – American hardware store Lowe’s – would commence stocking LIFX products by the end of the year. Days later a flurry of orders was received for a variety of retail partners – each the largest the Company had received until the next one arrived (peaking at A\$4.3 million by late August).

One of the Company’s most innovative products was formally announced in late August, with the news that LIFX would be releasing a germicidal, anti-bacterial smart light, the very first of its kind in the world – the LIFX Clean. This was quickly followed in September by early federal approvals for LIFX Clean to be sold in the United States market, along with new customer orders across the LIFX range that would take the total of committed, contracted orders provided to the Company over A\$30 million in 30 days.



Figure 4. LIFX announced the world's first anti-bacterial, germicidal smart light in August, the LIFX Clean.

In October, the Company announced that in addition to Lowe's, it would also be selling LIFX lights at Costco, which would result in LIFX tripling its US-based shelf footprint. Amazon Prime Day was held over October 13-14 around the world, and the Company's LIFX White bundle with Amazon Echo was a breakout hit – with the two products combined normally retailing for US\$59.98, instead only costing US\$18.99.



Figure 5. Amazon offered this bundle of products, normally valued at US\$59.98, instead at US\$18.99 – and was enormously popular amongst Amazon consumers on Prime Day.

The bundle was tremendously successful at Amazon, being the bestselling Amazon U.S. Prime Day deal during the first day of the sales event. Sales went on to peak at more than 4 bundles sold per second at the busiest period.

October also revealed another first for the Company – the Home Shopping Network (“HSN”) would be selling LIFX products on-air in 2021, with the new LIFX Clean anti-bacterial germicidal smart light amongst the products expected to be sold. Late in October, we were very pleased to report that September 2020 had been the Company’s highest EBITDA positive month in history, with A\$510k of EBITDA on A\$2.6 million of consolidated revenue and high margins. This meant that Q1FY21 was also an EBITDA positive quarter with EBITDA of A\$32k.

21 October 2020 was one of the most important days in the year, with two significant pieces of news announced. The first was that the Company had reached agreement with the holder of its vendor debt for a US\$10 million reduction (forgiveness) of that debt (as well as the return of 50 million options which in turn will be provided to PFG). The second was that the Company had signed a binding term sheet for a US\$20 million debt refinance deal that would both refinance out the vendor debt holder, but also provide a US\$10 million working capital facility with conditions that would enforce the easing of highly restrictive limitations on the Company’s ability to manufacture as much product as it needed.

At the end of October, the Company announced that it had sold its 3 millionth smart light and had surpassed A\$200 million of gross revenues from smart light sales since the first light was sold.

In early November the Company announced that it would be selling LIFX products in Walmart owned warehouse store, Sam’s Club, and subsequently completed a successful share placement for \$13 million. Following the placement, the Company was able to announce that it had executed agreements pursuant to bringing on board Target as a North American retail partner. The addition of Target would take the number of US retail locations that we’re stocked in to over 5,000.

While negotiations, due diligence and preparations were made to conclude the Partner’s for Growth (“PFG”) financing, in December 2020 the Company announced the resumption of some Buddy Ohm EU installations in portfolio properties held by multinational global investment firm Franklin Templeton in Copenhagen, Milan, London and Brighton. Additional sites were announced to be queued up in the UK, Denmark and Italy.

The last significant piece of news announced for 2020, rounding off an unmatched year in the Company’s relatively short history, was the rollout of the Company’s integration with Amazon’s Alexa Smart Energy initiative. With hardware energy monitoring, and all products now supporting at least software energy monitoring (with LIFX Switch and other new products natively support hardware-based energy monitoring), the potential for much deeper integration between Amazon’s products and LIFX’s is very real.

Notwithstanding all the successes we had in streamlining the business, getting new product to market, cutting costs and still closing significant deals with partners like Amazon, Best Buy, JB HiFi and Bunnings, deeply insufficient supply of inventory was 2020’s biggest challenge for the business, and the single greatest constraint on the business last year.



To provide some context on just how much our inability to procure sufficient supply impacted the business in 2020, in just the last calendar quarter of 2020, we had A\$18.5m of orders that we were unable to fulfil. There were some weeks earlier in the second half of the year where up to US\$1m per week of orders were not fulfilled because there was not sufficient supply to accommodate them. As deeply frustrating as these facts are, they do thoroughly underscore two very important points:

- 1) Demand for LIFX products is very significant and appears to be increasing – meaning those orders that were not fulfilled are **not lost and will ultimately be supplied** as we move through the first half of 2021. Furthermore, because most of our competitors and peers in the marketplace also had COVID-19 related supply chain issues, our challenges were somewhat insulated from having a long-term impact on our customer relationships. Our retail partners remain close and anticipate a very strong year this year; and
- 2) Refinancing the Company's debt arrangements into a commercially competitive and flexible pair of facilities that also **removes all limitations, exclusivity and contractual manufacturing restrictions**, was unquestionably the single most important win for Buddy in 2020.

At the beginning of this year (refer to the ASX announcement dated 6 January 2021), the Company completed final documentation on a whole-of-business refinancing of its debt facilities – which provided both a term debt facility to help repay the Company's manufacturer for vendor debt acquired in the acquisition of LIFX back in March 2019, as well as a working capital facility to fund the purchase of LIFX inventory (on 45-day terms, up to US\$10 million). With the execution of these arrangements, LIFX is now free of its former contractual and many of its financial constraints on manufacturing and now has **commercially standard terms with our existing manufacturer**. Additionally, the Company is now free to select other manufacturers to work with, and a second manufacturer was already been contracted (refer to the ASX announcement dated 13 January 2021) For this reason, the Buddy board and management are very much of the view that the Company is positioned to deliver strong growth in 2021.

### **2020's Big Eight Goals**

Early in 2020, we published our eight significant goals for the year:

- 1) Grow LIFX scale via development of a low-cost, high quality entry point light
- 2) Rebalance existing LIFX SKUs (adjust price, market presentation, remove poorly performing SKUs, etc...)
- 3) Enforce profitability at loss-making US retailers (renegotiate agreements)
- 4) Expand product offerings with new, high volume, profitable lights
- 5) Expand in EMEA rapidly and profitably
- 6) Win additional commercial licensing deals
- 7) Launch and grow LIFX Switch, including bundles with LIFX and non-LIFX products
- 8) Land outstanding major deals in the pipeline – such as the Asian telco deal, etc...

Stepping through these, we note that #1 was clearly achieved. LIFX White was a commercial success with Amazon and Best Buy and was our largest selling individual SKU in 2020. It is a low-margin SKU, and due to that, it won't be available in other retailers just yet (at least, not at \$9.99) but the table has been set for lower cost, high quality products – and we can channel the lessons learnt here into new lower-cost product versions that can maintain our ability to compete in a changing landscape.

I can report that #2 was achieved as well, albeit over a longer period of time that I had originally envisaged. Think of this goal as renaming and repackaging our product range. While we moved quickly to redesign and reconfigure our packaging, I over-estimated the willingness of retailers to get behind packaging updates at any period of time other than the post-holiday stock refresh. All new product now sports the new, lower cost, lower weight, environmentally friendly packaging and the easier to understand naming conventions (LIFX Mini Colour is now just LIFX Colour, LIFX Z Strip is now just LIFX Lightstrip, etc...), however I'd originally planned for this to be done by last April. It turns out that wasn't practical or feasible for a number of good reasons – and I'll chalk that up to a lesson learned, but the goal was achieved in the end.



Figure 6. New packaging, designed to look better on the shelf, be cheaper to ship, weigh less, and is much more environmentally friendly.

One of the most important goals on the list is #3 – and as I mentioned above, one of the most important agreements to renegotiate was Best Buy, which we did to the thorough satisfaction of all parties. This goal was achieved and achieved on an aggressive schedule – notwithstanding the fact that there was no contractual ability to renegotiate deals until the then-existing arrangements expired and they were up for renegotiation.

While we did achieve goal #4 – the several new SKUs of Z (Lightstrips), Clean, Candles and Downlights all come to mind – most of those products won't really hit stride until 2021 (in terms of volume shipments). Still, most of the work involved in this goal is the development, certification, testing and release to manufacturing of new products – and all of that was achieved in 2020. We are all excited to see how these new products will perform in 2021.



Goal #5 is perhaps best described as “mostly achieved – but watch this space”. It is true that we significantly expanded our reach in Europe, we did land highly successful bundles and promotions in Europe, and Amazon Prime Day in Europe was a tremendous success. Our largest competitor has an extraordinarily dominating position in that market and by any account we outperformed expectations of us handily. That said, we were hurt in Europe (as everywhere, but especially Europe) by stock shortages and our inability to correct supply shortages until the PFG finance deal was signed.

The first missed goal on the list is #6. We did not manage to land any additional commercial arrangements, and in fact towards the end of 2020, we lost our Airstream account for the commercial side of the business. We were disappointed to lose Airstream – they were good people building a great product and we were proud of the work we were doing for them. In the end, they made the choice to own and manage more of that technology in-house and given the growing importance of that functionality to their business, I can’t argue with the decision. We elected not to invest more resources into winning a “new Airstream” or other commercial deal given the very significant missed (and low hanging) dollars on the table from retail sales of smart lighting. I stand by that strategic decision and would make it again today.

Goal #7 has certainly been achieved. LIFX Switch is available in Australia online and in retail, and in the US (online and soon in retail). We’ve done bundles, we’re selling it standalone, and in 2021 we expect to scale up this product to start shipping some real quantity of these products. Combined with the addition to the family (see below) with new North American-centric LIFX Switch products coming, I am very optimistic about our commercial switching and power products.

Finally, goal #8 was not achieved. Candidly the only qualifying deal in the pipeline that would have met the test for this goal was the Asian telco deal we were very close to executing, but then didn’t. We actually came very close to agreeing and signing a deal with that telco – I was in South East Asia last March and believed we’d all come to agreement and would be signing either during that trip or soon thereafter, however some last-minute changes were introduced, the counterparty had changing priorities and staffing, and I made the decision that I was not interested in concluding the deal at any cost – only as it had been costed and proven valuable to us. We never did sign anything there, and the resources we would have invested in working this deal have been applied to our consumer/LIFX business instead. Again, this was the right decision with the benefit of time.

### **Material Subsequent Event - \$10m Debt Reduction + Refinancing**

Subsequent to the end of the 2020 calendar year, the Company successfully completed a refinancing and restructuring of the Company’s debt (refer to the ASX announcements dated 21 October 2020 and 6 January 2021). These arrangements resulted in the cancellation of US\$10 million of vendor debt that the Company owed, and the refinancing of the balance of the vendor debt with San Francisco-based Partners for Growth (“PFG”). The vendor debt is now refinanced into a 40-month term loan facility with PFG on commercially standard terms for arrangements of this nature.

Crucially, the financial restructuring required the Company's exclusive manufacturers to relinquish their exclusivity and to offer commercially standard and reasonable terms for all orders subsequently placed.

In 2020, the most significant factor that limited the Company's revenues and earnings was a highly constrained supply chain and non-commercial trading terms from an exclusive supplier. With all of these restrictions now lifted, the Company has now placed orders for all forecast inventory needed through H1 of CY2021, and in concert with product that was ordered in November and December of 2020, shipments of products will be landing at warehouses around the world each month starting January 2021, with orders expected to be placed and in turn, delivered, on a never-ending (but at least monthly) basis moving forward.

## **2021: The Plan**

### **Big Eight Goals for 2021**

In keeping with the spirit of the eight goals presented for 2020, the following eight goals for 2021 provide a North Star for the business to follow through the course of the year.

- 1) Optimise the experience** – top to bottom investments in sales, marketing, app experience, setup experience, support experience, etc... to drive fanatical customer love for our products. Using our products should be as simple as “changing a lightbulb”.
- 2) Expand the range** – same as goal #4 for 2020 – we must differentiate by offering a family of products that consumers can identify with, and further invest in profitably growing share of wallet and units sold per household, while working to drive down costs.
- 3) Customer segment growth** – expanding sales of products from traditional consumer electronics retail locations to worldwide DIY, warehouse club stores, televised shopping, online optimised channels, etc...
- 4) Supply chain optimisation** – greater investments in tooling and integrations with manufacturers to ensure that all products are built to optimize for manufacturing pace and accessibility.
- 5) Invest in tomorrow's platforms** – this is an investment in sustained engineering whereby the primary hardware and software platforms used by the Company scale to the next 10+ million customers and the next technology advancements.
- 6) LIFX/Buddy Ohm integration – first product released** – through a combination of new and existing LIFX hardware, Ohm platform and potentially new business models, monetise the assets the business has on an integrated basis.
- 7) Positive monthly EBITDA starting Q1FY22** – achieve positive EBITDA each month on a 6-month trailing average basis (to adjust for some remaining but declining seasonality), starting no later than July 2021
- 8) Provide market guidance** – for the first time ever, we will commit to providing Buddy revenue and EBITDA guidance to the market. Initially we will provide H2FY21 guidance (ie: January 2021 through June 2021), then H1FY22 guidance, before moving to a quarterly model in Q3FY22 a year from now.

### **Revenue and EBITDA Guidance for 2021**

For the first time in the Company's history, we expect to be in a position to offer the market revenue and EBITDA guidance in 2021. This is a function of the fact that with all manufacturing now being on commercially standard terms, we know within a 1-to-2-week window what inventory has been ordered and will deliver in each of the regions in which we operate. Further, we have no expectation that within the first half of 2021, we'll be able to do anything other than build as much product as we possibly can (and catch up on orders to the best of our ability). In other words, we do not expect to have any dormant inventory in calendar H1 – everything we build will effectively be sold to customers upon receipt. This allows us a significantly enhanced degree of forecasting accuracy that we've not had before.

Accordingly, our expectation is that within two weeks of the publication of this letter, we will provide formal guidance to the market of forecast revenues and EBITDA for H2FY21 (guidance will be for positive EBITDA in both halves of calendar 2021). Towards the middle of the year, we'll then provide guidance on forecast revenues and EBITDA for H1FY22, and then starting 12 months from now, we expect to commence offering quarterly guidance.

### **New Products in 2021**

While we have a number of products in the queue to be released in calendar year 2021, I can share some specifics on one in particular that I'm especially excited to release. Shareholders will be familiar with our four-button, glass faced LIFX Switch which is currently on sale in Australia and the United States. This is a premium product with a bevelled glass face, haptic feedback and the ability to switch four physical circuits (for standard lights) or use the four buttons to control LIFX lights, groups, scenes or locations. LIFX Switch is priced at US\$119/A\$179.

We're seeing early signs of success with LIFX Switch – considerable end customer and retailer interest in the product combined with near record low return rates. While this is certainly encouraging, the four-button glass LIFX Switch is not a native North American switch size/type, which limits its application for US and Canadian consumers. What was needed was a retrofit version of LIFX Switch for these markets.

Introducing the new LIFX Switch for the North American market. This is a robust, mass-market product made from textured plastic, featuring two programmable buttons in a US/CAN retrofit form factor. Like all LIFX products, the new LIFX Switch requires no hub, natively integrates with Amazon Alexa, Google Assistant and Apple HomeKit, and is setup and managed through the LIFX mobile app. The new LIFX Switch also controls standard (non-smart) lights as well as smart lights – making it an ideal entry point for customers into their first smart home experience. LIFX Switch US/CAN will also have hardware energy monitoring built in, providing seamless integration with Amazon's Alexa Smart Energy platform, and Buddy's own Ohm auditing and control platform.

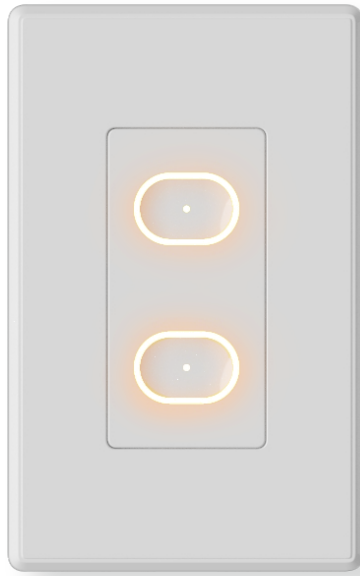


Figure 7. Introducing the new LIFX Switch for the US retrofit market

Perhaps the most exciting feature of this new product, however, is its price. At US\$49.99, we expect LIFX Switch to be the most competitively priced full-featured smart switch on the market. Shareholders will appreciate that it will remain one of our highest margin products, even at this aggressive price point, and so expect to see it also appear in bundles with other LIFX products both on LIFX.com and at retail partner sales events. The new LIFX Switch is expected to reach US and Canada retail shelves by end of calendar Q2 this year.

We have a number of new products that we anticipate releasing through 2021, and while more details on those will be forthcoming as we approach the release dates for those products, I do want to note that the release of new products is a crucial component of our growth strategy for 2021. It isn't enough to simply sell more of our existing products (which we will of course do too); we must release new products that appeal to new and existing customers who may be inclined to make further investments in their LIFX ecosystem.

### **LIFX Clean**

We are delighted that the first LIFX Clean units have shipped to customers, and that additional manufacturing runs are underway. In order to sell in the United States, we sought US-based testing to affirm the germicidal and anti-bacterial effects of the product as originally tested by Melbourne's Swinburne University of Technology. As at the time of writing, we have just received final test results from our US-based labs which actually demonstrate improved efficacy vs. the Swinburne results. Further, safety tests have shown that there is comfortable room for us to increase the output power of the germicidal light to further enhance efficacy without sacrificing safety in any way.

We will shortly be publishing a final summary of all current testing on LIFX Clean as we scale up manufacturing on this important product for the business in 2021. In fact, so pleased are we with the results that have been achieved, our product and engineering teams have begun work on new form factors for LIFX Clean to come to market in the second half of this year.

### **Buddy Ohm in 2021**

The Buddy Ohm energy monitoring and auditing business – the backbone of the Company's commercial business – suffered significantly in 2020 from the onset of the COVID-19 pandemic, with installations of new customer equipment limited and, in most cases, entirely stopped, by environments becoming inaccessible due to pandemic limitations and restrictions.

The Company did record some notable wins (refer to the Franklin Templeton deal disclosed in the ASX announcement dated 10 December 2020), and continues to invest in growing this business. While it continues to be a much smaller business than the smart lighting/consumer business, it drives very high gross margins (up to 90% some months), offers an attractive recurring revenue stream for the business and houses some intellectual property which we consider to be extremely important for future revenue streams and for our planned integrations between LIFX hardware and Buddy Ohm services.

Integrating Buddy Ohm, the value-added services around auditing, monitoring and control, and LIFX's existing and not-yet-announced new product range, is one of the big goals for 2021. Expect to see further announcements about how the Company is leveraging its Buddy Ohm assets, it's close relationship with Amazon and their investments in Alexa Smart Energy, and the always connected nature of LIFX's products (especially as more and more are coming to market with native hardware support for real-time energy monitoring).

### **Insider Selling (and Buying) & Market Transparency**

Every year I like to remind investors that Buddy maintains a strict employee, officer and director share trading policy that is overseen by the Board of Directors. The most onerous restrictions on buying and selling are on the Chairman of the Board, the CEO and the CFO/COO, however the Company does maintain blackout periods prohibiting buying or selling stock by directors and employees throughout the year, predominantly in proximity to the release of Appendix 4C quarterly earnings results, half and full year results and other material announcements.

Consistent with the Company's goal of protecting cash while navigating the path to profitability, members of the Board of Directors are not paid a stipend and are only compensated with BUD stock. Likewise, all employees take a portion of their compensation in BUD stock, which means that outside of blackout periods there may be director or employee selling (or buying) in the market.

Shareholders and investors should be aware that I strongly support this and encourage both members of the Board as well as employees to realise market gains from their equity if their circumstances dictate that this makes sense. There is not necessarily guidance to be taken, nor conclusions to be drawn, about the company, or its future prospects when employees or directors (who are only compensated in stock) sell a portion of their holdings to realise some value. This is especially the case when there are tax obligations due on behalf directors or employees as a result of their BUD holdings.

Transactions of this nature are entirely uncontroversial in the United States yet seem to attract a disproportionate response here in Australia. Accordingly, as I've done in prior annual letters, I seek to remind shareholders of my views on the matter, and the view that we as a company take in respect of all employees and directors right to trade their holdings.

### **Summary**

While 2020 was a year none of us will forget, and unfortunately for far too many, will be a year associated with loss and even tragedy, I am grateful that with our remarkable team and the ongoing and strong support of shareholders, we have taken the maximum possible advantage of the opportunities that this year has afforded us. We've used our time wisely, we've made adjustments to the business to reflect the new world in which we live, we've cut our costs and we've corrected what ailed the business. Most importantly, we remain very fortunate that we sell products that we expect will only be in greater demand post-COVID.

For those of our team based in Melbourne, Australia who endured 112 days of formal lockdowns and curfews – and still managed to operate the business at full capacity – thank you. For those in other parts of the world enduring similar challenges – we are with you in spirit and send you all our very best.

Buddy Technologies has emerged from 2020 with an enviable set of opportunities and is well primed to take advantage of them. Shareholders, on behalf of our team around the world, thank you for your ongoing support of our business. We wish you health and happiness in 2021.

For and on behalf of Buddy Technologies Limited,



**David P. McLauchlan**

Chief Executive Officer

Buddy Technologies Limited.