ASX MARKET RELEASE

Buddy Technologies Limited – December Quarterly 4C Review (Q2FY22)

31 January 2022 – Adelaide, South Australia
Buddy Technologies Limited (Company) (ASX:BUD), a leading provider of solutions for making spaces smarter, has today released its Quarterly Appendix 4C filing for the December 2021 quarter (Q2FY22).

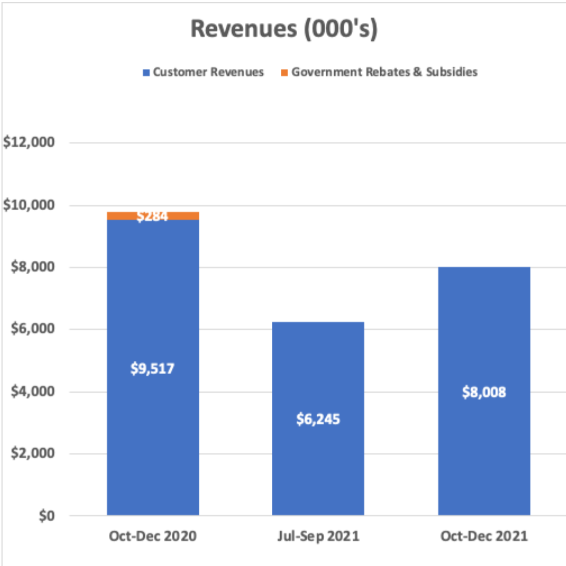
SUMMARY

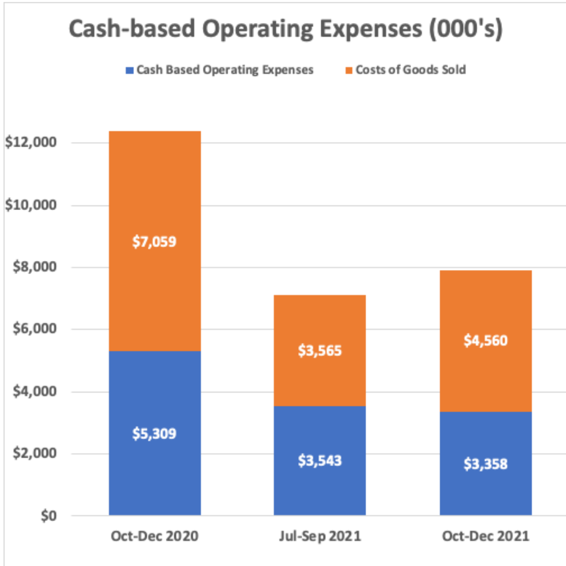
- **Customer revenues of A$8.0 million**, which were up 27% over the prior quarter, and down 16% over the year-ago quarter
- **Cash receipts of A$6.6 million**, which were down 16% from the prior quarter, and down 21% from the year-ago quarter
- **Adjusted EBITDA: positive A$91k** for the quarter (compared to negative EBITDA for both the prior quarter and for the year-ago quarter of approximately A$1 million)
- **Current assets of A$17.4 million**
  - **Cash on hand** at 31 December 2021 totalled **A$1.3 million**
  - **Trade and other receivables** totalled **A$4.1 million**
  - **Inventories** (and prepayments) totalled **A$12.0 million**
- **Other notes**
  - Despite holiday promotions in the quarter, **gross margins** were **43.1%**
  - Results demonstrate success of Company's restructuring efforts and focus on preserving margins with an adjusted **EBITDA improvement of approximately A$1 million** over both the prior and year ago quarters
  - Customer payment terms increase over the holiday quarter (ie: 45 days goes to 60 days, 60 days goes to 90 days etc...) so cash receipts are delayed in this period. COVID-19 impacts have delayed this further, however terms have reverted closer to normal in January.

*Adjusted EBITDA is equal to revenues (not including other income) less cash-based operating expenses (which excludes any non-recurring items such as acquisition or restructuring costs, costs relating to finance facilities and any share-based expenses).

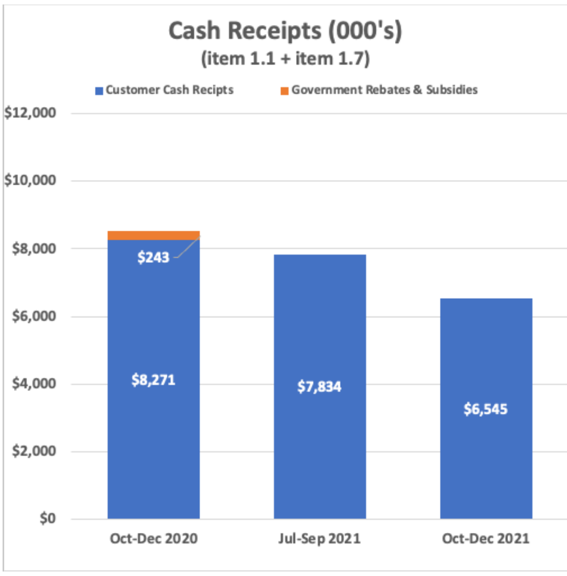
QUICK LOOK

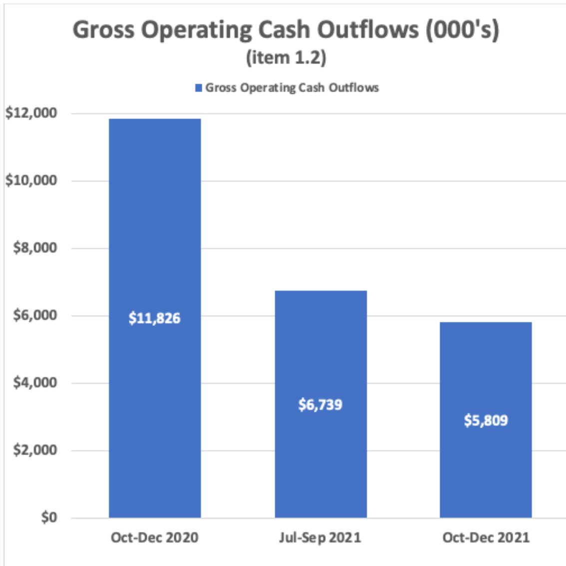
Revenues and Cash-based Operating Expenses





Cash Receipts and Gross Operating Cash Outflows*

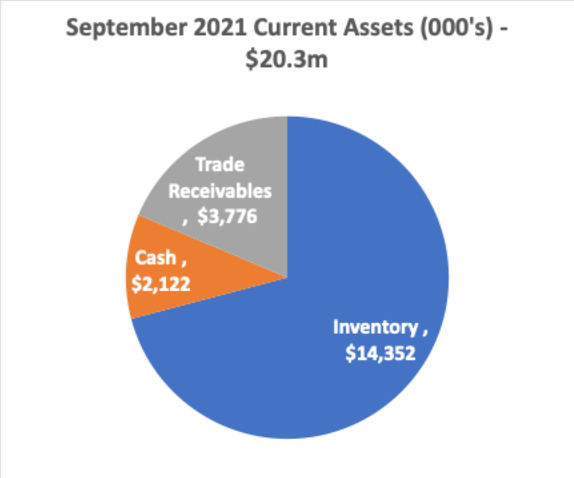


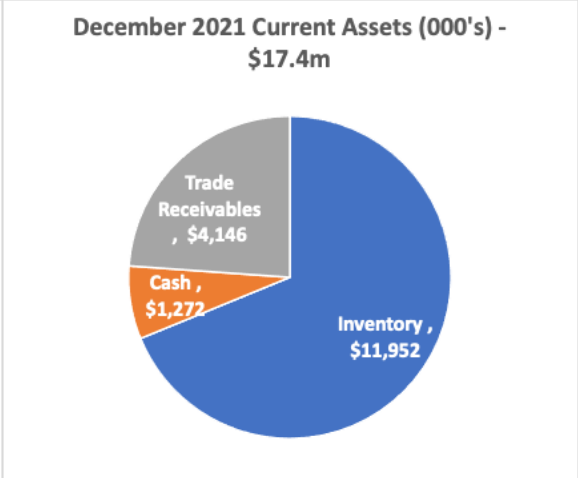


*Cash-based operating expenses exclude any non-recurring items such as acquisition-related costs, restructuring costs, costs relating to finance facilities and any share-based expenses. Gross operating cash outflows are the amounts listed under item 1.2 in the Appendix 4C report.

Cash Position and Current Assets

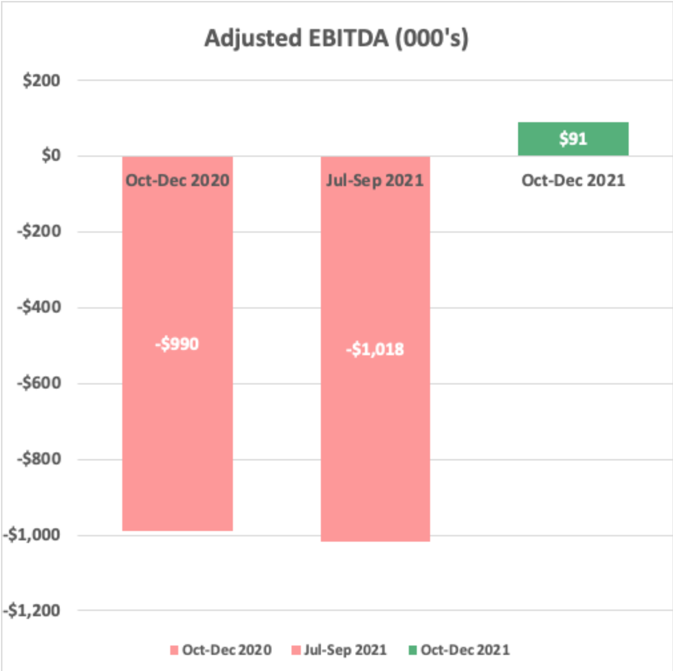
Current assets decreased approximately A$2.9 million quarter-on-quarter. As of 31 December 2021, the Company had utilised US$7.9 million of its US$10 million trade and inventory finance facility.





Adjusted EBITDA

The Company is pleased to report that Q2FY22 was EBITDA positive, at A$91k, a net improvement of approximately A$1 million over the prior quarter and over the year ago quarter.



Q2FY22 FINANCIALS COMMENTARY

Q2FY22 saw a 27% increase in customer revenues (to A$8.0 million) over the prior quarter, in line with holiday seasonality and promotional periods, including Halloween, Thanksgiving/Black Friday/Cyber Monday, Christmas and Boxing Day sales.

Consistent with the Company's stated goals for FY22 to maintain higher margins and be judicious in the application of discounts and promotions, the business achieved blended gross margins across the quarter of 43.1%, a very significant improvement from FY21 margins of 25.8%. Achieving such high margins meant that while top line revenue was down approximately A$1.5 million on the year ago quarter, adjusted EBITDA was up nearly A$1.1 million on that same period. To illustrate the impact of these gross margin improvements, at FY21 margins, the Company would have needed A$13.3 million of revenues this quarter to match current quarter gross profits.

Looking forward to Q3FY22, margins are expected to lower slightly as the Company seeks to reduce aged inventory to more appropriate levels (by monetising this aged inventory and reinvesting those funds into new product inventory orders in advance of major promotional periods such as Amazon Prime Day). Regardless, management expects margins to remain meaningfully above historical levels.

On a per unit basis, the Company is selling its products more profitably than before, having achieved manufacturing savings, cost of parts reductions and the introduction of an additional manufacturer. The Company looks forward to building upon these efficiencies in the coming year.

Cash receipts are down 16% on the prior quarter to A$6.6 million, in part due to changes in customer payment terms implemented by retailers just during the holiday quarter. Nearly all retailers in Europe, the UK and the USA extend their payment terms between 1 October and 1 January, with customers on 45-day payment terms usually extending to 60 days, and customers on 60-day payment terms usually extending to 90 days.

Net cash used in operations (A$569k) is improved very significantly from the year-ago quarter (A$4.6 million), but up from the prior quarter (A$216k). Net of manufacturing costs which will always vary quarter to quarter based on inventory on hand and projected customer demand, the Company has significantly reduced staff costs (down 32% on the year-ago quarter) and administrative and corporate costs (down 42% on the year-ago quarter).

Inventories (and prepaids) at A$12.0 million are down (from $A14.3 million in the prior quarter), however we still consider this to be an outsized position relative to where we'd prefer inventory levels to be (which is a smaller inventory level but rotated more frequently). In the typically quieter FYQ3, the Company will be applying focus on converting aged inventory to cash, while replenishing inventory with new fit-for-demand product from our manufacturers.

Supply Chain & Logistics
The impact of the COVID-19 pandemic (and specifically the "Omicron" variant) continues to be felt by the business, although not currently from the supply chain, but rather in our customers' operational logistics. Specifically, the Company has no component shortages impacting current manufacturing schedules. That said, the global semiconductor industry is expected to sustain instability for the foreseeable future, so we continue to monitor this situation carefully.

Notwithstanding the above, the impact of the Omicron variant on domestic shipping times, warehousing, and customer receipt of products has been significant. By way of example, a customer order that ships from one of our warehouses to the customer's distribution centre may incur shipping delays in domestic shipping, ingestion/processing delays at their distribution centre and delays reaching the store shelf all due to COVID-19 related staffing shortages. These delays lengthen the time taken to get replenishment stock on shelves, and thus lengthen the time between subsequent replenishments.

New Product Status

Earlier in 2021, the Company disclosed that it had, in part, circumvented its critical component shortage by way of introducing an alternately-source part to supplement component supplies (refer to the ASX announcement dated 1 September 2021). The Company can confirm that the first batches of LIFX Colour 800 lights using both component alternatives successfully entered production in 2021.

The Company is also pleased to share that its new mid-tier colour downlight product is in final pre-production manufacturing for the Australian/NZ version of the product, and in early pre-production manufacturing for the U.S. version of the product. Downlights are a staple of the Company's Australian/NZ business (often being the highest selling SKU per month in the region), and with this fixture form factor now becoming much more common in the U.S. market, we eagerly anticipate launching these products soon (commencing with an online pre-sale program).

Figure 1. The Australian/NZ version of the new LIFX Downlight, launching in pre-sales soon.

Buddy Commercial

Buddy Ohm continues to achieve modest, but important wins as the world emerges from the lockdowns (and commercial slow-downs) due to the COVID-19 pandemic. This is particularly important in the Central and Latin America ("CALA") region, where current progress for Buddy Commercial is focused. Recently, new customers have been added in Colombia (banking and financial services), Curaçao (hospitality), Guyana (data centre infrastructure) and Trinidad and Tobago (pharmaceutical and healthcare).

Last quarter we reported that the Company had contracts to deploy Buddy Ohm to fifteen new sites in Q1FY22. We can report that eleven of those installations were completed, with the remaining four still in progress. A significant number of those installations were in medical/aged care facilities in Spain, Italy and the U.K., so the presence of elevated COVID protocols and/or lockdowns in those facilities has slowed installations.

The CALA region is seeing the first cross-over of commercial opportunities between LIFX and Buddy Commercial, with the latter leading to new assortments of LIFX lights with retailers in this region, and opportunities for deployments of LIFX Switch into Buddy Commercial customer sites. In addition to selling into retailers with both brick & mortar and online stores, the team is selling into professional/trade resellers, home builders and home automation integrators. Of particular interest is the deployment of LIFX Switch into commercial environments, such as multi-location property portfolios or remote branch organisations.

A similar expansion of efforts has been successful in the Australia/NZ market, where sales of LIFX product into trade resellers, renovators and commercial environments accounted for 16.6% of direct sales in December (up from approximately 10% in November 2021). Month to date in January, that figure is now 29.5%, which is a reflection of the trade/professional opportunity for the business. Average order sizes for bulk order/pro channel direct sales exceeds A$1000, as compared to average cart sizes for retail orders of just over A$120.

ASX LISTING RULE DISCLOSURES

CASH FLOW DISCUSSION

As at 31 December 2021 the Company's cash balance was A$1.3 million, and cash flows from operating activities during the quarter are summarised below.

- Receipts from customers of A$6.6 million from the sale of LIFX products and provision of commercial services/products
- Expenditure of A$217k on research and development and web costs for new products and the Company's online presence
- Product manufacturing and operating costs for manufacturing LIFX and commercial products of A$3.0 million
- Advertising & marketing costs of A$520k
- Staff costs totalling A$1.7 million
- Administration and corporate costs of A$386k
- Payment of interest of A$939k
- No government rebates or subsidies for COVID-19 support
- Payment of A$366k for non-recurring costs related to restructuring.

Cash flows from financing activities included:

- A$410k proceeds from borrowings
- Payments of A$641k related to repayment of borrowings and associated borrowing costs.

RELATED PARTY TRANSACTIONS

As noted in Item 6 of the Company's Appendix 4C for Q2FY22, there were no payments to related parties or their associates during the quarter. This is due to the CEO electing to forgo his salary, and the Company's long-standing policy of not compensating board members with cash board fees (instead granting directors shares in the Company, vesting over a three-year period).

STAFFING CHANGES

There were no senior staff changes in the period.

WHAT'S NEXT

With the holiday quarter now behind us, the business now turns to Q3. Normally a quieter quarter, it presents an opportunity to sell down some aged inventory, consolidate fast moving SKUs at top retailers and begin pre-sales for new products currently working through the final stages of pre-production.

Margin preservation will remain a priority in the coming quarter, although selling down aged (but paid for) inventory to generate additional cash will come at some margin expense. However, the benefits of lowering the average age of the Company's inventory stock and reducing warehousing expenses, not to mention the yield of incremental cash, makes conducting such an exercise highly worthwhile. In the meantime, manufacturing of new (high demand) inventory continues, with US$2.2 million of stock (at cost value) in transit during the month of December alone.

We anticipate an elevation of marketing investment in the quarter, as we transition from the highest cost/lowest return advertising period of the year (the holiday quarter) to a much lower cost/higher return period in January and February.

Finally, while the exact dates of Amazon's Prime Day promotion are a closely guarded secret right up to the last possible moment, the team will shortly commence preparation for this important milestone in the sales calendar. With respect to other retailers, the Company's sales team is engaged with those partners to put in place sales strategies, product assortments and shelving arrangements (known as "planograms") for 2022/2023.

There is much to do this coming quarter, and we look forward to reporting on our progress in the coming months. Investors are invited to join the Company for a webinar to discuss these results and other aspects of the business on Thursday, 3rd February at 11am AEDT. No pre-registration is required; simply visit https://bit.ly/BUD-Q2FY22 on Thursday morning to attend. Questions are encouraged and can be submitted in advance to ir@buddy.com.

For and on behalf of Buddy Technologies Limited.

David P. McLauchlan
Chief Executive Officer
Buddy Technologies Limited.

About Buddy

Buddy Technologies Limited (BUD.ASX) helps customers of any size "make every space smarter". Buddy has two core businesses – its Commercial Business and Consumer Business.

Buddy's Consumer Business trades under the **LIFX** brand and has established a leading market position as a provider of smart lighting solutions. The company's suite of Wi-Fi enabled lights are currently used in nearly one million homes, viewed as second only to lighting giant Philips Hue. LIFX products are sold in over 100 countries worldwide, directly and via distribution and sales partnerships with leading retailers and ecommerce platforms including Amazon, Google, Apple, JB Hi-Fi, Bunnings, Officeworks, MediaMarkt, Saturn and Best Buy (in both the U.S. and Canada).

Buddy Ohm and **Buddy Managed Services** are the company's core Commercial offerings that empower its customers to fully leverage digital technologies and their impact in a strategic and sustainable way. Buddy Ohm is a resource monitoring and analytics solution that provides energy monitoring, reporting and auditing services for commercial and industrial customers. Buddy Managed Services licenses Buddy's technology platforms to customers for integration into their own products.

Buddy is headquartered in Adelaide, Australia, with offices in Melbourne (AU), Seattle (US), Dublin (IE), Shenzhen (CN) and Silicon Valley (US).

For more information, visit www.buddy.com and www.lifx.com.

###

Buddy Technologies Contact:
Vicky Allinson, Company Secretary
Email: cosec@buddy.com

Buddy Technologies Limited
Level 3, 12 Pirie Street
Adelaide, SA 5000
AUSTRALIA

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Buddy Technologies Limited

ABN	**Quarter ended ("current quarter")**
21 121 184 316	31 December 2021

Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 months) $A'000
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	6,545	14,379
1.2	Payments for		
	(a) research and development	(217)	(383)
	(b) product manufacturing and operating costs	(2,967)	(6,674)
	(c) advertising and marketing	(520)	(796)
	(d) leased assets		
	(e) staff costs	(1,719)	(3,724)
	(f) administration and corporate costs	(386)	(971)
1.3	Dividends received (see note 3)		
1.4	Interest received		
1.5	Interest and other costs of finance paid	(939)	(1,683)
1.6	Income taxes paid		(28)
1.7	Government grants and tax incentives		
1.8	Other (FX & restructuring costs)	(366)	(905)
1.9	**Net cash from / (used in) operating activities**	**(569)**	**(784)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment		
	(d) investments		
	(e) intellectual property		

Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 months) $A'000
	(f) other non-current assets		
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment		
	(d) investments		
	(e) intellectual property		
	(f) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	**Net cash from / (used in) investing activities**		

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		6,595
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities		(401)
3.5	Proceeds from borrowings	410	410
3.6	Repayment of borrowings	(612)	(5,902)
3.7	Transaction costs related to loans and borrowings	(29)	(682)
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	**Net cash from / (used in) financing activities**	**(231)**	**20**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	2,122	2,092
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(569)	(784)
4.3	Net cash from / (used in) investing activities (item 2.6 above)		

Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 months) $A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(231)	20
4.5	Effect of movement in exchange rates on cash held	(49)	(55)
4.6	**Cash and cash equivalents at end of period**	**1,273**	**1,273**

5.	**Reconciliation of cash and cash equivalents** at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	**Current quarter $A'000**	**Previous quarter $A'000**
5.1	Bank balances	707	1,469
5.2	Call deposits	566	653
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**1,273**	**2,122**

6.	**Payments to related parties of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to related parties and their associates included in item 1	nil
6.2	Aggregate amount of payments to related parties and their associates included in item 2	

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	24,956	22,355
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	**Total financing facilities**	24,956	22,355

7.5	**Unused financing facilities available at quarter end**	2,601

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Loan facility: **PFG Line of Credit (revolver)**
Total drawn at 31 December 2021: US$7.9 million
Total Facility Amount: US$10 million
Use of funds: Working capital
Lender: Partners For Growth
Interest Rate: 12.5%.
Secured or unsecured: secured by receivables and inventory
Payment: Revolving LoC
Term: December 2023

Loan facility: **PFG Term Loans**
Total drawn at 31 December 2021: US$3.7 million
Loan: Term Loan
Total Facility Amount: US$3.7 million
Use of funds: refinancing previously existing debt
Lenders: Partners For Growth
Interest Rate: 12.5%
Secured or unsecured: secured by company assets
Payment: Monthly payments of principal of US$128,920 plus interest due.
Term: May 2024

Loan facility: **PFG Convertible Promissory Notes**
Total drawn at 31 December 2021: US$4.25 million
Total Facility Amount: US$4.25 million
Use of funds: refinancing previously existing debt
Lenders: Partners For Growth
Interest Rate: 12.5% (see also payment below)
Secured or unsecured: secured by company assets
Payment: Interest due monthly until converted or paid. The Convertible Notes are convertible (all or some) into shares of the Company at a conversion price of A$0.025 per share. If not converted, on the maturity date, the Company would repay PFG the principal amount plus any accrued interest.
Term: August 2021 to 4 May 2024

Loan facility: **Loan Facility 1**
Total drawn at 31 December 2021: AUD$0.4 million
Total Facility Amount: $1.5 million
Use of funds: Working capital
Lender: DM Capital Management Pty. Ltd.
Interest Rate: 10%.
Secured or unsecured: unsecured
Payment: upon maturity (26 November 2022)
Term: 26 May 2021 – 26 November 2022

Loan facility: **Loan Facility 2**
Total drawn at 31 December 2021: nil
Total Facility Amount: $1.5 million
Use of funds: Working capital
Lender: Anfield Group Pty. Ltd.

Interest Rate: 10%.
Secured or unsecured: unsecured
Payment: upon maturity (26 November 2022)
Term: 26 May 2021 – 26 November 2022

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (item 1.9)	(569)
8.2	Cash and cash equivalents at quarter end (item 4.6)	1,273
8.3	Unused finance facilities available at quarter end (item 7.5)	2,601
8.4	Total available funding (item 8.2 + item 8.3)	3,874
8.5	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	6.8

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Date: 31 January 2022

Authorised by: ....
By the Board

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.