

Tuesday, 29 September 2020

SUMMARY:

- The Company recorded consolidated revenue for August 2020 of A\$2.0 million, beating management forecasts in an expected slower month; albeit down from July (A\$4.9 million) and down from August 2019 (A\$2.4 million)
- EBITDA for August was -A\$511k, which also beat management forecasts (down from A\$36k in July, and significantly improved from -A\$1.3m in August 2019)
- Government subsidies & rebates related to COVID-19 were A\$276k, up from July (A\$207k)
- Q1FY21 is tracking well, with aggregate consolidated revenues to date of A\$6.9m (up from A\$5.1m for July-August 2019), and aggregate EBITDA to date of -A\$475k (up significantly from -A\$1.9m for July-August 2019)
- Total current assets were A\$9.8 million, down from July (A\$10.7 million), comprising A\$5.4 million of trade receivables, A\$3.1 million of inventory and \$1.3 million of cash.

Dear Shareholders,

For those of you new to the business, welcome. With the onset of the COVID-19 pandemic earlier in the year, I committed to providing a monthly update on the business given the uncertainty of the broader environment. In the spirit of that commitment, I'm pleased to share our progress from this, the second month of Q1FY21.

August 2020 Unaudited Results

We've stated many times now that 2020 bears resemblance to no prior year, and that pattern of behaviour continued into August. While most retail locations are back in operation and nearly all channels have resumed in Europe and the United States, the effects of the pandemic are certainly not over. Indeed, the United States (and likely parts of Europe too) appears headed for a resurgence in both cases and further lockdowns as the northern hemisphere exits summer and enters winter and the traditional flu season.

That being said, the Company is well prepared - and the retail environment is completely different from a year ago. Retailers have invested in their online channels, bolstering them for holiday sales, and the Company's recent announcement highlighting a record A\$30m of LIFX smart light sales in 30 days demonstrates that our customers are planning well ahead.

Consolidated revenue for August 2020 was A\$2.0 million – down 59% from July (A\$4.9 million) and down 17% from August 2019 (A\$2.4 million), which while beating management forecasts in an expected slower month, reflected the reality of the delay between the new PO financing arrangements (refer to the ASX announcement dated 30 July 2020) and resultant inventory and revenues.

As I stated last month, investors should not expect straight line results just yet, with the first product from the new PO financing arrangements only commencing manufacturing in September (once again reflecting the extended time frames involved in manufacturing and shipping hardware products). I am pleased to report however, that the wheels of manufacturing

are turning and we are making use of every hour and day to maximise our opportunity this holiday. This is reflected in the record setting sales we've announced in recent weeks.

Like last month, the impact of government subsidies and rebates, including those related to COVID-19 was relatively minor in August, amounting to only \$276k, up 33% from last month (A\$207k). The consolidated revenue figures above are inclusive of government subsidies and rebates.

EBITDA in August was -A\$511k, beating management forecasts and a very significant improvement over August 2019 (up 139% from -A\$1.3m) albeit down from July (A\$36k).

Consolidated margins were much stronger in August, at nearly 41% (up from 30% in July - largely due to a more balanced product mix in the month, not as heavily weighted by the lower margin LIFX White units sales in July). Margin-wise, the commercial business remains very strong, although it continues to be significantly impacted by the COVID-19 situation in Latin America and the Caribbean, with installation of equipment still blocked on account of lockdowns and COVID-19 protection mechanisms (revenue is unable to be accrued until the installation is complete, which is blocked currently).

A standout performer for the month on both revenues and margins was the EMEA (Europe, Middle East and Africa) business - with outperformance being driven by strong demand, earlier recovery from the initial impact of the pandemic, and premium pricing levels able to be maintained.

Both the Board and management are highly focussed on expenses, and I'm very pleased to report that expenses were down 12% on management forecasts, led by reduced staff costs (where employees remain on 10% COVID-19 cuts to compensation) and reduced advertising and marketing expenses in line with the Company's inventory position (in other words, we're selling at the rate we can support inventory-wise without having to over-invest in advertising or marketing). As with prior months, the voluntary employee salary cut program is being reviewed on a monthly basis, and we anticipate lifting COVID-19 cuts to just 5% shortly, with a view to returning the team to full compensation upon the return of the business to full inventory levels to support holiday sales.

Total current assets at 31 August 2020 were A\$9.8 million, comprising trade receivables of A\$5.4 million, inventories of \$3.1 million, and A\$1.3 million of cash on hand.

I can share that the team is pleased with these results. Demand in the market for our products currently exceeds supply, and forward-looking demand to the holiday is extraordinary. We recently announced A\$30m of LIFX sales in 30 days, which is an exceptional result, and we're not done yet. A number of our customers aren't able to order in advance, so our cadence of weekly orders will continue from those customers.

Looking to the coming weeks and months, we expect to share more details on further orders, to announce an availability date for LIFX Switch in the U.S. and Canada, to add some very significant retail channels in time for holiday and to announce our first orders for LIFX Clean. On that note, we've had incredibly strong interest in LIFX Clean and shareholders can expect broad retail distribution for the product once it enters the channel. To set expectations, retailers will first order units to meet their needs for the balance of 2020, with subsequent orders to be placed for Q1 2021. Given that LIFX Clean won't have a street date before the beginning of December, initial orders will be placed to cover the days between launch and end of year. However, based on the

levels of interest shown by retailers around the world, we do expect significant demand for the product in 2021, and thus subsequent replenishment orders.

Another strong indicator of the reception LIFX Clean is getting in the market is that some retailers have told us they will hold shelf space for the product. Typically retail display “resets” occur in September or October for the holiday period, and nothing makes it on-shelf after that point in time. For some retailers to advise they see sufficient promise in the product to literally reserve shelf space for us post-October as we bring the product to market as fast as we can prior to Christmas, is as strong an endorsement as we could hope for.

Finally, I can share that we are making meaningful and considerable progress on refinancing the debt related to the Company's acquisition of LIFX in March 2019. This has been aided considerably by our significant cuts to expenses, growth in sales, forward-looking demand, demonstrated strength during the COVID-19 pandemic, and innovative new products like LIFX Clean. As we have further developments to share, we will do so by way of ASX announcements.

On behalf of our worldwide team, thank you for your continued support of our business.

For and on behalf of Buddy Technologies Limited,



David P. McLauchlan
Chief Executive Officer
Buddy Technologies Limited.