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Market Release

For immediate release

Wellington achieves earnings guidance, with 36% revenue growth rate

Wellington Drive Technologies (Wellington), a leading provider of Internet of Things (IoT) solutions and energy efficient motors to the retail food and beverage industry, today released its fully audited financial statements for the year ended 31 December 2018.

The increasing momentum of new Wellington Connect IoT products, including hardware solutions data and digital marketing services, and the continued growth of ECR2 motor sales, resulted in the fourth quarter of 2018 being the highest revenue quarter in the company's history. The company achieved a full year EBITDA[1] surplus of $2.5m, achieving its EBITDA[1] earnings guidance in the range of $2m to $3m, and a positive operating cash flow of $1.8m. This EBITDA[1] result includes a $0.3 million gain due to the adoption of NZ IFRS 16 accounting requirements for leases.

Wellington's strategy is focused on investing in and growing its IoT business with large food and beverage brands and developing customers for its ECR2 motor. Its sales initiatives, developed to find adjacent markets for its IoT and EC Motor products, have resulted in new customer wins in the dairy, beer and food markets. This success is amplified by the rapid global adoption of IoT solutions.

CEO Greg Allen commented *"Over the last year Wellington has increased its ECR2 motor revenues, won considerable new IoT business and established a leading position in commercial refrigeration IoT. We regard IoT adoption in 2018 and 2019 as the early stages of an ongoing global mega-trend. There are many opportunities for growth in adjacent segments as well as offering new services to existing customers. IoT market trends coupled with our customers' demand has given us the confidence to accelerate investment, with a view to strengthening our current market leadership and positioning ourselves for strong medium-term growth in revenues and profits. Whilst this level of investment will limit earnings growth in the near term, we believe that it will be positive for medium-term shareholder value creation."*

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Key Highlights

- **Strong revenue growth:** Revenue increased 36% to $58.8m, consistent with revenue growing at a compound annual growth rate (CAGR) of 35% for the last five years.
- **New product growth:** Wellington Connect SCS volume grew 62% and EC motor volume grew 24%, with ECR2 growing 75%.
- **Gross margin improvement:** Margins increased slightly to 24.3% from 23.9% in 2017. Further improvement was hindered by additional costs caused by global supply constraints for electronic components.
- **Data and software services growth:** Services billings for the year increased to US$1.3m, from US$0.7m in 2017. The company received its first purchase orders for its digital marketing services from a large beverage brand.
- **Profit Improvement:** Increasing financial predictability demonstrated by EBITDA[1] of $2.5m, compared to $0.5m in FY17, meeting EBITDA[1] guidance of $2 to $3m.
- **Successful acquisition:** The successful acquisition and integration of iProximity Pty Limited (iProximity), an Australian based digital marketing solutions and consumer intelligence company. This acquisition contributed to the winning of new customers for the Wellington Connect IoT platform.

NZD (unless otherwise stated) 31 December	**2018**	**2017**	**Change**
Revenue	$58.8m	$43.3m	+36%
Wellington Connect IoT Revenue	*$17.2m*	*$10.3m*	*+67%*
ECR Motor Revenue	*$38.6m*	*$30.3m*	*+27%*
Gross profit	$14.3m	$10.3m	+38%
Gross margin %	24.3%	23.9%	+1.6%
EBITDA[1]	$2.464m	$0.538m	+358%
Loss for the year	($0.713m)	($1.98m)	64%
Operating cash flows	$1.849m	$1.257m	+$0.6m

Revenue

New Zealand dollar revenue for the year ended 31 December 2018 was $58.8m compared to $43.3m in 2017, a 36% increase compared to the same period last year. Wellington's earnings guidance for the 2018 year was for H2 revenue to be consistent with the first half. Actual H2 revenue was $30.7 million, a 9% improvement compared to H1 revenue of $28.1 million.

Revenue in the fourth quarter was $18.0 million, compared to $11.8 million for the same quarter in 2017, a 53% increase. Fourth quarter revenue was the largest single quarter revenue in the company's history, and December the company's highest-ever month.

Business performance

Wellington IoT

US Dollar revenue billings from IoT products, comprising Connect SCS hardware, data and reporting services, and iProximity software was US$13.0m. This was a US$5.1m increase over 2017. Invoicing of IoT data services revenue increased 78% from US$0.7m to US$1.3m. Wellington Connect SCS hardware revenue was 63% higher than for the comparable period in 2017. The amount of SCS data revenue held on balance sheet is US$1.7m, to be recognised over the period of customers data contracts, which vary from one to ten years in duration.

Wellington ECR motors

ECR2 motor unit sales were 75% higher and they now surpass ECR1 motor volumes, which while lower than ECR2 did increase by 5%. Sales to the company's two largest supermarket and food service refrigeration customers continued to grow, together contributing 42% of total ECR2 motor sales. ECR growth rates in 2018 were positively impacted by exceptionally high demand with one of its bottle cooler customers in its Brazilian business which is believed to be one-off in nature.

Sales regions

Latin American revenue increased 34%, with the business benefiting from new Wellington Connect IoT customers in Central and South America. Brazil sales in particular increased as a key motor customer experienced higher than normal demand. Wellington's revenue for the US and Canada increased 61% to US$6.9m compared to US$4.3m last year. This significant growth was driven by the continued success of ECR2 motors with a major cooling equipment customer. Asia-Pacific and EMEA region revenue also grew year-on-year at 16% and 8% respectively, albeit from a lower base.

Gross margin

Gross margin for 2018 was 24.3% compared to 23.9% in 2017. The company came under price pressure in its EC motor business towards the end of 2017 and through 2018 and responded accordingly to remain competitive. Additional one-time costs of NZD$0.5m were incurred to successfully manage supply constraints in the global electronic components market. The component shortage situation also had the effect of diverting development resources from new product development to product redesign for new components. This reduction in available time for development activities contributed to a reduction in capitalised time from $2.2m in 2017 to $1.6m in 2018. The incremental spot-buying costs and product re-design efforts ensured alternative components were secured, new components were integrated and all customer demand in the period was met. Component shortages are easing somewhat but are expected to continue well into 2019.

Innovation

The company's innovation, customer and supply chains team continued to grow with an additional 12 new members in 2018, taking the total Wellington team to 79. This strategic investment has added skills and expertise focussed on software development, software testing, electronics engineering, marketing and customer programme management.

The company's product development roadmap focused on several key areas:

IoT

- New Wellington Connect hardware devices to broaden the IoT platform
- New software functionality to support customers cooler fleet management needs
- New map-based location and digital marketing software development
- Smart Cities upgrades to support new projects in Australia

EC motors

- Expansion of the successful ECR2 platform
- Development of a low-cost motor platform specifically designed for smaller coolers and freezers

Wellington's leadership in IoT is evidenced by its rapidly growing installed base of Connect SCS™, with over 500,000 connected coolers installed, and growth expected to exceed the 1m mark in 2020. The company is focusing beyond its hardware business, developing data and software services that it expects will further enhance its IoT Business strategy.

Operating costs

Operating costs for the period amounted to $11.9m, or 20% of revenue, compared to $10.1m and 23% of revenue last year. Operating spending increased as the company continued to invest in the skills and infrastructure required to support a broadening product range and diversifying customer base. This has required additional personnel in areas such as customer management, marketing and software development. Wellington expects to continue investing in IoT software engineering and customer facing skills to facilitate the ongoing expansion of its software services and hardware product offerings.

Profit

Earnings before interest, tax, depreciation and amortisation (EBITDA[1]) was a profit of $2.5m. This result was in line with previous EBITDA[1] guidance of between $2m to $3m, issued by the company in August

2018. This EBITDA result includes a $0.3 million gain due to the adoption of NZ IFRS 16 accounting requirements for leases. The company delivered its first ever EBIT profit of $0.5m compared to a loss of $1m in 2017. Net loss for the year was $0.7m, versus $2.0m in 2017.

Working Capital

Cash at 31 December 2018 was $0.9m compared to $1.6m at 31 December 2017. Extended payment terms for key customers in third and fourth quarter was the main reason for this unusually low cash balance, a situation which is improving in the early part of 2019. Net debt (being borrowings excluding lease liabilities less cash) at 31 December 2018 was $3.0m versus net debt of $1.0m at December 2017. Adoption of the new leases accounting standard resulted in a $1.7m increase in borrowings in 2018 for leases previously treated as operating expenses.

Operating cash flows for the twelve months amounted to $1.9m, up from $1.3m for the corresponding period in 2017. Net operating and investing cash flows amounted to a $2.0m outflow for the twelve months, including $1.4m paid on acquisition of iProximity.

Inventory management continued to be a highlight in 2018 with 11 inventory turns achieved in the year to 31 December, compared to 10 turns for the same period last year. The average number of days sales in trade receivables during 2018 was generally in the 70-80 days range, with some customers requiring up to 120 days terms. This extended payment cycle is expected to continue for the foreseeable future with some customers.

Debt

In October 2017 the company secured a loan from Meta Capital Limited, a company owned and controlled by a director of Wellington, John McMahon. The US$0.6m loan was repaid on 31 May 2018, as per the loan agreement. A new loan for US$0.6m from Meta Capital was advanced on 29 June 2018 to partially fund settlement of the iProximity acquisition and to support extended terms with selected customers.

In September 2018, to support short-term working capital requirements for expected growth in fourth quarter 2018 and first quarter 2019, the company secured a $2.5 million loan from Onimeg Investments Limited, a company owned and controlled by the family interests of Michael Chamberlain. The loan has a 12-month term and is to be repaid on 17 September 2019. This is an unsecured loan, with interest payable at 16% per annum, on a quarterly basis in arrears.

The company has previously announced that it has secured a $1,500,000 trade finance facility from the BNZ which was undrawn at 31 December 2018. With respect to short-term debt due to mature, the company expects to be able to meet its repayment obligations in 2019.

Acquisitions

The acquisition of iProximity was completed on 2 July 2018. The company paid a total cash amount of AU$1.3m. In addition, the consideration for the purchase of the iProximity shares included the future issue of fully paid ordinary shares in the capital of Wellington in tranches based upon meeting specified EBIT targets and SCS™ controller sales performance targets for the period to 31December 2020.

This was the company's first acquisition and was completed to enhance the Wellington Connect IoT platform with proximity-based digital marketing tools. The combination of Wellington and iProximity allows Wellington's customers to directly engage with consumers "at the point of purchasing decision", in front of the cooler or food dispenser. The integration of iProximity's software was completed in fourth quarter 2018 and was in part responsible for securing a large new win with a global beer brand.

iProximity's software platform also supports an existing Smart Cities business in Australia. The iProximity solution enables city councils to engage with their citizens by providing proximity-based information directly to mobile devices using each city's tourist or resident mobile apps. Since the acquisition, Wellington's iProximity business has been accepted as the proximity service provider for the Great Ocean Road tourist destination, and in the fourth quarter of 2018 began a beacon and tourist mobile app rollout with Narrabri City, New South Wales.

The impact on earnings from iProximity was not significant for the 2018 year. However, in 2019, Wellington will start to earn revenue from food and beverage customers starting to use its marketing solutions.

Governance

At the 2018 Annual Shareholder Meeting, Chairman Tony Nowell announced his decision to retire at the completion of the 2018 financial year. Wellington subsequently embarked on a review of its board structure to both find a replacement Chairperson and to bring in additional new skills to support its new markets and products. The recent appointment of John Scott to the board of directors is a result of this review and further director appointments are expected to assist in achieving the company's growth strategy.

Business Risks and Opportunities

The company views the uncertain global macroeconomic back-drop, highlighted by continued global trade challenges, and recent downgrades by large global tech companies as reasons to be prudent about its 2019 outlook. With this as a backdrop, initial demand forecasts for EC motors from some major customers have been muted and are showing signs of being lower than 2018. Accordingly, the company is forecasting lower volumes and revenue for motors in 2019. Margin pressure is also likely to continue in the EC motor market as a result of competitive pricing, partly offset by some easing of component supply constraints that affected production costs in 2018.

The Wellington team is working on various strategies to continue to grow its bottle cooler EC motor business, including new cost optimised EC motor products and new supply chain strategies. However, in the short-to-medium term, pricing in the lower margin end of the bottle cooler EC motor market could cause the company to proactively reduce its market share.

Conversely, Wellington's IoT business is expected to continue its strong growth in 2019 with several new programmes underway with new customers and new IoT products being developed. The company will ensure it continues to invest in the software and hardware engineering and customer project skills to support these new products and customers. While the overall demand picture for IoT remains healthy, this is an evolving area for many businesses and the company is therefore subject to timing risks as individual customers adapt their IoT roll-out plans.

As a result of the initial forecast weakness in EC motor demand and planned competitive strategies in the lower end of the bottle cooler market, countered somewhat by expected growth in IoT, the company's total revenue in 2019 is expected to be flat to slightly up when compared to 2018.

2019 outlook

The first quarter of 2019 is looking relatively strong and Wellington anticipates revenues higher than the same period in 2018, coupled with improved EBITDA[1] performance.

IoT demand forecasts continue to look robust, with this part of the business expecting continued full year revenue growth of around 30%. IoT is anticipated to contribute close to 41% of total revenues. Gross margin for the IoT business is expected to increase due to an improved product mix, and in part due to the expanding nature of higher margin data and software revenue.

During 2019 Wellington will continue to focus on investment in new software development, customer-facing skills, new customer IoT programmes and expanding its ECR2 motor platform. Wellington will continue its revenue diversification strategy by broadening IoT growth beyond its historical carbonated soft drink beverage market focus and obtaining new customers for its ECR2 motor range.

The company's business mix is changing and is increasingly targeted to its higher margin IoT products. Accordingly, EBITDA[1], Net Profit and operating cashflow are expected to be higher in 2019 when compared to 2018.

About Wellington Drive Technologies:

Wellington is a leading provider of IoT solutions, cloud-based fleet management platforms, energy-efficient electronic motors and connected refrigeration control solutions. It serves some of the world's leading food and beverage brands and refrigerator manufacturers and offers proximity-based marketing for Smart Cities to the Australian market. Wellington's services and products improve sales, decrease costs and reduce energy consumption. Headquartered in Auckland with a global reach, Wellington is listed on the New Zealand stock exchange under the ticker symbol NZ:WDT

For further information visit **www.wdtl.com**

[1] *EBITDA (i.e. Earnings before interest, taxation, depreciation, amortisation and impairment) is a non- GAAP earnings figure that equity analysts tend to focus on for comparable company performance analysis. Wellington considers that it is a useful financial indicator because it avoids the distortions caused by differences in amortisation and impairment policies.*

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