



EROAD

Market Release

22 November 2019

EROAD delivers another period of strong growth in H1 of FY20

Transport technology services company EROAD (ERD.NZX) today released its financial results for the first half of the 2020 financial year.

All numbers relate to the six months ended 30 September 2019 and comparisons relate to the six months ended 30 September 2018.

Key highlights:

- Revenue increased 35% to \$38.5m with strong contributions from the New Zealand and North American markets
- Achieved 27% annualised growth in new contracted units during the first half of the year
- EBITDA increased 92% to \$11.9m and reported loss after tax improved by 97% to \$106.4k
- Completed deployment for two large enterprise customers in North America
- Continued investment into R&D and new business systems to support future growth and scalability

EROAD is pleased to have delivered a strong first half performance, driven by continued solid growth in contracted unit numbers, high retention rates and a disciplined and targeted investment strategy.

The first half saw a revenue increase of 35% to \$38.5m, up from \$28.5m in the first half of the prior financial year. Average Revenue per Unit (ARPU) increased from \$56.00 to \$57.60 and Future Contracted Income increased by 14% to \$130.9m from \$115.1m.

"EROAD delivered a 92% increase in EBITDA and a 97% improvement in reported after-tax loss over the period demonstrating our increasing scale and improving operating leverage. At the same time, we continued investing significantly in developing new markets and products which will help realise the growth potential of EROAD." said Steven Newman, Chief Executive Officer.

"Our customer value proposition has enabled us to capitalise on our large addressable market, growing our contracted units by an annualised growth rate of 27%. The quality of our products and services is reflected in a consistently high asset retention rate of 94.9%."

EROAD Chair Graham Stuart says: "The Board is pleased to see EROAD deliver yet another period of strong growth. In only six months, EROAD has added 12,990 new contracted units across New Zealand, North America and Australia, renewed 355 customers in New Zealand and Australia of which 147 upgraded to EHubo2, launched four new SaaS products and upgraded a range of existing products. We continued to demonstrate industry leading system up-time of 99.9% and to invest heavily in our reliability, scalability, quality and growth. The company is well positioned as we head towards our next major goal of 250,000+ contracted units."

New Zealand

The New Zealand business continues to be a growing success, contributing strongly to the Group result and providing a launchpad and cashflow for market expansion and product development. Revenue for New Zealand increased by 20% to \$25.6m from \$21.3m and EBITDA increased by 18% to \$16.2m from \$13.7m in the comparable period. Annualised contracted unit growth for the period was 16%, in line with the company's expectations. This was achieved through the execution of EROAD's strategy of expanding the implementation of its technology within existing customer fleets, as well as signing up new customers.

North America

The North American business delivered strong growth in contracted units of 58% and is now larger than what the global EROAD business was at the time it listed on the NZX in 2014. This significant growth in contracted units included the completed deployment for EROAD's largest enterprise customer (5,500 units). Following the signing of a further large enterprise account in June, EROAD's investment in scalable systems and processes enabled installation of all 1,650 contracted units within a nine week period.

The run rate for small to medium business customers during the first half has been below EROAD's expectations. Additionally, EROAD has not seen the anticipated level of increase in sales pipeline ahead of the AOBDRD (Automatic On-Board Recording Device) to ELD (Electronic logging device) mandate deadline at the end of December 2019.

Pleasingly, the strong enterprise sales growth in this market resulted in revenue increasing by 72% to \$11.9m from \$6.9m and EBITDA increased period on period to \$3.2m from \$(0.4)m.

Australia

EROAD continued to build its brand presence in the Australian market, with steady annualised growth in contracted units of 26% in HY19 reflecting gains in the small-to-medium businesses segment. The small-to-medium business run rate remains steady but is below EROAD's expectations. The pipeline of enterprise customers (with longer sales lead times) remains encouraging and above original expectations.

Revenue remained flat at \$0.3m, while EBITDA fell to \$(0.8)m from \$(0.2)m in the previous period, as EROAD continued to invest in sales and marketing activity in this new market to support future growth.

Extending the platform and scaling for growth

EROAD continues to see substantial growth opportunities across all the markets it operates in, and accordingly, continues to prioritise investment in research and development activity to capitalise on this potential growth. In the half year to 30 September 2019, a total of \$8.2m was invested in research and development, of which \$5.0m was capitalised and \$3.2m of previously capitalised research and development was expensed/amortised. In-line with our expectations, the total amount invested in research and development represented 21% of revenue.

Over the period, in addition to several upgrades to our SaaS offering for customers, we launched four new SaaS products – Hours of Service Recap and the Texas Intrastate Rule Set in North America, Fuel Tax Credits in Australia and My EROAD Dashboard for both New Zealand and Australia. These further enhance EROAD's customer value proposition.

Over the last nine months we have developed EROAD Where to create a cost disruptive solution to asset tracking versus IOT trackers. This product was developed together with our customers and utilises a unique mesh network that only EROAD can deliver in New Zealand of Ehubo2 devices, and apps on users mobile devices, to locate small bluetooth tags, that have been designed and manufactured locally and are robust enough for any environment. At just \$30 per EROAD Where tag, and \$5 per month per tag for access to the dedicated EROAD Where Asset Management application, the game changing price point delivers a disruptive asset tracking solution to a large addressable market.

In addition, EROAD invested \$3.3m of capital expenditure in its new generation of business systems to support future growth and scalability.

Funding EROAD's growth

In the short term, EROAD is increasing the limits for its debt facilities to fund upfront hardware and installation costs associated with continuing growth. Together with its strengthening operating cash inflows, this will fund EROAD's organic growth across its three markets. In the last six months, EROAD also utilised \$6m of the cash raised from the December 2017 equity raise to progress investments in new generation business systems, key research and development projects and other strategic initiatives including its market re-entry into Australia. Going forward, EROAD anticipates any inorganic growth of scale will be funded through new equity issuances.

Recognition

The innovation and significant difference we are making to road safety was acknowledged internationally this week by the International Road Federation, who awarded EROAD the 2019 Global Road Achievement Award for Technology, Equipment and Manufacturing.

EROAD also received the 2019 NZ Exporter of the Year (Large Company) Award, and we appeared once again on the Deloitte Fast 50 Master of Growth Index.

Further accolades were gained through EROAD being named a finalist in the Australasian Brake Fleet Safety Awards (Fleet Safety product), The NZ Hi-Tech Awards (for both Company of the Year and Innovation) and the NZTE International Business Awards for Best Large Company.

Outlook

EROAD's encouraging pipeline is anticipated to deliver solid organic growth for the remainder of the financial year and beyond.

Consistent, solid growth is expected in the New Zealand business for the second half of the financial year. North America is now an established market for EROAD and contributing strongly to EBITDA. Following the strong growth in the first half with the onboarding of two large enterprise customers, further growth in the second half is expected to be at a reduced rate and will predominantly come from the small to medium customer run rate business. In Australia, it is anticipated that some of the strong enterprise pipeline will be converted prior to the end of FY20 in addition to steady gains in the small to medium customer run rate business.

In the second half of FY20 EROAD will go live with its new generation of business systems, giving an improved customer experience and increased capability to scale the business. This will deliver further operating leverage into FY21.

Beyond FY20 the growth potential is significant for EROAD. While the New Zealand business is market leading, there is still significant room to expand our customer base and service offering. We expect the North American growth to continue through building our brand presence, the 2017 ELD mandate contract roll-offs and the sunset of 3G technology. Our more recent expansion into Australia has great potential and is expected to deliver positive EBITDA within the next 3-4 years at lower sales levels than was required for North America, reflecting its lower cost to serve through the leverage of EROAD's New Zealand based customer support team.

Potential ASX listing

EROAD is becoming a global company with expanding offshore operations, revenues and significant growth aspirations. Following the re-launch of our Australian business and increasing interest from Australian and other international investors, the Board announced in October that it is considering seeking an ASX Foreign Exempt Listing to facilitate greater alignment between the EROAD's business operations and investor base. A decision regarding a secondary listing is expected in early 2020. EROAD currently remains committed to maintaining an NZX listing.

Conference Call details:

EROAD's Chief Executive Officer, Steven Newman and Chief Financial Officer, Alex Ball will give a presentation on the company's financial and operational performance for the FY20 Half Year via a teleconference commencing at 10.30am NZDT.

The call can be accessed by dialling the relevant number from the below list and using the Conference ID Number: 10002522

The number to dial from the country you are calling from:

New Zealand Toll Free: 0800 122 360

Auckland: 09 950 5335

Christchurch: 03 741 3929

Wellington: 04 830 1013

Australia Toll Free: 1800 760 146

Hong Kong: 800 960 484

Japan: 0053 112 2880

Singapore: 800 101 3287

UK: 0808 145 3702

USA/Canada: 1 844 393 3437

An audio replay and transcript of this conference call will be available once it has been uploaded to the EROAD website. Those will be found under 'presentations' on Eroad.co.nz/investors.

Ends

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| For Investor enquires please contact: Alex Ball Chief Financial Officer ph: +64 29 772 5631 alex.ball@eroad.com | For Media enquiries please contact: Amanda West Merlin Consulting ph: +64 21 043 9674 amanda@merlinconsulting.co.nz |
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Non-GAAP Measures

EROAD has used non-GAAP measures when discussing financial performance in this document. The directors and management believe that these measures provide useful information as they are used internally to evaluate performance of business units, to establish operational goals and to allocate resources.

Non-GAAP measures are not prepared in accordance with NZ IFRS (New Zealand International Financial Reporting Standards) and are not uniformly defined, therefore the non-GAAP measures reported in this document may not be comparable with those that other companies report and should not be viewed in isolation or considered as a substitute for measures reported by EROAD in accordance with NZ IFRS. The non-GAAP measures EROAD has used above are Average Revenue per Unit, EBITDA and Future Contracted Income. The definitions of these can be found in the EROAD Investor Presentation for H1 20 Glossary on pages 31 and 32.

About EROAD

EROAD believes every community deserves safer, more productive roads. This is why EROAD develops technology solutions (products and services) that manage vehicle fleets, support regulatory compliance, improve driver safety and reduce the costs associated with driving. EROAD also provides valuable insights and data analytics to universities, government agencies and others who research, trial and evaluate future transport networks. This data enables those who use the roads to influence the design, management and funding of future transport networks.

EROAD launched with the purpose of modernizing New Zealand's paper-based road user charging system. By 2009 EROAD had introduced the world's first nationwide electronic road user charging system and now around 46% of collected heavy vehicle road user charges in New Zealand are being collected using EROAD technology. By March 2019, this had delivered NZ\$2.5B to NZTA for the sustainability of the NZ transport network. In the USA EROAD introduced the first electronic Weight Mile Tax service (2014) and the first independently verified Electronic Logging Device service (2017).

EROAD (ERD) is listed on the NZX and employs almost 300 staff located across NZ, Australia and North America.

<https://www.eroadglobal.com/global/investors/>