18 March 2020

Market Announcement

Embargoed to 10.30am

Conference call to institutions

Good morning. I am Howard Milliner, Wellington's CFO. Welcome to Wellington's investor conference call. You will no doubt have seen our 2019 Annual Report released on February 28th and our latest update on the potential impact of COVID-19 on our business. The call today is to provide you with the opportunity to ask questions of Greg and myself.

I will start with the usual warning. We will be making some "forward-looking statements" on this call today and as these are predictive in nature, they are subject to a number of risks and uncertainties relating to Wellington, its operations and the markets in which it competes. Some things are beyond the control of Wellington and actual results and conditions may differ materially from those expressed or implied by such forward-looking-statements.

We are not going to dwell overly on 2019. We were delighted to achieve continued revenue growth and produce Wellington's first ever net profit, but as you can appreciate 2020 is already presenting its own challenges.

For 2019, we were pleased to be able to report a maiden profit of $448,000 on the back of revenue growth for our IoT business and margin improvement from an improved sales mix. The profit is modest but is a further sign that this business can deliver for shareholders.

Revenue for the year ended 31 December 2019 was $61.7m – up 5% on the last year. Wellington Connect IoT revenue increased 31.6% to $24.0m. This represents 39% of the total revenue for 2019 compared to 31% for 2018. ECR2 revenue increased 26.3% to $22.5m, almost replacing the reduction in legacy motor revenues which we had previously signalled.

Gross margin increased from 24.3% to 27%. Product costs were generally lower than last year although pricing for legacy motor products was also lower to certain high-volume customers to maintain competitiveness.

Wellington Drive Technologies Ltd
P: +64 9 477 4500 **E:** info@wdtl.com
21 Arrenway Drive, Rosedale, Auckland 0632
PO Box 302-533 North Harbour, Auckland 0751, New Zealand
www.wdtl.com

You may have noticed that we now report IoT as a separate segment in our Annual Report. This segment reporting shows revenue of $24.0m for the IoT segment in 2019 and gross margin of 40.8% vs $37.7m and 18.2% for motors. The analysis shows the growing contribution of the IoT business and that motors still make a significant contribution to group overheads. The motor contribution will become less significant over time as we expect more growth from our IoT product offering which includes hardware, software and data solutions.

Earnings before interest, tax, depreciation, amortisation and impairment (EBITDA) was a profit of $4.2m, a $1.8m improvement over 2018. If the iProximity fair value gain is removed, EBITDA would have been $3.8m, a $1.3m improvement. This result was in the middle of our guidance range.

As stated earlier, the profit for the year was $448,000. The result included a $290,000 impairment charge for a previously capitalised development to de-risk the balance sheet.

Cash at 31 December 2019 was $3.5m compared to $0.9m at 31 December 2018. All high interest rate debt was repaid during the year and we are currently paying below 6% on our BNZ $2.0m trade finance facility.

I should make a comment on current cash levels. As of today, we have a little under $4m cash at bank. Our forecast still considers considerable investment levels for the 2020 year, so that gives us flexibility around delaying capex and staffing decisions until the COVID-19 position becomes clearer. At present we would still make reasonable investments where a delay would impact revenue growth or critical product development activities.

At this point I will hand the call over to Greg to update on some of the growth initiatives we are pursuing and for his further comment on how we are responding to the Coronavirus situation. I will let Greg give you more colour on 2020
guidance.

I am happy to take questions after Greg has presented.

Thanks Howard, Hi everyone.

Wellington's strategy is focused on growing its IoT business with large food and beverage customers, accessing new markets with IoT and proximity marketing solutions and expanding the customer base for its ECR2 motor platform. This strategy is delivering year on year revenue growth and improved profitability. We think it's important we continue on this path as best possible, even while we are responding to the COVID-19 pandemic.

In our annual report we defined our priorities for 2020 as follows:

Number 1: Successful launch of new products; These are the Connect Monitor retrofit solution, cost optimised Connect SCS controller and the ECR2+ motor.

We have customers waiting for all these products, although launch timelines and adoption rates may be impacted due to the impacts of the COVID-19 situation.

Number 2: Successfully start the new IoT partnership with previously announced North American cooler manufacturer, including development of a special Connect SCS solution and customised apps.

We are making good progress on the products needed to support this new partnership. We anticipate these products would start to contribute revenue late 2020, with full volume not occurring until 2021.

Number 3: Launch new Connect SCS software products; including enhanced Retailer apps and Connect Report tools for cooler fleet management.

These new software products help us sell more Connect SCS solutions and with the new apps we also provide new channels for our proximity marketing platform.

Number 4: Develop new markets and customers for the Wellington iProximity marketing platform.

We are working on a number of new bids for our marketing platform which include beverage coolers and ambient applications.

Number 5: Develop software design and support capability closer to customers.

We are exploring ways to expand our software capability to ensure skills that are needed close to the customer, such as product owners and business analysts.

All these priorities ensure we have actions aimed at expanding our software and hardware portfolios, continue to grow revenues with existing and new customers and expand margins. Whilst these priorities remain a key part of our day to day activities, they have all been overtaken in the short term by ensuring we respond appropriately to the current COVID-19 pandemic. Priority is being given to ensuring we keep our team members, customers, and partners safe.

We are also primarily focused on working with customers to ensure we keep delivering their needs and with our suppliers to improve and maintain supply. To that end the engineering team is busy approving new alternate components as necessary and the supply chain team is working diligently to find creative ways to get products to customers, very important as the worlds logistics services are strained.

Since our initial COVID market update on February 13th our supply chain continues to improve, as noted in our market update on March 16th. Factory capacity in our East West factory is at normal levels and production in our Match-Well factory is online at reduced capacity but improving. Hardware component supply has improved considerably, and we have improving visibility across all components. We remain cautious about whether this will sustain, but it does seem like China is coming back online and our factories are up and running. In short – we are open for business.

As a result of these improvements, Wellington's first quarter revenue forecast has improved to a level similar to 2019. Whilst this is below planned expectations, it is certainly better than we envisaged back at the beginning of February when we had effectively zero visibility from our Asia based supply chain.

We have been talking to all our customers and supplier and receiving updated demand and supply timelines. We are seeing a range of responses on demand, from potential demand decreases, to relatively normal demand levels and indeed one customer indicating they may increase demand as a response to COVID-19. Given the range of responses, we are now assuming a longer period before planned production and shipping patterns may be possible, with the end of Q2 and into Q3 more likely before some degree of normalisation.

We do not think all the demand and supply delays we are seeing are perishable, so are anticipating some level of catch up later in Q2 and into Q3. As disclosed, our forecast models are built around approximately $6m of revenue moving to the right and recovering by Q2 or into early Q3. Our current risk scenario shows that if that $6m did not recover, the full year reduction of revenue would take the 2020 forecast revenue to around NZD$65m. This would be below our initial guidance for FY2020 of 15% revenue growth but higher than the FY2019 result.

As I am sure you can all appreciate the situation with COVID-19 and the restrictions being mandated by governments around the world are changing rapidly. We would therefore caution our shareholders that the deteriorating global economic situation and those restrictions mean that potential volatility around the 2020 forecast outlook is high. Wellington typically only has around 60 to 90 days forward order visibility of customer demand so the outlook beyond Q2 has low certainty. Given this backdrop a wide range of revenue and earnings outcomes is possible.

We intend to provide regular updates on how the business is progressing with the backdrop of COVID-19.

We are happy to take questions now.

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**

Contact:

Greg Allen
Chief Executive Officer
Phone +1-778-238-6494

Howard Milliner
Chief Financial Officer
+64 275870455