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Market Announcement

For immediate release

Wellington achieves highest ever revenue and maiden profit

Wellington Drive Technologies (Wellington) has today released its fully audited financial statements for the year ended 31 December 2019. Wellington is a leading provider of Internet of Things (IoT) solutions and energy efficient motors for the retail food & beverage industry.

Continued growth in Wellington Connect IoT hardware and data products and continued growth of the ECR2 motor resulted in 2019 being the highest revenue and the best profit performance in the company's history. The company achieved revenue of \$61.7m, up 5% from \$58.8m in 2018. EBITDA was a surplus of \$4.22m, up from \$2.46m in 2018. The company achieved a maiden net profit of \$0.45m, up from a loss of \$0.71m in 2018.

Metric (NZD)	2019	2018	Change
Revenue	\$61.7m	\$58.8m	+5.0%
<i>Wellington Connect IoT revenue</i>	\$24.0m	\$18.2m	+31.6%
<i>ECR Motor revenue</i>	\$35.9m	\$38.4m	-6.7%
<i>ECR2 motor</i>	\$22.5m	\$17.8m	+26.3%
<i>ECR legacy motors</i>	\$13.4m	\$20.6m	-35.2%
Gross profit	\$16.6m	\$14.3m	+16.7%
Gross margin %	27.0%	24.3%	+2.7%
EBITDA	\$4.22m	\$2.46m	+71.2%
EBIT	\$1.51m	\$0.45m	+233.6%
Profit (loss) for the year	\$0.45m	(\$0.71m)	+\$1.16m
Operating cash flows	\$2.99m	\$1.85m	+61.5%

Greg Allen, CEO commented "2019 was a great year for Wellington with revenue growth, margin expansion and the company's first ever net profit. ECR2 motor revenues continued to grow and further growth in the IoT business demonstrated how our products are well received by our customers. We were pleased to receive the support of our shareholders in 2019, with \$5.8m of new investment in the company. The company is part

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of a food & beverage industry technology trend, where coolers and other point of sale equipment are being connected to the Cloud to improve equipment performance and enable retail experiences to be monitored and managed. We expect to be at the forefront of products needed to connect equipment to the Cloud and provide the software tools to help our customers grow product sales.”

Main highlights:

- **Maiden net profit:** The company recorded a first ever net profit for the year of \$0.45m, a \$1.16m improvement on the prior year. EBITDA improved to \$4.22m, compared to \$2.46m in 2018. This performance was at the upper end of EBITDA guidance. The profit result includes a \$467,000 gain arising from a change in fair value of the contingent consideration payable for the acquisition of iProximity. It also includes a \$290,000 impairment of previously capitalised cost for the development of a new motor product for East West Manufacturing.
- **Revenue:** Revenue was \$61.7m, compared to \$58.8m in 2018, a 5% increase. The composition of Wellington’s revenue has changed over the last four years as the focus has moved towards IoT products and the ECR2 motor. The company has become less dependent on its legacy motors. Strong revenue growth from Connect SCS and ECR2 has been somewhat masked by the decline in legacy motor sales.
- **Product sales growth:** Connect SCS product sales grew by 31.6% to \$24.0m. ECR2 motor sales grew by 26.3% to \$22.5m. Sales growth was driven by increased demand from existing customers and the addition of new customers in the Americas.
- **Gross margin improvement:** Gross margin for 2019 was 27.0% compared to 24.3% in 2018. Gross profit dollars improved by \$2.3m reflecting increasing sales of higher margin IoT products and data services and lower hardware costs.
- **Operating costs:** Operating costs were \$12.4m, or 20% of revenue, compared to \$11.9m, also 20% of revenue in 2018. Revenue per employee decreased slightly from \$744,000 to \$709,000 due to additional sales, customer programme management and development staff and a modest increase in revenue.
- **Growth Funding:** The company completed a 1:5 rights issue, raising \$5.2m to pay back high interest debt and support new product introductions. The issue was well supported by shareholders and was oversubscribed. This new funding alongside the exercise of staff stock options contributed to a net cash position of \$2.0m, compared to a net debt position of \$3.0m in 2018 (net cash is defined as cash balances net of bank and other loans).
- **Investment:** The company invested \$3.2m in new product development compared to \$2.1m in 2018. This investment related to the new ECR2+ motor and Connect IoT and data services products due for launch in 2020. The increase in investment reflects the lower than expected 2018 investment due to the industry wide component supply issues and the hiring of additional development staff.
- **New Products and Innovation:** In 2020 the company expects to launch new motor and connected hardware products and a range of new customer mobile apps and data services; its first major product launches since 2016. New products include its new ECR2+ motor for supermarket display



cases, the Connect Monitor for retrofit applications, a new version of Connect SCS refrigeration controller and the Connect Q-Tag proximity marketing solution.

2020 outlook

Wellington's initial forecasts for 2020 show the potential for revenue growth of around 15% and EBITDA of around \$4.5m.

The company is monitoring supply chain delays as a result of the Coronavirus situation. While these delays are not expected to materially impact the full year outlook, the company does anticipate lower than forecast first quarter revenue with some revenue catch up during the second quarter. Consistent with the 2020 trading update issued on the 13th February, supply chain forecasts indicate a potential risk to revenue of approximately US\$3.6m (around NZ\$6m) from February to April. The company does not expect all of this delayed supply will be perishable. Scenarios show that if it was perishable, the full loss of this revenue would take 2020 forecast sales to around NZD\$65m, higher than 2019 but below guided revenue growth of around 15%.

In addition to the impacts of the Coronavirus, the forecasts are dependent on several new product and new customer introductions planned during 2020, a NZD/USD exchange rate of 0.65c and broader global trade and macroeconomic conditions. For the new product launches, there are risks around ensuring completion of product development on schedule, dependencies on spend decisions that the Board may make around outsourcing of IoT product development to accelerate revenue, and the timing of customer onboarding and product adoption meeting Wellington's expectations.

The Board and management team would like to thank staff, shareholders, customers and suppliers for their support. We look forward to a successful 2020 and continued growth for the company over the next several years.

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 its customers product 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

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