

TRAFFIC

TECHNOLOGIES



PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 30 JUNE **2020**



**TRAFFIC TECHNOLOGIES LTD
ABN 21 080 415 407
AND CONTROLLED ENTITIES**

**PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 30 JUNE 2020
PROVIDED TO THE ASX UNDER LISTING RULE 4.3A**

Appendix 4E

Preliminary final report

Name of entity

TRAFFIC TECHNOLOGIES LTD

ABN or equivalent
company reference

Year ended:
current period

Previous corresponding
period

ABN 21 080 415 407	30 June 2020	30 June 2019
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Results for announcement to the market

Continuing Operations			A\$'000
Revenues from ordinary activities (<i>item 2.1</i>)	Down	8% to	\$44,522
Earnings before interest and tax	Down	402% to	(\$11,443)
Profit/(loss) from ordinary activities after tax attributable to members (<i>item 2.2</i>)	Down	1,107% to	(\$13,985)
Net profit/(loss) for the period attributable to members (<i>item 2.3</i>)	Down	1,107% to	(\$13,985)
Dividends (distributions) (<i>item 2.4</i>)	Amount per security		Franked amount per security
Interim dividend	Nil¢		Nil¢
Final dividend	Nil¢		Nil¢
Previous corresponding period:			
Interim dividend	Nil¢		Nil¢
Final dividend	Nil¢		Nil¢
Record date for determining entitlements to the dividend	N/A		

Other Information

Brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood (item 2.6):

Operating Result

Trading revenue was \$44.5m, compared to \$48.3m in the previous financial year and EBITDA was \$1.4m, compared to EBITDA of \$4.3m, whilst NPAT was a loss of \$14.0m including an impairment provision of \$10.6m made at the half-year, compared to NPAT of \$1.3m in 2019.

Through this extremely volatile year the Company has experienced weaker trading conditions in the market as reflected in the results. The Company through this year of volatility has however been able to continue operating during the coronavirus (COVID-19) pandemic despite delays in the supply chain caused by lockdowns affecting local and overseas suppliers and freight forwarders.

Encouragingly demand for the Company's products and services has seen an increase in the second half of the 2020 year during the COVID-19 lockdown, where we saw several projects released and customer orders increasing to accepted levels. More encouraging is that the trend has continued and increased further as activities have re-opened in most states.

The Company has taken advantage of Federal and State stimulus programs where possible to mitigate the financial impact of COVID-19, but has not been eligible for the Federal Government's JobKeeper program as turnover had not fallen below the required threshold. The Company has continued to review its cost base during the lockdown period and has reduced costs significantly along with increasing manufacturing efficiencies during this period.

The result for the year includes the \$10.6m impairment provision made against the value of goodwill in the financial statements and a bad debt provision of \$0.7m. Depreciation and amortisation expenses were \$2.3m (2019 \$1.5m), mainly comprising amortisation of intangible assets. Finance costs were \$2.4m (2019: \$1.4m).

Financial Position

Net assets were \$7.1m at 30 June 2020 compared to \$21.2m at 30 June 2019, reflecting the net loss for the year, including the impairment provision.

In October 2019, the Company partially refinanced the debt facility managed by Asia Debt Management Hong Kong Limited (ADM Capital). The refinancing involved a repayment by the Company of AUD \$7.5m to ADM Capital by entering into a secured debtor and trade finance facility with Octet Finance Pty Ltd (Octet) and a secured note facility with First Samuel Limited which reduced finance costs by 13%. Net debt, excluding liabilities associated with capitalised property leases, was \$7.9m at 30 June 2020 a reduction of 22%, compared to \$10.1m at 30 June 2019.

The Group has capitalised certain property leases as "right of use assets" in accordance with AASB 16. The asset relating to such leases has been included in property plant and equipment (\$1.1m) and the liability in interest-bearing loans and borrowings (\$1.2m). The introduction of AASB 16 has also affected occupancy costs, depreciation expense and finance costs.

Cash Flow

Net operating cash inflows were \$5.3m for the year (2019: inflow \$1.5m), reflecting the Group's trading operations during the year. The introduction of the debtor finance facility in October 2019 has enabled the Company to access funds from its trade receivables more quickly than was previously the case. Net investing cash outflow was \$2.1m (2019: outflow \$2.3m), including investment in R&D to further expand and develop the Group's "Smart City Software" and product portfolio. Net financing cash outflow was \$2.6m (2019: outflow \$0.1m), after taking into account the refinancing of debt in October 2019.

1. Net Tangible Asset Backing

Other Information

	As at 30 June 2020	As at 30 June 2019
Net tangible assets per share	(0.4) cents	0.3 cents

2. Dividends

No dividends have been declared in respect of the year ended 30 June 2020 (2019: Nil). Total dividend Nil (2019: Nil).

The Company has adopted a Dividend Reinvestment Plan (DRP) to provide shareholders with the opportunity to reinvest their dividends in ordinary shares in the Company free of brokerage, commissions and other transaction costs. The DRP is governed by the DRP rules. Subject to the DRP rules, participation is open to shareholders with registered addresses in Australia and New Zealand. Participation can be full or partial and can be varied or cancelled at any time. If a shareholder elects to participate in the DRP, the dividend otherwise payable on the shareholder's ordinary shares participating in the DRP will be reinvested in ordinary shares in the Company. These shares will either be issued to the shareholder or acquired on-market and transferred to the shareholder. Shares may be allocated at a discount to the market price of the shares. The Directors will determine a discount of up to 10% for each dividend declared.

3. Status of Audit

The unaudited preliminary financial report is attached.

4. Corporate Information

Directors

Mr. Garry Lowrey
Mr. Con Liosatos
Mr. Mark Hardgrave

Company Secretary

Mr. Peter Crafter

Registered Office and Principal Place of Business

Traffic Technologies Ltd
31 Brisbane Street
Eltham VIC 3095

Share Register

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford VIC 3067
Tel: 1300 850 505

Traffic Technologies Ltd shares are listed on the Australian Stock Exchange (stock code: TTI).

Other Information

Lawyers

K&L Gates
Level 25
525 Collins Street
Melbourne VIC 3000

Bankers

Westpac Banking Corporation
Level 6
150 Collins Street
Melbourne VIC 3000

Auditors

ShineWing Australia
Level 10
530 Collins Street
Melbourne VIC 3000

Traffic Technologies Ltd – Appendix 4E Preliminary Final Report
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2020

	Note	Consolidated 2020 \$'000	Consolidated 2019 \$'000
Revenue	2	44,522	48,321
Other income	2	66	125
Changes in inventories of finished goods and work in progress		(2,480)	2,433
Raw materials and consumables used		(23,126)	(28,986)
Employee benefits expense		(13,749)	(13,661)
Occupancy costs		(1,161)	(1,907)
Advertising and marketing expense		(72)	(123)
Other expenses		(2,593)	(1,879)
Depreciation and amortisation expense		(2,297)	(1,474)
Impairment expense		(10,554)	-
Earnings before interest and tax (EBIT)		(11,444)	2,849
Finance costs		(2,381)	(1,380)
Net (loss)/profit for the year before income tax		(13,825)	1,469
Income tax expense		(160)	(206)
Net (loss)/profit for the year		(13,985)	1,263
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year		(13,985)	1,263
(Loss)/earnings per share		Cents	Cents
- Basic (cents per share)	3	(2.90)	0.26
- Diluted (cents per share)	3	(2.90)	0.26

The accompanying notes form part of these financial statements.

Traffic Technologies Ltd – Appendix 4E Preliminary Final Report
Consolidated Statement of Financial Position as at 30 June 2020

	Note	Consolidated 2020 \$'000	Consolidated 2019 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	11	3,636	3,107
Trade and other receivables	4	7,863	8,803
Inventories	5	10,117	12,597
Derivative financial instrument		-	251
Total Current Assets		21,616	24,758
Non-Current Assets			
Property, plant and equipment		2,319	1,224
Goodwill	6	-	10,554
Intangible assets	7	9,177	8,929
Total Non-Current Assets		11,496	20,707
TOTAL ASSETS		33,112	45,465
LIABILITIES			
Current Liabilities			
Trade and other payables	8	8,752	7,341
Interest bearing loans and borrowings	9	8,598	142
Provisions		2,730	2,685
Deferred tax liability		1,001	861
Derivative financial instrument		525	-
Total Current Liabilities		21,606	11,029
Non-Current Liabilities			
Interest bearing loans and borrowings	9	4,165	13,073
Provisions		203	203
Total Non-Current Liabilities		4,368	13,276
TOTAL LIABILITIES		25,974	24,305
NET ASSETS		7,138	21,160
EQUITY			
Contributed equity	10	54,755	54,755
Accumulated losses		(47,617)	(33,595)
TOTAL EQUITY		7,138	21,160

The accompanying notes form part of these financial statements.

Traffic Technologies Ltd – Appendix 4E Preliminary Final Report
Consolidated Statement of Changes in Equity For the year ended 30 June 2020

	Contributed Equity \$'000	Accumulated Losses \$'000	Total \$'000
Consolidated			
At 1 July 2018	54,755	(34,858)	19,897
Profit for the year	-	1,263	1,263
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	1,263	1,263
At 30 June 2019	54,755	(33,595)	21,160
Loss for the year	-	(13,985)	(13,985)
Adjustment from the adoption of AASB 16	-	(37)	(37)
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	(14,022)	(14,022)
At 30 June 2020	54,755	(47,617)	7,138

The accompanying notes form part of these financial statements.

Traffic Technologies Ltd – Appendix 4E Preliminary Final Report
Consolidated Statement of Cash Flows For the year ended 30 June 2020

	Consolidated 2020 \$'000	Consolidated 2019 \$'000
Cash flows from operating activities		
Receipts from customers	50,512	54,659
Payments to suppliers and employees	(43,813)	(51,950)
Interest received	16	48
Interest paid	(1,459)	(1,267)
Income tax paid	(4)	(4)
Net cash from operating activities	5,252	1,486
Cash flows from investing activities		
Proceeds from sale of plant and equipment	44	5
Purchase of property, plant and equipment	(406)	(180)
Purchase of intangible assets	(1,638)	(2,159)
Acquisition Costs	(82)	-
Net cash from investing activities	(2,082)	(2,334)
Cash flows from financing activities		
Proceeds from borrowings	7,500	-
Repayment of borrowings	(10,052)	(89)
Payment of borrowing costs	(89)	-
Net cash from financing activities	(2,641)	(89)
Net increase/(decrease) in cash and cash equivalents	529	(937)
Cash and cash equivalents at beginning of the financial year	3,107	4,044
Cash and cash equivalents at end of the financial year	3,636	3,107

The accompanying notes form part of these financial statements.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

a) Basis of Preparation of Preliminary Final Report

This financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full report.

This financial report should be read in conjunction with the annual financial report of Traffic Technologies Limited and its controlled entities (the Group) as at 30 June 2019. The annual financial report of the Group is a general purpose financial report prepared in accordance with Australian Accounting Standards and the Corporations Act 2001.

It is also recommended that this financial report be considered together with any public announcements made by Traffic Technologies Limited and its controlled entities during the year ended 30 June 2020 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The financial report has been prepared on an accruals basis and under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies. The significant accounting policies adopted by the Group are contained within the annual financial report of the Group.

b) New standards adopted by the Group

The accounting policies adopted in the preparation of the preliminary final report are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2019, except that the Group has applied, for the first time, AASB 16 Leases as of 1 July 2019. As required by AASB 134, the nature and effect of this change is discussed below.

AASB 16: *Leases*.

AASB 16 has replaced the accounting requirements applicable to leases in AASB 117: *Leases* and related Interpretations. AASB 16 has introduced a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the previous standard AASB 117. These liabilities have been measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate applicable to debt of similar characteristics with the same underlying security as at 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 15%.

The adoption of AASB 16 resulted in the Group recognising a right-of-use asset of \$1.5m and related lease liability of \$1.5m in connection with all former operating leases except for those identified as low value or having a remaining lease term of less than 12 months from the date of initial application.

AASB 16 has been applied using the modified retrospective approach, with the cumulative effect of adopting AASB 16 being recognised in equity as a reduction to the opening balance of retained earnings of \$37,000 for the current period. Prior periods have not been restated. For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from AASB 117 and has not applied AASB 16 to arrangements that were previously not identified as a lease under AASB 117. On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low value assets, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

Traffic Technologies Ltd – Appendix 4E Preliminary Final Report
Notes to the Consolidated Financial Statements
For the year ended 30 June 2020

2. REVENUE

	Consolidated 2020 \$'000	Consolidated 2019 \$'000
Revenue		
Sale of goods	44,522	48,321
Other income		
Net profit on disposal of fixed assets	8	1
Net exchange gain/(loss) on foreign currency borrowings	534	(881)
Net (loss)/gain on derivatives held for trading	(525)	862
Other income	49	143
Total other income	66	125

3. EARNINGS PER SHARE

Earnings used in calculating earnings per share	Consolidated 2020 \$'000	Consolidated 2019 \$'000
For basic and diluted earnings per share:		
Net (loss)/profit attributable to ordinary equity holders of the parent	(13,985)	1,263
Weighted average number of shares		
	Consolidated 2020 Thousands	Consolidated 2019 Thousands
Weighted average number of ordinary shares used in calculating basic earnings per share	482,225	482,225
Weighted average number of ordinary shares adjusted for the effect of dilution	482,225	482,225

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Notes to the Consolidated Financial Statements
For the year ended 30 June 2020

4. TRADE AND OTHER RECEIVABLES

	Consolidated 2020 \$'000	Consolidated 2019 \$'000
Trade receivables	6,825	7,591
Allowance for impairment loss	(727)	(30)
	6,098	7,561
Prepayments	1,092	494
Other receivables	673	748
	7,863	8,803

5. INVENTORIES

	Consolidated 2020 \$'000	Consolidated 2019 \$'000
Raw materials	3,874	4,299
Work in progress	199	205
Finished goods	6,044	8,093
	10,117	12,597

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Notes to the Consolidated Financial Statements
For the year ended 30 June 2020

6. GOODWILL

	Consolidated 2020 \$'000	Consolidated 2019 \$'000
Carrying amount of goodwill allocated to each cash-generating unit		
Signals	30,535	30,535
Less: Impairment expense	(30,535)	(20,000)
	-	10,535
Controllers	19	19
Less: Impairment expense	(19)	-
Carrying amount	-	10,554

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

Impairment of Goodwill

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

At the half-year, 31 December 2019, the market capitalisation of the Group was below the book value of its equity, indicating a potential impairment of goodwill. The Group calculated the recoverable amount of each cash generating unit and recorded an impairment expense of \$10.6m against the value of goodwill at that date.

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Notes to the Consolidated Financial Statements
For the year ended 30 June 2020

7. INTANGIBLE ASSETS

Consolidated	Development Costs \$'000	Other Intangible Assets \$'000	Total \$'000
Movement in Carrying Amounts			
At 1 July 2018 net book value	7,857	99	7,956
Additions	1,886	272	2,158
Amortisation	(907)	(278)	(1,185)
At 30 June 2019 net book value	8,836	93	8,929
Additions	1,453	185	1,638
Amortisation	(1,180)	(210)	(1,390)
At 30 June 2020 net book value	9,109	68	9,177
Carrying Amounts			
At 30 June 2019			
Cost	18,088	2,390	20,478
Accumulated amortisation	(9,252)	(2,297)	(11,549)
Carrying amounts at 30 June 2019	8,836	93	8,929
At 30 June 2020			
Cost	17,316	2,569	19,885
Accumulated amortisation	(8,207)	(2,501)	(10,708)
Carrying amounts at 30 June 2020	9,109	68	9,177

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Notes to the Consolidated Financial Statements
For the year ended 30 June 2020

8. TRADE AND OTHER PAYABLES

	Consolidated 2020 \$'000	Consolidated 2019 \$'000
Trade creditors	6,511	6,038
Sundry creditors and accruals	2,241	1,303
	8,752	7,341

9. INTEREST BEARING LOANS AND BORROWINGS

	Consolidated 2020 \$'000	Consolidated 2019 \$'000
Current borrowings		
Debtor & trade finance facility (Octet Finance)	2,657	-
Term facility (ADM Capital)	5,139	-
Equipment lease liabilities	110	142
Property lease liabilities	692	-
	8,598	142
Non-current borrowings		
Term facility (ADM Capital)	-	12,931
Note facility (First Samuel)	3,500	-
Equipment lease liabilities	164	142
Property lease liabilities	533	-
Capitalised borrowing costs	(32)	-
	4,165	13,073

10. CONTRIBUTED EQUITY

	No. of Shares '000	\$'000
Ordinary shares		
At 30 June 2019	482,225	54,755
At 30 June 2020	482,225	54,755

Ordinary shares have the right to receive dividends as declared and, in the event of a winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

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Notes to the Consolidated Financial Statements
For the year ended 30 June 2020

11. NOTES TO THE STATEMENT OF CASH FLOWS

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

<u>Reconciliation of cash</u>	Consolidated 2020 \$'000	Consolidated 2019 \$'000
Cash at bank and on hand	3,636	3,107
 <u>Reconciliation of net (loss)/profit after tax to net cash flows from operations</u>		
	Consolidated 2020 \$'000	Consolidated 2019 \$'000
Net (loss)/profit	(13,985)	1,263
Adjustments for:		
Depreciation, amortisation of non-current assets	2,297	1,474
Impairment of goodwill	10,554	-
Profit on sale of fixed assets	(8)	(1)
Foreign exchange gain	(12)	(54)
Amortisation of capitalised borrowing costs	57	113
Doubtful debts expense/(written off)	723	(5)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	218	1,968
(Increase)/decrease in inventories	2,480	(2,433)
Increase/(decrease) in trade and other payables	2,743	(1,158)
(Increase)/decrease in deferred tax liabilities	140	202
Increase/(decrease) in provisions	45	117
Net cash provided by operating activities	5,252	1,486