



# Wellington Drive Technologies Limited

## ANNUAL MEETING 30 May 2018

### ADDRESSES TO THE MEETING





## Notes:

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There are statements in this document that are "forward-looking statements". As these forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to Wellington, its operations, the markets in which it competes and other factors (some of which are beyond the control of Wellington). As a result of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements. In particular, Wellington's operations and results are significantly influenced by the extent to which energy efficient motor technology is promoted in Wellington's key markets, competitor product development and demand and pricing, fluctuations in key commodity prices or costs in the countries of Wellington's suppliers, availability of key components, relative exchange rates and profitability of customers, all of which can have a substantial impact on Wellington's results of operations and financial condition. Other risks include customer concentration risk and misuse of, and challenge to, Wellington's intellectual property.

All references in this document to \$ or "dollars" are references to New Zealand dollars unless otherwise stated.

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. The Company considers that it is a useful financial indicator because it avoids the distortions caused by the differences in amortisation and impairment policies. EBITDA is calculated as the loss before interest and taxation, less depreciation, amortisation and impairment.



Before I begin my presentation, we have a short video to show you.

Our company was recently named as a finalist in the NZ Hi Tech Awards Innovative Software category. The awards evening was held last week on 25<sup>th</sup> of May and while we weren't awarded as the winners of this category we were showcased alongside other amazing tech companies like Dexibit (who won the software prize), Vensa Health, Enatel Motive Power, Banquer, IBM and Invenco (who won the Company of the Year).

Being a finalist and recognized alongside other premier New Zealand tech companies is a great acknowledgement for our team and the progress we have made, and a reward for all the hard work put into transforming the business over the last few years. Of course, only a handful of years ago the words 'software' and 'Wellington Drive' would not have been included in the same sentence.



<https://www.youtube.com/watch?v=UwW1OpGaCjs>



Today, in addition to our motors, Wellington is a hardware-enabled software company, developing hardware platforms such as SCS Connect and SCS Click, complemented by software and digital services – tools that help our customers improve their businesses.



As a business, Wellington is changing rapidly and in just two years we have built an IoT (Internet of Things) business within the company, which has contributed over US\$10 million of sales in just two years.



After we have discussed our 2017 results, we will share our thinking on a refreshed strategy, aimed at continued growth of the IoT and motor business. We are helping our customers move towards a digital future so that they can achieve greater energy efficiency, higher sales growth and their own digital transformation goals.

Now let's review how we performed in 2017.



In 2017 our revenue continued to grow at an impressive rate of 23%, which equates to a 22% average growth rate since 2015. Our EBITDA performance continued to improve, with a \$234,000 increase compared to 2016.

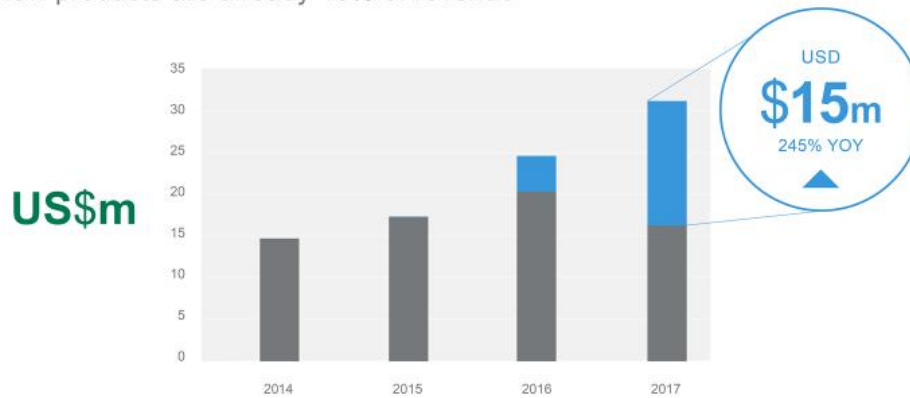
IoT Data revenues increased by \$500,000 to \$700,000 demonstrating the building annuity value in data revenues.

We also announced our new partnership with iProximity, which we will discuss later in the presentation.



### New Product Growth

New products are already 48% of revenue



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The company surpassed **US\$30** million of revenue for the first time, with this continued growth driven by new products, namely the ECR2 motor, SCS controllers & IoT data.

These new products contributed **US\$15** million dollars of revenue, which already equates to 48% of total revenue. They had their first year in market only two years ago and we expect the growth trend to continue in 2018.

Breaking that down further. Our SCS™ Connect volume grew 308% and ECR2 motor volume grew by 282%. Total EC motor volumes grew by 6% overall off a much larger base.

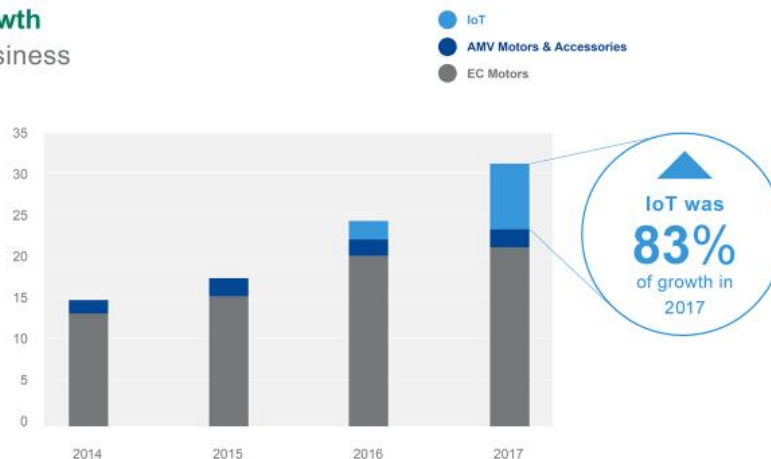
Our revenue growth was achieved with new business wins and with existing bottle cooler customers. Importantly, we are also winning new supermarket and food service OEM customers.



## Consistent Growth

### Revenue by Business

US\$m



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Looking at how our business is now split between IoT and Motors, we can see that the IoT business is rapidly developing into a larger part of our growth strategy and, as a business, is growing at a significantly faster rate than motors. This is consistent with external market growth data for the global IoT market. Indeed 83% of growth came from the IoT segment.

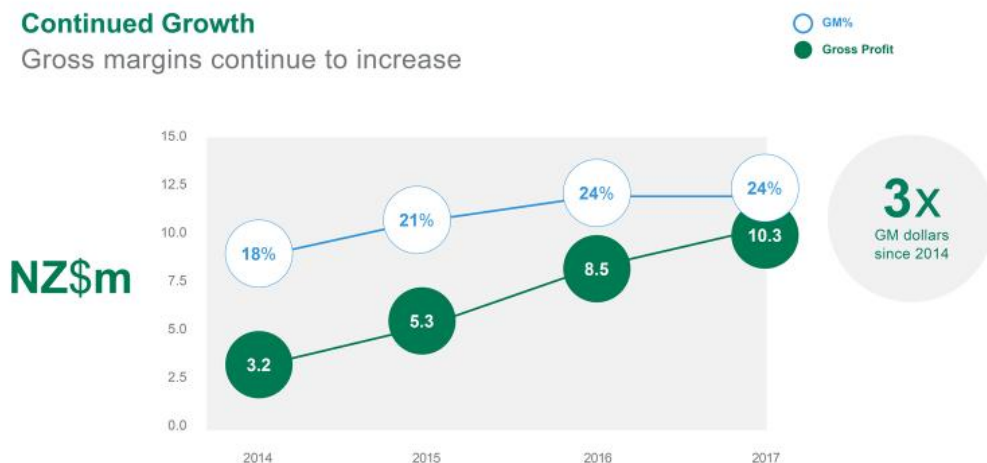
IoT consists of SCS™ Connect, SCSClick and data services and the developing proximity-based marketing solution sourced from iProximity. IoT contributed US\$7.9m dollars, up from US\$2.4m in 2016, which represents 25% of total revenues.

One of the cashflow benefits of the IoT data model is that we deliver multi-year data agreements which are paid for upfront, which translated into US\$713,000 of revenue during 2017.



### Continued Growth

Gross margins continue to increase



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Moving to Gross Profit performance.

So how does our growth translate to improvement in margin contribution?

Gross Profit dollars have increased threefold since 2014 and surpassed **NZ\$10m** for the first time. This demonstrates the increasing contribution from our new products and services.

Gross Margin percentage was flat compared to 2016 at 24%, slightly lower than expected due to some delays in accessing lower SCS hardware manufacturing cost from our strategic partner East West in Vietnam. This will be resolved by the end of 2018 as we expect to be building close to 100% of SCS in the Vietnam factory by the end of this year.



## Improving Earnings & Cashflow



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On the bottom line, we improved EBITDA profit to \$538,000 - a \$234,000 improvement on 2016.

The loss for the year was \$1.98 million after charging \$537,000 of financing costs to preference shares settled in May 2017. This was a \$498,000 improvement on the loss recorded in 2016.

Our profit numbers were lower than our initial forecast due to third quarter customer demand not meeting expected levels, coupled with late in the year demand deferrals and a lower margin sales mix throughout the year.

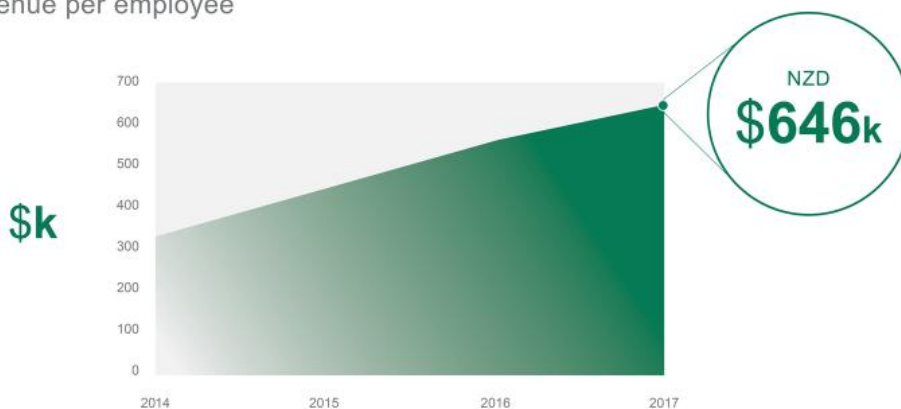
The board also felt it was important to continue to invest in supporting the high sales growth in the IoT business. This was reflected in an increased spend on headcount, which is important to enhance our talent base and grow capability.

Our strategy is to support higher growth rates, in the 20% to 30% range, by investing in new skills, new solutions and new markets. We believe this will enhance shareholder value versus a more defensive approach that focusses on stabilising revenues and reducing operating costs to deliver profits.

We believe this investment approach will best expand profits over the medium term and deliver superior positive operating cash flows.

## Productivity Growth

Revenue per employee



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While we are investing in growth, we are taking a responsible productivity-based approach to investing in our talent base. Our revenue growth of 20-30% delivers a productivity improvement that can be seen in our revenue-per-employee metric. This translates to revenue per employee doubling since 2014.

This metric includes the addition of 12 new people over that period. Our total company headcount now stands at 67.

## Strategic Journey

Vision 2022



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We are proud of our growth and new business achievements in 2017. Our journey into new markets and the acquisition of new customers is informing how we should best adapt our growth plans going forward.

Before I hand over to Greg, I will introduce you to some of the work we are doing to refresh our long-term growth strategy. This will lead us towards finalizing and communicating what we are calling Vision 2022.

Over the past seven years the company's strategy has transformed, from an initial turnaround plan focused on refrigeration motors, to a focus on new products beyond the motor. Those products allow us to enter new market segments, such as supermarket display cases and IoT.

Our 2013 'Beyond the Motor' vision has now been achieved. We are now selling at scale to large food and beverage brands with both our ECR2 motor platform and our IoT solutions.

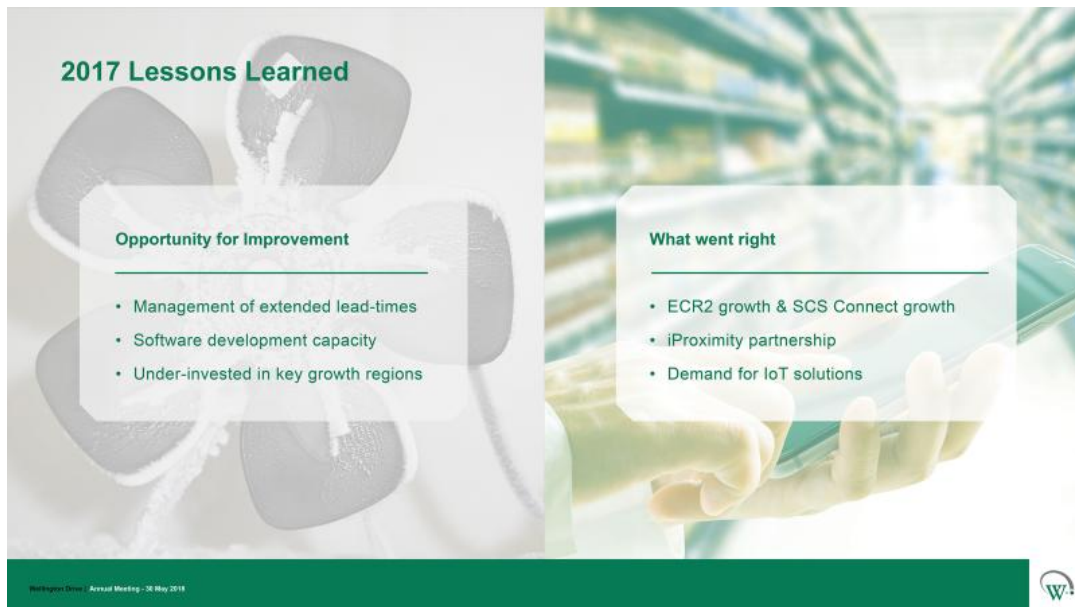
Wellington is no longer just a commercial refrigeration motor company focused only on bottle coolers. We are entering markets that are growing at close to 30% with our IoT and digital solutions.

The next five years will look quite different to the last five. We will continue to invest in new technologies and enter new markets with even stronger growth projections.

I will now hand over to Greg to talk more about 2017 performance and to give you further detail and insights on our developing plans.

**Thanks Tony and welcome everyone**

Before I continue with Tony's theme of what is new in the business and our developing new growth vision, I will talk about lessons learned in 2017.



To highlight what we think are two of the most important lessons learned:

Firstly, within our hardware business we saw component lead-times pushing out well beyond 12 months. In many cases we have had to place orders with suppliers well into 2019. This is a result of strong macro demand in the global electronics industry, which caused the loss of some revenue in fourth quarter 2017 and into the first half of 2018.

In cooperation with our main electronics supplier East West, we have invested heavily in additional raw material stocks and are adding supply chain staff in East West and New Zealand to support increased workload. We have developed new relationships with alternate component suppliers and are re-designing our hardware to use more readily available components.

Secondly, in our IoT business, as well as in our sales regions, we are seeing several compelling growth opportunities that we cannot readily address due to resource and skill limitations. This will be addressed over time as we add new people to the team, especially in software development, electronics design and IoT business development.



In 2017 we added eight new people to the team, which helped us deliver on ambitious growth targets. In 2018 we intend to add a further 14 people distributed across all our required skill areas.

Our Vision 2022 will address these skill and capability gaps head-on, because if there is a high return opportunity within our target market we never want to turn it away!



So how is our new vision for growth developing?

Our refreshed growth vision is underpinned by the development of a broad range of branded solutions, designed to serve the retail food and beverage markets. A broader range of solutions ultimately increases our 'share of revenue' inside the retail point of sale equipment, whether it's a cooler, a food display shelf or other equipment that sells or distributes product to the consumer.



We have an 'APPs Centric' approach. Our APPs provide the platform to deliver a range of services to customers. We have developed these in house and they include solutions like SCS™ Field, SCS™ Salesforce and SCS™ Report and the newly developed SCS™ Retailer APP.

The new Retailer APP enables the store manager or retailer to measure, control and improve the performance of in-store systems.

Through APPs, when combined with SCS Connect or other IoT connectivity solutions, we are gaining more share of value inside retail point of sale equipment.



An example of Wellington's retail solution portfolio is our cooler fleet management platform which we have branded *Smarter Coolers*.

This platform delivers data and reporting services built around SCS.





How does the new iProximity acquisition complement our existing SCS solution?

The iProximity platform, which is part of our Smarter Coolers solution, is built on the Cloud, providing customers the ability to engage directly with the consumer, manage large promotional campaigns, and deliver content at the 'point of sale' in front of the cooler or food dispenser. The integrated solution provides a toolset that helps food and retail brands deliver increased consumer sales.

During 2017 our primary focus was marketing and promoting the new iPX™ platform offering. Early pilot sales were planned to commence in 2018. And I can tell you that we have received our first order in Q2 2018.

We are already proving that this solution-based strategy works with the previously mentioned strong growth rates in both SCS and EC motor platforms.



## Our Business Model

Cash generative features



1.	2.	3.	4.
<b>Digital Services</b> <ul style="list-style-type: none"><li>• iProximity software and services</li><li>• Multi year contracts paid for in advance as part of solution bundle</li></ul>	<b>Working Capital</b> <ul style="list-style-type: none"><li>• Accounts Payable back-to-back with Accounts Receivable</li><li>• Where possible Customer invoice factoring</li><li>• Inventory turning 8+ times</li></ul>	<b>Outsourced Supply Chain</b> <p>Hardware production managed by specialists. Suppliers purchase materials, hold stock, back-to-back terms with customers</p>	<b>Data Services</b> <ul style="list-style-type: none"><li>• Wellington SCS data &amp; reporting</li><li>• Multi year contracts paid for in advance as part of solution bundle</li></ul>

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Our operating model has been developed to improve cash generation. This gives us significant growth leverage, and once at scale will allow us to self-fund organic growth.

The four main aspects of our operating model are:

Number 1 - A digital service model for iPX consumer engagement, with software and service on multi-year contracts paid for in advance.

Number 2 – A positive working capital structure with back-to-back terms and high targets on inventory velocity.

Number 3 - An outsourced supply chain where suppliers purchase and manage materials.

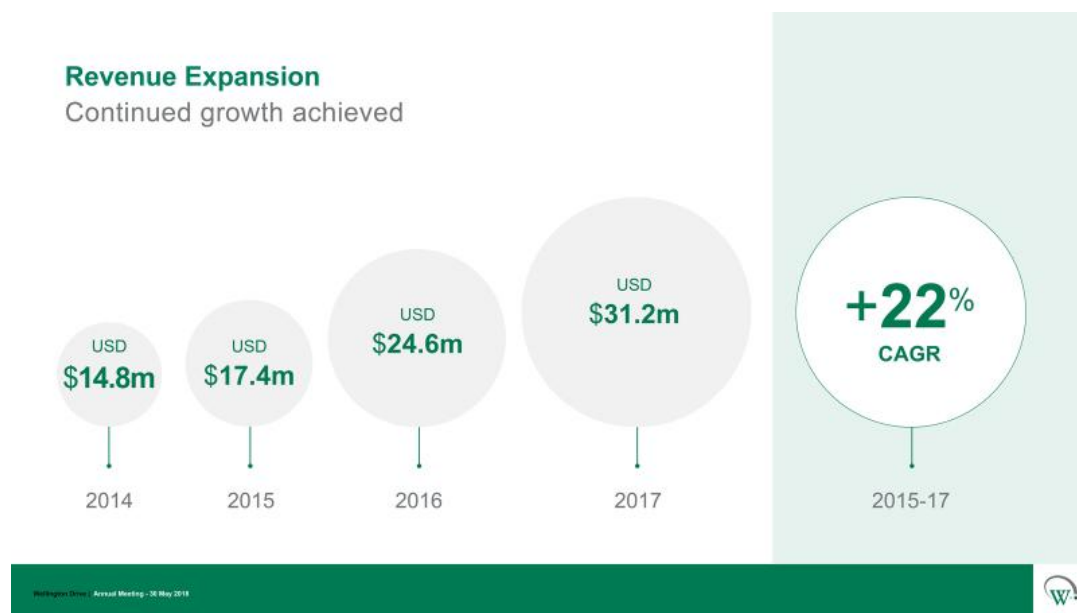
Number 4 - An IoT data reporting service with multi-year service agreements paid for in advance.

An example of our increasing capital efficiency can be seen during 2017. Our strong focus on inventory management resulted in 8.5 inventory turns in 2017 compared to 7.8 in 2016.



Overall, operating cash flow was a \$1.3 million improvement on 2016 and we expect that this model will continue this improvement trend and deliver positive cash performance.

I will now turn to how we intend to benefit from IoT markets that will support higher levels of growth over the next five years.



This slide shows our historical revenue growth.

We have been growing steadily with a 22% CAGR over the last three years. As Tony mentioned, much of this growth was driven by new products and new markets beyond our original bottle cooler based motor business.

Our model of strategic partnerships supports these growth levels.

In addition to our existing and growing partnerships with East West USA on sales, iProximity on digital marketing, and our distribution agreement with Axair in the UK we are busy continuing to expand the sales channels for our solutions.

As an example, we recently opened three new channels in just the first quarter of 2018:

- Firstly, we signed a sales partnership agreement with a New York based vision system developer called CoolR Group.



- Secondly, we signed a sales agreement with a Toronto and India-based refrigeration and HVAC technology distributor called Amtrac.
- And thirdly, we signed a sales agreement with an Argentinian based reseller of refrigeration motor and controller products.

### Revenue Growth Potential

Wellington is entering higher growth markets



This slide shows how we are moving from mature low-growth markets to new higher-growth markets.

Independent research shows us that our EC Motor and Commercial Refrigeration markets are growing in a CAGR range of between 4% and 12% and IoT is growing in the 24% to 30% CAGR range.

As you can see, the more attractive IoT markets on the right-hand side are where our focus lies for new product and market development, so we expect our revenue growth to remain strong.



This slide shows a combination of our achieved three-year revenue growth rate of 22%, coupled with projected five-year growth rates for our targeted market segments.

You can see that with our achieved revenue growth of 22% and new markets that offer 20%+ growth, there is the potential for a company CAGR of around 15% over coming years.

If this rate is achieved it would translate into a doubling of revenues in the next five years.

There you have a very high-level view of our growth potential. We are all very excited about the opportunity that these high growth markets present.

## The Future Of Retail



I have borrowed this graphic from a recent IBM Smart Retail study.

A large part of our growth vision being achieved is our belief in Retail 4.0, the transformation of retail from previously 'dumb' stores to stores that are already becoming 'smart'.

We already do many things for our customers to help them on their journey to enable the connected store.

For example, with our solutions they can:

- Measure door openings on coolers with our SCS Connect.
- Improve sales data with our SCS IoT Data service.
- And finally, using iProximity's proximity marketing toolset, they can use Bluetooth tags for shelf displays, read and manage shelf-based QR codes, and enable digital signage for promotions



Our technology is designed to connect people, places and things.

This technology works with refrigeration and non-refrigerated applications.

We recently demonstrated our consumer engagement solution at a Brazilian supermarket technology show. Our global branded customer has given us permission to use this photo for presentation purposes only.

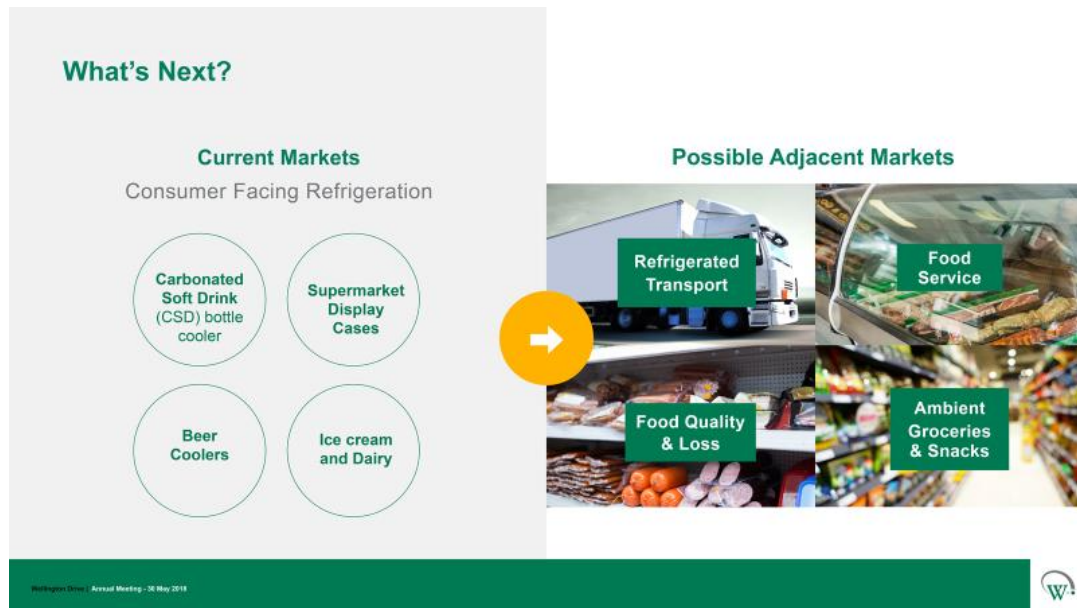
It shows a consumer scanning a QR code on a point of sale shelf, using our HolaLocal APP and receiving promotional information.



Our growth vision fully embraces the future of connected retail.

This is the new Wellington, this is our new business, and this is where a large part of our future lies.





The next five years will see us deliver further growth with our *Smarter Coolers* platform.

We also intend to explore new adjacent market opportunities for our solutions, as you see on the right-hand side of this slide.

We think interesting new markets are presenting themselves for the company, including refrigerated transport, food service, food quality and loss, and ambient groceries and snacks

These are just some of the possible adjacent markets we spend a lot of time thinking about and are in the process of validating with existing and prospective customers.

## Strategic Priorities

Focus on new  
markets & solutions  
.....long term  
profitable growth

1. Complete the development of Wellington's 2022 vision
2. Complete and leverage the iProximity acquisition to support sales growth and end-market expansion
3. Develop market opportunities for Wellington's IoT solutions beyond the carbonated soft drink market
4. Commence new product developments for IoT hardware, software and EC motors
5. Upgrade company-wide management information system to enable growth strategy

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I will finish off my review by giving you a quick update on our 2018 priorities and how we are projecting outcomes for this year and next.

Our priorities this year are built around developing a refresh of our five-year growth plan, continuing to deliver impressive sales performance and enhancing our management operating systems to deal with high growth rates.

We are also commencing the next stage of Wellington's product innovation program, across IoT, digital solutions and EC motors.

This focus will ensure the future success of our product and solutions portfolio and ensure full leverage of the recently announced investment in iProximity.



## Forward Perspective

2018 Priority  
.....IoT market  
development

### H1 2018

- Positive EBITDA
- Continued growth of ECR2 and SCS
- Component shortages impacting sales and cost

### FY 2018

- Revenue growth of 20-30%
- EBITDA profit of \$2-4m, net profit targetted
- Complete & integrate iProximity acquisition
- Component shortage issues will last the year

### 2019

- Targetting revenue growth of 20-30%
- Repayment of Smartshares debt facility
- Investing in IoT and non bottle cooler markets
- Growth in digital marketing services

Wellington Drive / Annual Meeting - 30 May 2018



During 2018 and beyond we will continue to focus on the higher market growth rates available to us in IoT, combined with stable growth for ECmotors.

First half 2018 is expected to modestly improve with revenue up around 10% and EBITDA of around \$1 million, similar to 2017.

There is some risk that first half EBITDA will only be in line with last year. This risk is coming from continued electronics component shortages and potential demand volatility at the end of the second quarter.

We are mitigating component shortages with additional inventory and product re-designs to use alternate components.

However, we continue to expect a higher growth rate for 2H18 and the full year.

Last week we exercised our option to acquire iProximity. We are funding this acquisition out of proceeds from cashflow and the MetaCapital loan.

As I mentioned earlier, we have received our first ever order for iProximity software. This was an important verification that reinforced our decision to complete the iProximity transaction.



It is possible, depending on how demand eventuates in the third quarter, and how large these new iProximity opportunities are, that we will have a funding requirement later in the year. The board is looking at all options available to fund growth, including a more optimistic outlook on the company's ability to obtain bank financing.

Our full year 2018 EBITDA guidance of between \$2 million to \$4 million remains unchanged. If achieved, this should generate positive operating cash and a small net profit.

Finally, as discussed earlier, Wellington is in the process of developing a new growth vision. Vision 2022 will take EC Motors into markets beyond bottle coolers, and establish our market leadership for IoT technology within the food and beverage market.

Before closing I would like to talk briefly about governance. It is my intention that this will be my last year as Chairman and as a Director after 8 years of challenging but fulfilling years on the Board. Over the coming months we will be reviewing our Board structure and capability matrix, with a view to finding the best configuration and individuals to deliver on our Vision 2022.

**Thank you for your time today.**

