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Market Announcement

For Immediate Release

First half revenue grows 18% and earnings improve

Wellington Drive Technologies (WDT), a leading provider of Internet of Things (“IoT”) solutions and energy efficient motors to the retail food and beverage industry, today announced strong financial results for the six months ended 30 June 2018.

Wellington CEO Greg Allen stated “The increasing diversity of the markets we serve and our growing customer base for IoT solutions and ECR2 motors helped deliver strong revenue in the first half. We were particularly pleased with our record second quarter revenue and winning our first dairy products customer. We are building an IoT platform to help food and beverage brands, cooler manufacturers and retailers collect and use data from their point of sale equipment, enabling them to sell more products and improve their store operational performance. We have exciting innovations in the pipeline, expanding both our IoT product range and EC motor platforms and we continue to explore new market opportunities.”

Highlights for the first half 2018 include:

Significant revenue growth

New Zealand dollar revenue for the first half was \$28.1 million, an 18% increase compared to the same period last year. This compared to previous guidance of around 10%. Revenue in the second quarter was \$16.3 million, compared to \$11.1 million for the same quarter in 2017, a 47% increase. Second quarter revenue was the largest single quarter revenue in the company’s history.

Wellington’s US\$ revenue for the Americas region grew by 28% due to strong sales of ECR2 motors and the SCS Connect IoT platform. Asia-Pacific revenue was flat year-on-year as regional customers moved more slowly than expected towards IoT adoption and brands reduced their cooler placements. EMEA region US\$ revenue was down 12%, driven by lower volumes from bottle cooler customers in markets impacted by macro-economic difficulties, such as Turkey and Southern Europe. The Company also decided not to compete where bottle-cooler motor price pressure became excessive. EMEA did, however, see significant growth in its supermarket display customer base as ECR2 motor US\$ revenues increased by 83% over the comparable period in 2017.

Revenue growth continues to be driven by IoT and ECR2 motor product sales. In first quarter 2018, motors represented 66% of the company’s US\$ revenue while IoT solutions were 29%. In second quarter, motors were 64% of the company’s total US\$ revenue while IoT solutions were 32%.

Wellington is continuing to diversify beyond its historic reliance on the bottle cooler EC motor market. SCS Connect hardware sales were 45% higher than for the comparable period in 2017. SCS Data revenues continued to grow with US\$0.7 million invoiced in the half, an 88% increase versus 2017. The ECR2 motor unit sales were 46% higher and they now surpass ECR01 motor volumes, which while lower than ECR2, did increase by 12%. Sales to the company’s two largest supermarket and food service refrigeration customers continued to grow - they together contributed 31% of total ECR2 motor sales.

Gross margin

Gross Margin at 25% was consistent with the 25% recorded in first half 2017. The company came under price pressure in its EC motor business towards the end of 2017 and generally responded to remain competitive. Additional one-time costs of \$0.2 million, a 0.9% impact on gross margin, were incurred to successfully manage the global electronic component shortage situation. These incremental spot buying costs ensured alternate



components were secured and that all customer demand in the period was met. Component shortages are easing somewhat but are expected to continue well into 2019.

Operating Costs

Operating costs for the period amounted to \$5.9 million, or 21% of revenue, compared to \$5.1m and 21% of revenue last year. Operating spending increased as the company continued to invest in the skills and infrastructure required to support a broadening product range and diversifying customer base. This has required additional personnel in areas such as customer management, marketing and software development. Profitability was also affected by capitalisation of development time reducing by \$0.4 million as some development engineers were redeployed to modifying existing products to resolve component shortage issues rather than development of future products.

Profit Improvement

EBITDA¹ for the first half improved to \$1.1 million compared to \$1.0 million for the same period in 2017. This result was in line with previous EBITDA¹ guidance of around \$1 million. EBIT improved to \$0.3 million compared to \$0.2 million in 2017. The company made a net loss of \$0.2 million for the half, an improvement on the \$0.5 million loss for the same period last year. The improvement in net loss is higher than the relative EBITDA¹ improvement due to the cessation of preference share interest costs in May 2017.

Working Capital

The company generated cash in the first half. Cash at 30 June 2018 was \$2.6 million compared to \$1.6 million at 31 December 2017. Net debt at 30 June was \$0.6 million versus net debt of \$1.0 million at December 2017. Operating cash flows for the six months amounted to \$1.8 million, up from \$0.3 million for the corresponding period in 2017. Net operating and investing cash flows amounted to \$0.5 million for the six months, a \$1.4 million improvement.

Inventory management continued to be a highlight with 7.6 inventory turns achieved in the six months, compared to 4.6 turns for the same period last year. However, several customers have recently mandated higher levels of locally held inventory to support shorter lead-times and increased product mix, which will increase Wellington's stock levels during the second half of the year. In the second quarter, one of the company's larger customers decided to extend payment terms for all its suppliers, as a result of beverage brands extending their terms. This extended payment cycle is expected to continue for the foreseeable future.

The US\$0.6m loan from Meta Capital Limited was repaid on 31 May 2018. A new loan for US\$0.6m from Meta Capital was advanced on 29 June 2018 to partially fund the iProximity acquisition settlement and support extended terms with selected customers.

Acquisition of iProximity

The acquisition of iProximity, an Australian-based digital marketing company, was completed on 2 July 2018. Several field trials are underway using iProximity's solutions, including working with large global food brands to deliver proximity based information to retailers and shoppers. Wellington's SCS Connect is being integrated with the iProximity digital marketing toolset to manage fleets of beacons installed in customer coolers, deliver asset management tools to food and beverage brands and supermarkets and deliver product promotions to consumers.

Customer wins

The company added its first dairy products customer to the portfolio, with deliveries of the SCS Connect IoT platform starting in the first quarter. This customer is expected to have reached US\$1 million of revenue by early 2019 and is an indicator of how Wellington's IoT solutions are being used beyond carbonated soft drink brands. The dairy sector is an important target market for the company's IoT platform. This platform will help improve management of in-store dairy coolers and also facilitate improved management of food quality and loss for the industry.

2018 guidance

Revenue for the second half of 2018 is expected to be consistent with the first half, with EBITDA¹ around \$1 million. The previous guidance of EBITDA¹ between \$2 to 4 million is being narrowed to between \$2 to \$3 million, and the achievement of a net profit remains a target. Wellington should generate a positive operating



cash flow in FY2018. However the extension of customer payment terms, the increased demand for higher levels of locally-held inventory, the opportunity to accelerate investment in several high growth IoT projects and repayment of existing debt is causing the board to explore a range of funding alternatives to ensure continued significant growth rates.

About Wellington Drive Technologies

Wellington is a leading global provider of IoT solutions, cloud-based fleet management platforms, energy-efficient electronic motors and connected refrigeration control solutions for the retail food and beverage markets. Through its iProximity brand in Australia it provides proximity-based marketing for Smart Cities. Wellington's SCS Connect IoT products, iProximity digital marketing solutions, and ECR motors serve some of the world's leading food and beverage brands and refrigerator manufacturers with advanced products and solutions that improve product sales, reduce operating costs and reduce energy consumption. Wellington is headquartered in Auckland, New Zealand, and is listed on the New Zealand stock exchange under the ticker symbol NZ:WDT

Notes

WDT expects to release its full 2018 interim result on 29 August 2018. All amounts are stated in New Zealand dollars unless otherwise stated. The results announced today are unaudited and are subject to any adjustment required from adoption of new accounting standards for revenue recognition (NZ IFRS15) and financial instruments (NZ IFRS9) that take effect from 1 January 2018. The impact on revenue and earnings once the new accounting standards are adopted is currently being assessed but is not expected to be significant.

Note 1 - EBITDA is Earnings before Interest, Taxation, Depreciation, Amortisation and Impairment. Wellington has always reported the EBITDA result because this is the profit performance measure that avoids the distortions caused by differences in amortisation and impairment policies.

For further information, please visit www.wdtl.com.

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