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Media Release

For Immediate Release

Wellington Drive releases its 2016 financial statements 44% revenue growth and positive EBITDA

Wellington today released its financial statements for the year ended 31 December 2016, presenting a result consistent with the market update provided on 1st February 2017.

The Company recorded full year 2016 revenue of \$35 million, a 44% increase from 2015 and double the 2014 revenue. Wellington's new SCS Connect and ECR2 products contributed \$6 million to the reported revenue. The Company sold a record 1.4 million motors in 2016, including 1.2 million EC motors which was an increase of 33% on 2015.

Wellington achieved its maiden full year EBITDA profit, with an EBITDA profit (adjusted) of \$325,000 which was a \$2.3 million improvement on 2015.

	\$000's		
	2016	2015	Change
EBITDA (adjusted)	325	(1,968)	2,293
FX revaluation of the mandatory, convertible preference shares	(121)	565	(686)
EBITDA	204	(1,403)	1,607

EBIT improved by \$0.5 million to a \$1.3 million loss, while the net loss improved by \$1.6 million to a \$2.4 million loss.

The average NZD/USD rate for the 2016 year was 0.695 compared to 0.699 for 2015.

Tony Nowell, Wellington's Chairman commented, "The team is pleased to have achieved its first ever full year EBITDA profit result, which demonstrates initial success for our *Beyond the Motor* strategy and provides a solid foundation for ongoing revenue growth and the path to profitability. Our transformation into a refrigeration technology company, with developing capability in the Internet of Things market is exciting for the business. Coupled



with our expanding line of energy efficient EC motors, Wellington is delivering a compelling set of new technology solutions for our customers.”

Regional Summary

Fifteen new customers were added globally in 2016 with two of these customers being attracted by our SCS Connect products. Importantly most of these new customers are focused in the supermarket display case and food service market, as we expand beyond our traditional beverage market core.

Latin America: Our Latin American business grew by 44% versus 2015, from US\$11.5 million to US\$16.6 million. We added two new motor customers in the region as well as experiencing stronger demand from existing bottle cooler customers, with motor volumes growing by 30%. Mexico continues to be our largest market and further growth is expected in 2017 as several major customers begin to adopt the SCS Connect product. Brazil demand was weak in 2016 as a result of difficult economic conditions; however we are seeing demand increase for SCS Connect training and trials which could translate to an increase in 2017 sales. The rollout of SCS Connect to a large food and beverage brand in Mexico commenced in 2016 and we started working with other new SCS customers in Central America.

USA/Canada: The USA and Canada regions saw 130% growth versus 2015, with US\$2.2 million of revenue compared to \$1.0 million in 2015. Two new customers for the ECR2 motor product contributed the majority of this growth. In addition several smaller but strategically important customers starting buying ECR2 motors through our USA distribution partner, East West. We are continuing with several SCS field trials in the USA, although it is becoming evident that the adoption rate for SCS may take longer in this region. We were encouraged to be invited to participate in a research project by a customer interested in new SCS digital services.

APAC: Asia Pacific revenues of \$2.3 million held relatively steady versus 2015, with a 9% increase on the US\$2.1m recorded in 2015. Eight new customers were won in this region; two of those for SCS and the balance for EC motors, including several smaller Chinese display case manufacturers. Our business development effort in this region was focused on developing and training new customers for the SCS Connect product in preparation for 2017 growth.

EMEA: EMEA revenues grew by 17% to US\$3.2 million, versus US\$2.8 million in 2015. This growth resulted from three new customer wins in Europe and increased volumes from a



new Italian customer won at the end of 2015. Of particular note was the expansion of our business with UK distribution partner Axair who had success in developing new display case relationships which drove demand for our motors. Turkish demand was weak in the latter half of the year as a result of continuing political and economic issues in that country and we expect these difficult trading conditions to continue in 2017.

Gross Margin and Cost

Gross Margin for the year was 24.0%, increasing from 21.4% in 2015. This was a result of continuing cost reduction programmes with all major suppliers and component pricing benefits being realised from increased volumes. Gross Margin gains were offset somewhat by pricing reductions needed to grow share with large bottle cooler customers. The Gross Margin improvement was also assisted by revenue from new products.

“Operating costs increased by 15%, from \$7.4 million to \$8.5 million. As noted in previous disclosures, 2016 was the year that Wellington started to hire new skills to support SCS Connect software development and customer field support. 10 new people were added to the business between fourth quarter 2015 and the end of 2016. The increase in operating expenses included usual market-related salary adjustments, predominantly for non-management staff, to ensure retention of key skills, as well as a notable rise in travel spend to support market development and expansion, particularly in relation to SCS Connect. Operating cost as a percentage of revenue improved to 24% from 30% in 2015 reflecting an overall increase in productivity, as measured by revenue per employee, which increased from \$450,000 to \$588,000.”

Cashflow and Investments

The Company was pleased to be able to gain debt support in September 2016, with a \$2 million one year debt facility secured from its major shareholder Superlife.

Inventory performance was an operational highlight of the business with inventory turns improving to 7.8 times from 7.0 times in 2015. A new inventory management programme was introduced with one of the Company's main suppliers which contributed to this improved performance.

Operating cash flow was -\$0.048 million compared to the positive \$0.834 million in 2015, a result of timing issues and some pressure on working capital from the strong 44% sales growth. Wellington invested \$1.9 million in capitalised new product development, most of which related to the completion of our new SCS Connect product and the related development of new SCS software and data solutions.



Wellington invested \$0.3 million in plant & equipment, mainly focused on increasing manufacturing and test equipment capacity (to support our volume growth and new products), as well as improving critical development equipment in our New Zealand Innovation Centre.

The cash balance at the end of 2016 was \$2.1 million with \$1.5 million drawn down under the SuperLife debt facility for a net cash position of \$0.6 million.

Forecasts prepared by the Company show that cash generated from operations should be sufficient to repay SuperLife in September 2017. However by their nature, forecasts are based on assumptions as to customer demand, pricing, costs and exchange rates and actual results may vary materially from forecasts. Furthermore the Company is experiencing significant growth which is going to put continued pressure on working capital. Wellington is seeking a bank line of credit and is in discussions with NZ trading banks although there is no certainty that bank finance will be available in the near term. The Company is also considering other options to support its growth capital needs.

Products and Solutions

2016 saw the launch of our two new products, the SCS Connect ‘cloud connected’ refrigeration controller, and our advanced ECR2 motor. Both products experienced strong sales in the year. We continue to prioritise the expansion of the SCS Connect platform as customers provide feedback on software and hardware enhancements.

As ECR2 motor sales gathered pace in 2016 we moved closer to expanding the range to include other ECR2 product options. We also commenced planning for the development of a higher power version of the ECR2. These product derivatives are targeted at unlocking further market share in higher end supermarket display, food service and bottle cooler segments.

With SCS Connect, we started working on new strategies to add further value to customers through new wireless communications technologies, new cloud software services and digital solutions to help customers not only improve the performance of their coolers but increase sales of the merchandise within those coolers.

Outlook

Customer demand in the first quarter 2017 is strong and we expect a positive EBITDA result for the quarter.



Our strategy to expand the motor product range, further develop the SCS Connect solution and develop new customers for those products in new markets will continue at pace. To support that plan we will continue to add new skills in the software development, sales leadership and customer support areas. We will also be seeking partnerships to help us further develop the SCS digital and cloud services component of our SCS Connect offering.

Our early estimates for the 2017 year indicate that the Company should achieve revenue growth in the 30% to 40% range and we continue to expect an EBITDA profit in the low millions of dollars. We would like to highlight that at current projected cost structure an EBITDA of around \$2 million would deliver an approximate breakeven net profit. We remain cautious about these estimates given the ongoing economic uncertainty in parts of our EMEA region and developing uncertainties around trade agreements between the USA and several countries where we have customers and suppliers.

Wellington's CEO, Greg Allen, commented, "Achieving 44% revenue growth in 2016 on top of the 30% achieved in 2015 is something we are proud of. With the anticipated continued adoption of our new ECR2 and SCS Connect products in 2017 and beyond we believe that Wellington's growth is likely to continue. Expect to see more exciting new products and solutions from us as we move through 2017 and into 2018."

Notes:

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 visit www.wdttl.com.

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