



# ASX MARKET RELEASE

## 2018 Annual CEO Shareholder Letter

### SUMMARY

- Buddy's share price up nearly 317% in 2017
- Previously announced global distribution deal for Buddy Ohm remains in progress; contract simplification will enable faster rollouts of new markets as needed
- Telstra deal progressing through device and security certifications; Telstra sales staff training has commenced, first customers identified
- Digicel rollout tracking about three months behind schedule due to hurricane delays, new countries recently announced, no impact expected to 3-year contract value
- Buddy attending upcoming Consumer Electronics Show in Las Vegas; exhibiting at Mobile World Congress in Barcelona, Spain; exhibiting at IoT World in Santa Clara, California
- Buddy re-architecting Alternative Data product (Parse on Buddy) to support new EU GDPR privacy regulations starting in May; expected to be a competitive advantage
- In a move to maximise investor transparency, Buddy will pre-disclose to investors what stock sales material insiders plan to make in the coming quarter
- Buddy CEO to voluntarily re-escrow performance shares, likewise some members of the leadership team have escrowed the majority of their shareholdings.

### **8 January 2018 – Adelaide, South Australia**

Buddy Platform Limited (ASX: BUD) ("Buddy" or the "Company"), the Internet of Things ("IoT") data management, processing and control platform, hereby releases CEO David McLauchlan's annual letter to shareholders.

- The Buddy Investor Relations Team.

## About Buddy

Buddy Platform Limited ([ASX:BUD](#)) provides highly scalable Internet of Things data aggregation and management infrastructure by way of three unique offerings – Buddy Cloud, Buddy Ohm and Parse on Buddy. The Buddy Cloud offers smart city providers a globally scalable data ingestment and management platform. Buddy Ohm, a complete and low-cost solution for facility resource monitoring and verification, connects systems that were never designed to work together, while turning energy savings into a strategic asset. Parse on Buddy is a mobile backend as a service (mBaaS) built on the world's most popular BaaS technology. Buddy Platform is headquartered in Adelaide, Australia, with offices in Seattle, Washington.

For more information, visit [www.buddy.com](http://www.buddy.com).

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January 8, 2018

Dear Shareholders,

On behalf of the Board of Directors of Buddy Platform Limited and our team across the US, Australia, Latin America and Europe, welcome to 2018 and the start of what I expect to be the company's most impactful year to date. Unquestionably, 2017 was a standout year for the business, and we've much to be proud of and thankful for - however the bar is now raised for 2018, and precise execution will be our greatest challenge this year. We're up for the task, but as we look forward to what the next twelve months holds in store, I wanted to take the opportunity to share some longer form thoughts with you all on what's next, how we plan to execute, and how we plan to continue our effort of being amongst the most transparent and accessible small-caps on the ASX.

### **2017 Overview**

On January 2, 2017 BUD opened the year at A\$0.06 and on December 29 we closed the year at A\$0.25 - a nearly 317% increase in share price over that period. Unquestionably this is a great result, but as is often the case, the numbers tell little of the story of our year.

Just ten days after the market opened in January, we announced that we were terminating a plan to acquire a US east coast energy monitoring business. Two weeks later BUD hit its share price low point for the year and market confidence in the company was wavering. However, our team had a plan and was furiously working on delivering upon that plan. In fact, the first quarter of 2017 was perhaps the most concentrated effort our then small team had ever produced. We had a mission, we had a launch event whose date was not to be pushed, and we had a product to develop. What a time to be at Buddy!

On March 21, I was so very proud to be able to stand on stage at an event in Sydney and unveil the "Buddy Ohm" - a natural resource and environmental monitoring system sold as a service to enterprise, retail, corporate and government customers seeking to better understand their utility footprint and how they can save costs and gain increased peace of mind. Buddy Ohm was to be built on top of the Buddy Cloud platform, was to have a unique sales model, was to be entirely independent of building internet connectivity or existing metering and control systems, and frankly was unlike anything the market had seen in this category. We promised to deliver the product on time and on budget, and we promised to demonstrate to the market that our failed M&A transactions (which, shareholder angst notwithstanding, aren't uncommon occurrences) would ultimately have no negative effect on the business.

In May, we took Buddy Ohm on a pre-sales customer roadshow around Australia, and then launched pre-sales in the United States at the Internet of Things World 2017 event in Santa Clara, CA a week later. It was at these events that we met Digicel - the largest mobile operator in the Caribbean - and Telstra. Our relationship with both of these mobile operators (with respect to Buddy Ohm) can be traced back to these events.

On July 14, we were thrilled to announce that Digicel would become our exclusive distributor of Buddy Ohm in the Caribbean and Central American market. Exclusive deals come with minimum sales commitments and so for the first time, the market was able to accurately understand the forward-looking revenue impact of distribution deals for Buddy Ohm.

We continued to see great interest from mobile operators over the year - in fact for the rest of 2017 our team didn't do any external evangelisation of Buddy Ohm to mobile operators around the world. We found our decision to connect Buddy Ohm to the Buddy Cloud via an internal cellular modem (and not through a connection to the building's existing internet network) was not only a popular customer and easy installation feature, but opened up a perfect set of sales

channels for us – mobile operators. Worldwide, mobile operators are very actively seeking connected products to sell through their existing channels, and in particular are looking for boxed or packaged solutions. Mobile operators regularly tell us at trade shows they wander the hallways looking for products that can run on their networks that they can resell, and usually can only find technology layers or components. Buddy Ohm was a breath of fresh air for them, and while these companies are traditionally least able to move quickly, they have a long term outlook, they have considerable field sales staff, they have a cellular network that Buddy Ohm needs and relationships with installation partners already in place.

As it turned out, we delivered the first production units of Buddy Ohm on time and under budget. We strengthened our growing relationship with Digicel, and began to sign new mobile operators, installers, and distribution deals. In early October we announced a global connectivity deal with T-Mobile USA, giving us the flexibility and distribution ease of a single SIM card platform for all deals worldwide that didn't involve a carrier supplying their own SIM card (such as Digicel). This was one of our last remaining hurdles preventing us from signing cross-region distribution deals – or even, in the perfect and ideal case, global distribution deals.

On October 20 we announced a major distribution deal had been signed with the Canadian arm of the world's largest technology distributor – Ingram Micro Canada. At the time, this was the largest distribution deal we'd signed and while it may appear that this deal led to the even larger Ingram Micro USA deal we signed in December, actually the reverse is true. Ingram Micro USA approached us to distribute Buddy Ohm in the US market, and while those negotiations were ongoing, their Canadian subsidiary sought to jump the queue and get a headstart. The Canadian agreement was much simpler than the US one, so we were able to execute paperwork with Ingram Micro Canada first, and get them off and running.

At about the same time, we had conversations with a global distribution partner actively seeking to distribute Buddy Ohm worldwide. As we were preparing to execute such an arrangement, institutional investors asked us what our global expansion plans were, and specifically whether additional funding would enable us to accelerate those plans. The answer was unquestionably yes, and we communicated our confidence in signing a global distribution partner imminently (more on this below); thus on October 30 we announced a A\$23 million capital raise priced at A\$0.20 (a A\$0.04 discount to the last closing price), led by the most respected small-cap institutional investors in Australia and Hong Kong, successfully managed by Bell Potter Securities.

The market reacted positively, as the share price did not lower to the CR price (which is unusual) and in fact began a significant run up to A\$0.40 just over a week later. While this capital raise was well over-subscribed, extremely quick and a great result for all shareholders, the one downside was our obligation to cleanse the market of all material news and deals in play, even if not announced or concluded (only a downside because not all deals materialise – as longer term shareholders would be aware). As a result, we were required to accelerate disclosure of our ongoing negotiations with Telstra, the progress of a global distribution deal, our new hardware order and our relationship with Rizon, our new UK-based Buddy Ohm distributor.

At the end of November, all of our outstanding options expiring on November 30 were exercised, contributing an additional A\$5.375 million to the company's coffers and further bolstering the resources available to drive sales and distribution growth for Buddy Ohm. On the day of our Annual General Meeting we launched a new Buddy Ohm component – the Ohm View – making access to the Ohm Dashboard effortless and setup-free. In December – usually a quieter month for business – we announced our largest distribution deal ever (Ingram Micro in the USA market) and the continued rollout of new Buddy Ohm distribution territories in the Caribbean by Digicel. What a way to wrap up 2017!

Of course, all of the above is just our Buddy Ohm timeline. During the year we announced our monetisation plans for Parse on Buddy – creating an Alternative Data product we expect to

commercialise shortly and will report first revenues on next quarter's 4C (which will report in July 2018). Buddy Cloud continues to drive revenue to the business, and while it has taken a back seat to Buddy Ohm and Alt-Data, it continues to form the core technology IP of our cloud infrastructure and processing capabilities.

While I'm especially pleased with the performance of the business in 2017, we enter 2018 mindful of the responsibility last year's success has now bestowed upon us. Distribution agreements and large-scale sales partners are vital to achieving significant sales and growth, but agreements alone don't guarantee sales. Our team has learnt an incredible amount from working very closely with Digicel – our first major channel partner – and those are learnings we'll be taking into every other sales or distribution partnership we have. We're fortunate to have strong and collaborative relationships with our customers and partners – and we expect to work hand-in-hand with them in 2018 to maximise their success with the Buddy Ohm product, and learn as much as we can to continue improving and capturing new opportunities.

### **Telstra & Global Distribution Deals – Still on Track**

When we announced the A\$23 million capital raise at the end of October, our proximity to closing both of those deals was imminent. Both of those deals were expected to be complete in the near-term but getting certifications complete (in the case of Telstra) and agreement on other items, such as market communications (in the case of the global distribution partner) have slowed down our ability to announce these as “done”. As I regularly remind the market – it is in no way unusual for deals of these types to be delayed, in fact it is quite commonplace. In neither case are these deals troubled and we fully expect to move forward with them in 2018. We continue to staff up and will absolutely be able to accommodate these new business opportunities when they land, but delays on those two particular arrangements are in no way slowing the company down.

In the case of Telstra, aside from the business agreements and formalisation of our relationship, there are considerable device (modem) and security certifications to be reached prior to product being deployed on the Telstra network. We continue to work through those – with the close cooperation and support of Telstra – and will provide additional updates to the market as certifications are met. In the meantime we've conducted several sales training programs for Telstra staff, and those will continue in early 2018. First customers are identified and we're confident of a strong reception for the Buddy Ohm product in the Australian market.

In the case of the global distribution partner – the delays are actually due to a simplification of the contract process that was identified. While this is good news for us – and for their ability to roll out to new countries efficiently – it has meant a delay. In short, we were expecting to conclude a global distribution deal with the US entity of that global partner, however it has since been identified that nearly all other country subsidiaries of that partner use a worldwide standardised distribution agreement. At the partner's suggestion, we're now going to use an executed agreement with one non-US country, and simply append a standardised one-page addendum to that agreement for each new country we roll out to (each country has different currencies, slightly different pricing, possibly different product bundling, etc...). This is huge win for us and reduces the paperwork/legals by an enormous amount.

While this means we won't be announcing the signing of a single global agreement document, we will certainly be announcing we've reached agreement to roll out worldwide through a distribution partner in the very near future. The legal mechanics in no way reduce the impact of this agreement for our business, and if anything, allow us to move more quickly if we so choose. That said, we're going to be careful here – we need to expand at a rate we can internally support – but the takeaway for investors is that our global footprint is very soon to be limited only by our ability to service additional markets and that may be the biggest outcome from 2017 of them all.

Suffice to say, this partner is as keen as we are to grow internationally, and I couldn't be more pleased at the relationship we've built with this organisation. As soon as we're free to announce

who they are, I think investors will nod heads in understanding and feel tremendous excitement about what this relationship and global footprint can mean for the business.

### **Turning Distribution Deals into Sales – Our 2018 Focus**

We've communicated to the market that distribution deals take some time to close (and that can vary – some mobile operators can move very quickly, others very slowly) and then it can take three to six months for those operators to conclude all their pre-sales preparations prior to commencing selling. Despite all the distribution and installation deals in place by EOY, only Digicel is selling, installing and converting sales at a material level. This is as expected – the other distributors and resellers in new markets are presently in that three to six month onboarding period. This time has enabled us to fine-tune our onboarding process for new mobile operators and distributors – and means that Buddy Ohm revenue will start to become material next quarter. In some territories, the 30-day trial period is being removed, but for those that offer such a trial (most of them), this means that first revenue is at least 60 days out from first sales, which are three to six months after distribution deals are signed.

Digicel is doing a great job navigating a challenging situation for many of their service areas. As you'd all be aware, the Caribbean was struck by a series of devastating hurricanes in 2017, and the provision of cellular telephony service is vital to rebooting services in these regions. Watching Digicel go all hands on deck to restore service to devastated regions, enabling emergency services to function, and people to start rebuilding their lives has been inspirational. Understandably, their rollout of Buddy Ohm to the 26 regions in their territory was delayed due to these events, but miraculously only by about three months. Over their three year contract, we don't anticipate any meaningful financial impact as a result of this delay.

We've been very transparent with the market in how we recognise revenue and our calculations of cost of goods sold ("COGS"). Because COGS is expensed up front and revenues come later, investors will naturally see very low margins in these early quarters for Buddy Ohm. We've communicated as much as we can about revenue expectations without offering formal guidance (which we will not do until the business is in a more forecastable financial position). That said, we continue to stand by our guidance that we expect the business to become profitable in calendar year 2019. Even if we have the ability to do so earlier than that timeframe, we expect to reinvest revenues into the business to fund continued and additional growth.

For clarity, Buddy will continue to sign additional distribution deals and our global expansion into new markets will increase in 2018. We've recently hired a General Manager of Latin America, based in Miami, to service not just the Digicel account, but the entirety of Central and Southern America. We've also just hired a Managing Director of Western Europe – an equivalent role to oversee and direct our expansion into that territory (starting with the UK and our deal with Rizon). However, you should expect to see us invest significant time and resources into achieving success with our existing sales and distribution partners. For example, having just completed a US-wide distribution deal with Ingram Micro USA, there's considerable opportunity for our team in the largest of our two home markets.

As we invest in the deals we've already won, investors are reminded that those efforts tend not to be flashy or news-making but will be vital as we turn incredible distribution deals full of promise into incredible distribution deals driving significant revenue. I ask that shareholders temper their expectations accordingly – and do so with an understanding of the timeframes and complexity required to turn distribution deals into revenue.

### **A Note on Exclusivity and Minimum Contract Commitments**

During the course of the year, investors contacted me several times asking why more of our deals don't have minimum commitments. The answer is simple – minimum commitments come with deals for which some kind of exclusivity is negotiated. Most of the deals we do won't be exclusive, and aren't sought to be, however for some it will make sense. Digicel has exclusivity in their 26

markets in the Caribbean and Central America, and given they hold over 70% market share in that region, we were pleased to provide exclusivity to them as part of their reseller agreement.

However, for partners who don't hold dominant market positions or for markets which are large, exclusivity often does not make sense for either party. For example, we did not seek exclusivity with our US distributor, Ingram Micro, and our global distribution deal certainly will not be exclusive (why limit sales through only a single – even if large – channel?). For this reason, investors should not expect many deals to have minimum contracted commitments, and certainly should not draw any conclusions from deals that don't have announced minimum commitments.

### **Trade Show Attendance**

Last year I communicated that we would be taking a conservative approach to trade show attendance, especially events where we go to the time and expense of showcasing our products. We will continue to exercise care and discipline here, however there are several events pending which will be familiar to longer-term investors in the business.

This week is the annual Consumer Electronics Show in Las Vegas. We won't be exhibiting, but we will be attending the show. Each year I try to promise myself that I won't go – it's actually exhausting and with 170,000+ people usually in attendance, simply getting around Las Vegas to the various events and exhibits can be really challenging. As with previous years, it turns out that I will need to attend – with literally the entire industry converging on Las Vegas for four days, it is a very cost effective way to hold face-to-face meetings with key customers, partners and distributors. I'll be joined by our head of sales and some of the business team.

At the end of February is Mobile World Congress, held annually in Barcelona, Spain. This too is an exhausting event but will be very important to us this year as we seek to expand our mobile operator distributorships. We usually exhibit as a leading member of the State of Washington Department of Commerce display. As far as reaching mobile operators goes, there is simply no better event in the calendar year to attend. Our sales and marketing teams will lead the delegation to this event.

In mid-May, the Internet of Things World 2018 event will be held in Santa Clara, California. We expect to be exhibiting there as well – and this is an event that has paid considerable dividends for us in the past. That one is still some ways out, so look for an update from us in the interim.

### **New Privacy Laws for 2018**

In May this year, the European Union will be introducing their "General Data Protection Regulation", or GDPR. In doing so, these new regulations will trigger the largest overhaul of worldwide data privacy rules in twenty years. While these new regulations apply to EU citizens, it is expected to significantly impact US regulation and other countries are likely to follow suit too. While there is modest impact to our Buddy Ohm business, there is considerable impact to our Alternative Data business.

Without going into specifics on the regulations themselves (you can read more here: <https://www.eugdpr.org/>), how Buddy collects data from our Parse on Buddy product is materially impacted. We're making very significant changes to how we collect data, and what data we collect so that we expect Parse on Buddy to be entirely GDPR-compliant by May. The bad news is that puts us a bit behind schedule (but still within our guidance to the market of reportable revenues by the July 4C), the good news is that these laws impact literally everyone and so being ahead of the market should give us a meaningful advantage. It is possible that by May we will be able to offer a GDPR-compliant data set when many of our competitors aren't. It's hard to say how aggressively data suppliers are working to become compliant – especially those outside of the EU – but it isn't hard to say how aggressively the EU will seek to prosecute violators of these regulations. The Europeans are extraordinarily serious about data privacy, and we believe that being in compliance with these regulations will give us a competitive advantage.

## **Insider Selling & Market Transparency**

On December 30, 2017 the last of our founders, early employees and earliest investors' holdings emerged from a two-year escrow period following the re-listing of the company as Buddy Platform Limited on the ASX. Some of these people – me included – have been long time holders and investors dating back to late 2011, and so it is expected that there should be some ability for these people to take some funds off the table and be rewarded for their investment and early faith in the founding team, employees and business.

In the case of others – again, me included – we will have taxation obligations in 2018 that will be significant. In my case, transparently, I would not be able to afford my tax bill without selling some of my Buddy stock – but regardless, despite my very considerable optimism for the business in 2018 and beyond, I not only welcome, but encourage shareholders to trade as they see fit. I especially encourage employees to do so, and regularly remind the team that selling stock is not always correlated to an absence of optimism for the business looking forward. Every single employee at Buddy is compensated with a combination of cash and stock, and that means that every single employee needs to sell some amount of stock to realise their full compensation value. While the vast majority are long term holders, I make no judgement of those who wish to sell a portion – significant or not – to fulfil their compensation needs. We've had employees start families, purchase first homes and fund university educations for their children from their Buddy stock, and I couldn't be more proud of that fact.

What this means is that investors should expect there to be stock sales in the coming quarter from these employees, early investors, directors or officers. I have communicated to the market that I don't believe these sales will materially impact the company – and I continue to believe that to be the case. Nearly all insiders are working with Bell Potter to manage their sales in such a way as not to impact the market, and I'm confident that a meaningful volume of sales will be conducted by way of lines or block trades to institutional buyers off-market.

Buddy has always prided itself on being an outlier on the ASX small-cap stage – we strive to communicate transparently and directly with investors. To that end, I wish to announce that we plan to extend that transparency to inside stock sales.

In the next month or so, we will publish to the market a schedule of planned sales and sales windows for key personnel, material (inside) holders and the like. We will advise to the best of our ability what sales we're expecting, and so investors who usually only find out about inside sales after the publication of an Appendix 3Y form after the fact, will for Buddy have guidance in advance of those transactions. We don't want our shareholders to be surprised by director or officer sales, and we think the trust our shareholders have in our team would be eroded with surprise sales. This is an effort towards the greatest possible transparency and is very loosely modelled after the US SEC 10b5-1 rule (which has no equivalent in Australia).

Of course we will fully abide by ASX Listing Rules and the Corporations Act in formulating this plan, and once finalised, we'll publish it to the market. I'm personally very excited to be proactive on this front, and I look forward to the market's feedback on this move.

While the plan is in the final stages of preparation, I do wish to call out that I will personally be selling up to 30 million shares of my BUD holding in the first calendar quarter of this year. For complete clarity, this may mean anywhere from 0 shares (but very unlikely) to 30 million shares. I have time window restrictions on my ability to trade – proximity to quarterly earnings reports, proximity to the preparation of financial statements, awareness of material non-public news, etc... however, I'm disclosing my plan in the interests of full transparency and will abide by all trading restrictions imposed upon me.

It should go without saying – but is well worth reiterating – that this in no way reflects any absence of confidence by me in our business, our future plans or our near-term prospects. After seven years working on and in the business, it is time for me to access some capital and as stated above, meet my required obligations. Bell Potter will handle the sales, and again, they will be handled with the greatest of care. If I am to sell the full amount, I will be selling less than 17% of my holding, and I will remain the company's largest shareholder.

I look forward to publishing our broader plan to the market and invite your feedback or questions to our [ir@buddy.com](mailto:ir@buddy.com) email address.

### **Re-Escrow of Performance Shares**

In light of the above declaration, and given the achievement of our second performance milestone in 2017, I decided as an extension of good faith, to voluntarily re-escrow my performance shares for another year. Our performance shares were created as a means to tie stock created as part of the merger of Buddy and Potash Minerals Limited to performance, and while I'm very proud of our team for achieving the milestones needed to unlock two thirds of those shares, I want shareholders to share in that pride as the company matures further.

In addition, our CFO as well as our heads of sales and engineering also decided to escrow the majority of their shareholdings. This is a personal decision each has made, and reflects the forward-looking optimism of our leadership team.

### **Summary**

You've heard me say that 2018 is all about execution, and you'll hear me say it many times again. We couldn't have set ourselves up better in 2017 for the year before us, but our ability to execute will be the difference between a successful 2018 and one much less so. When we were talking to institutional investors prior to the October capital raise last year I suggested that when they think about the Buddy business, they should discount the product risk, market risk and business risk and focus primarily on execution risk. Are we the right team and can we get the job done?

Clearly by the response we had to that capital raise, there is considerable belief that we are the right team and we can get the job done. I couldn't be prouder of the team, but more importantly, couldn't be more pleased with the people we've assembled being the best group we could possibly pull together to deliver on the promise that 2017 has lined up for us. When this team stumbles, we get back up and keep punching. When we hit a roadblock, we find another way. When we find a better path forward, we take it. And when we need to be contrarian or disruptive, we're not afraid to break the mould.

Shareholders, thank you for your support for Buddy in 2017, and on behalf of the Board of Directors, leadership team, employees and advisors to Buddy, I wish you the happiest of New Years and a very successful 2018.

Sincerely,



**David McLauchlan**

CEO, Buddy Platform Limited.