



ASX MARKET RELEASE

Share Placement and Letter to Shareholders

SUMMARY

- A\$2.0 million placement to institutional and sophisticated investors
- Company received commitments in excess of placement amount
- Placement undertaken to provide bridging finance to the Company prior to drawing down on, and commencing the Company's recently announced equity finance facility
- Participants in the placement included LIFX's new VP of Global Sales, Don Hicks, underscoring his confidence in the business
- A letter to shareholders from Buddy's CEO is attached, including a business and COVID-19 impact update.

28 May 2020 - Adelaide, South Australia

Buddy Technologies Limited ("Company") (ASX:BUD), a leader in IoT and cloud-based solutions for making spaces smarter, is pleased to announce the completion of a successful bookbuild and receipt of firm commitments for a well supported placement to institutional and sophisticated shareholders and investors ("Placement") to raise A\$2.0 million via the issue of 200 million fully paid ordinary shares in the Company ("Shares") at an issue price of A\$0.01 per Share.

The issue price of A\$0.01 represents a 16.7% discount to the last closing price of A\$0.012 on 26 May 2020. The Shares will be issued utilising the Company's existing 10% capacity under Listing Rule 7.1A, and settlement is scheduled to occur by Tuesday 2 June 2020. A cleansing notice and Appendix 2A will be lodged following the issue of the Shares, which will rank equally with existing shares in the Company. An Appendix 3B for the proposed issue of Shares in respect to the Placement will follow this announcement.

The Placement was undertaken following expressions of interest from institutional and sophisticated shareholders and investors, including certain top 20 shareholders of the Company, to provide bridging finance to the Company prior to drawing down on, and commencing, the Company's recently executed growth equity overdraft facility (refer to the ASX announcement on 5 May 2020 for further details).

"I was delighted to join some of our top 20 shareholders to invest directly in the business and increase my holdings in Buddy", said Donald Hicks, VP of Global Sales at LIFX. "I'm incredibly excited by what I see in the business and look forward to helping grow and expand the company in the near term".

"I'd like to extend my thanks to the investors that joined us in this bridging round, especially those long-term investors whose participation today demonstrates their continued and unwavering

support for the business during a tough time economically”, said David McLauchlan, CEO of Buddy Technologies Limited.

The funds raised by the Company under the Placement will be utilised for operating expenses of the Company and growth of the Company’s consumer and commercial business.

For and on behalf of Buddy Technologies Limited,



David P. McLauchlan
Chief Executive Officer
Buddy Technologies Limited.

About Buddy

Buddy Technologies Limited (BUD.ASX) helps customers of any size “make every space smarter”. Buddy has two core businesses – its Commercial Business and Consumer Business. **Buddy Ohm** and **Buddy Managed Services** are the company’s core Commercial offerings that empower its customers to fully leverage digital technologies and their impact in a strategic and sustainable way. Buddy Ohm is a resource monitoring and analytics solution that provides energy monitoring, reporting and auditing services for commercial and industrial customers. Buddy Managed Services licenses Buddy’s technology platforms to customers for integration into their own products.

Buddy’s Consumer Business trades under the **LIFX** brand and has established a leading market position as a provider of smart lighting solutions. The company’s suite of Wi-Fi enabled lights are currently used in nearly one million homes, viewed as second only to lighting giant Philips Hue. LIFX products are sold in over 100 countries worldwide, directly and via distribution and sales partnerships with leading retailers and ecommerce platforms including Amazon, Google, Apple, JB Hi-Fi, Bunnings, Officeworks, MediaMarkt, Saturn and Best Buy (in both the US and Canada).

Buddy is headquartered in Adelaide, Australia, with offices in Melbourne (AU), Seattle (US), Dublin (IE), Shenzhen (CN) and Silicon Valley (US).

For more information, visit www.buddy.com and www.lifx.com.

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Buddy Technologies Limited
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Thursday, 28 May 2020

Dear Shareholders,

Following today's announcement of the share placement we've just completed, I wanted to take the opportunity to provide you with a special, "out of cycle" business update. I'm doing this with the intention of providing additional context around the placement, to offer transparency around the impact of COVID-19 on the business, and to reinforce the themes from our recent investor webinar around the business goals for the balance of the year.

It goes without saying that we are all living in extraordinary times, and the impact of the COVID-19 pandemic on the global economy is yet to be truly understood. We simply don't know what the rest of the year - indeed the balance of time until a vaccine is developed and broadly available - holds for the economy, for consumer spending or for the global supply chain. However, if what we've seen in the past few months portends a trend, then I believe optimism for the business is not unwarranted for the balance of the year.

April 2020 Unaudited Results

In the Q3 FY20 Appendix 4C and Commentary filing the Company made (refer to the ASX announcement dated 30 April 2020), we made reference to the quarter's results being significantly impacted by the COVID-19 pandemic. Our estimates were that the pandemic had decreased revenues by up to A\$2.4 million for the quarter, with LIFX gross sales down 42.5% against the year-ago quarter (even with average selling price up 5.7%). This reflected the simple reality that most of our consumer sales (and indeed sales for the group) are conducted through bricks and mortar retail stores, the vast majority of which closed down (including all of Best Buy's 1,000+ stores U.S.-wide, which is our single largest retailer by revenue). That gross sales didn't decline further is a testament to those retailers that were able to facilitate a shift to online channels, and our own direct-to-consumer ("DTC") team in Melbourne.

There's no getting around the fact that March was a difficult month for our LIFX business, and indeed for many retail businesses. March was the month that governments around the world began effecting COVID-19 related shelter-in-place orders, businesses began shutting down or moving their staff to work-from-home ("WFH"), and consumer spending dropped enormously.

There were two bright spots in the consumer spending reports however - and those were in the areas of groceries and electronic consumer goods. Simply, people needed to eat, and if people who were going to be confined to their homes for an extended period then they upgraded devices in their homes (TVs were big sellers, any home office equipment sold well, gaming systems sold well, computer monitors sold very well, etc...). While we certainly don't attach a lot of smart lights to grocery sales, we definitely have strong attachment to gaming spend, and our Z strips are commonly sold together with TVs and computer monitors or gaming systems.

Upon recognising these trends - and further recognising that commerce was going to rapidly become e-commerce - our team worked overtime to build out more functionality on our various global web properties (LIFX.com, LIFX.com.au, LIFX.co.uk, etc...), as well as worked with our partners

to support their online efforts (this included not just Amazon, but the online stores of off-line retailers such as BestBuy.com, JBHiFi.com.au, etc...).

The results were recognised nearly immediately. Our online blend of revenue went from an average of sub-10% to over 40%. Our margins improved dramatically as a result (from an average of 29% last year in 2019 to 38% so far in May). We really leaned into our cost-cutting program, and that included re-allocating resources to double-down on drivers of web traffic to our sites, and those of our retail partners. Yes, this meant making adjustments on the fly, it meant moving stock around, and it sometimes meant being out of stock on LIFX.com in order to ensure that our high volume retail partners are never out of stock. These optimisations delivered the Company best-ever non-holiday weeks of sales on our various online channels, and especially on our own DTC sites. In fact, in late April we approached the level of Black Friday week sales - which is simply remarkable.

Operationally, the Company implemented a substantial reduction in expenses program across the business. This included a nearly 40% cut in payroll expenses (after applying subsidies), funded by volunteered cuts for members of the Buddy team. In addition, we identified several hundred thousand dollars of cuts per month we could make on tooling, services and non-mandatory infrastructure. While those will come into effect over several months, the initial impact was certainly in April. Finally, we disclosed to the market that we had applied for a broad swath of government subsidies both in Australia and the U.S. (refer to the ASX announcement dated 30 April 2020), and the first of those was received in April.

So given the challenging month that was March, how did the Company perform in April? First of all, (unaudited) revenues were A\$2 million, which was up over 30% on March, and only down 13% on April 2019 (which, given the impact of the pandemic, really is a strong result).

I'm very pleased to report that on an EBITDA basis, April was actually the second best month in the Company's history (second only to December 2019), with an EBITDA loss of just A\$246k. This is down from an EBITDA loss of nearly a million dollars in March, and an EBITDA loss of over A\$2.4 million in April 2019. Making this result even more meaningful is the fact that our largest retail partner - Best Buy - did not place an order for lights in April (the first month I can remember that ever happening - meaning we had no revenue at all from that customer in April) and we recognised less than \$200k of government subsidies in the month, which is on top of the revenues discussed above.

You might ask - how did we achieve this large improvement in EBITDA on slightly down revenues (from the year ago month)? The answer is margins - the shift in our business to online/DTC and the relatively minimal impact on commercial margins due to COVID-19 meant the business recorded blended margins of over 50% in April (we were shooting for over 37%). Investors should draw no expectation that this extraordinary result can be automatically sustained (at these levels, anyhow) as our retail sales trend back towards bricks and mortar over the coming months, but it has demonstrated the power of cost control and high-margin DTC sales. For the avoidance of any doubt, there is no clarity about the performance of future months and quarters, and these results may not repeat - but we are sharing them in the interest of providing investors with a timely trading update.

Make no mistake, there'll be no popping champagne corks until we have demonstrably recorded consistent net profits, but on the path to achieving that milestone, April's numbers are a standout result that primes the pump for further strong results.

Buddy.com

Capital Raise

Today we have announced an oversubscribed A\$2.0 million placement to sophisticated and institutional investors. Most participants in this raise were existing investors that are building upon their positions, but we also welcomed a handful of new investors, including our new VP of Global Sales, Don Hicks. Not only has Don hit the ground running at LIFX, but he's sufficiently enthused by our products, our roadmap and our people, to make such an investment decision.

Many shareholders will recall that we announced an equity financing arrangement back in the first week of May (refer to ASX announcement dated 5 May 2020). Subsequent to that deal being announced, some of our top investors approached us about having them fund a bridge round that could give us the option to massage the equity arrangement to better suit the business at the current (or near-term expected) share price(s) (ie: permit us to draw down on the facility in smaller amounts, take a smaller initial tranche, adjust the timing of the collateral shares, etc...). Having proceeded with the raise, this flexibility now protects existing shareholders from outsized dilution at this price, while providing the business with the near-term capital it needs.

2020's Big Eight Goals

In recent webinars, I have spent some time talking about 2020's Big Eight Goals. These goals are designed to be relevant to everything that the company does, and successfully achieving these goals should yield the best possible outcome for Buddy in 2020. While they were developed prior to the advent of COVID-19, we are holding to these goals despite the changing world around us, as they still feel very applicable. The goals are:

1. Grow scale via low-cost, high quality entry point light
2. Rebalance and refresh existing LIFX SKUs
3. Enforce profitability at loss-making retailers
4. Expand range with new product offerings
5. Rapidly (and profitably) expand in Europe, Middle East and Africa
6. Add additional commercial licensing deals
7. Launch and grow LIFX Switch, bundle & attach
8. Land Asian telco deal + other large Commercial opportunities.

I've talked at length about these in recent webinars, but I want to underscore that from a revenue perspective the two most significant are #1 and #5. I expect our new LIFX White low-cost light to be our highest selling SKU worldwide this year, and we're only just getting warmed up in terms of retailer orders. We expect to bundle this light with other smart home products, we expect to place it on retail shelves worldwide, and we expect to bundle it with other LIFX products. I hope you share our excitement as we bring this revolutionary new product to market as fast as possible.

The other particularly important goal is #5, expand profitably in Europe (then later, Middle East and Africa). This one is important simply because Europe offers us a market dominated by a single competitor, and a market that yearns for a strong 2nd competitor with a quality product and marketable brand. We've already announced sell-through growth in Europe this year to date of between 3x and 4x over the equivalent period in 2019, and that performance has continued. The TV ad campaign in Germany with our retail partner Tink.de and Google (refer to the ASX announcement dated 22 May 2020 for details) is another strong step towards maintaining or even growing that European momentum.

Refresh Existing LIFX SKUs

One of the Big Eight Goals for 2020 that we haven't talked about as much is a refresh of the naming and packaging for our highest selling products. Our design team has invested considerable time in researching packaging best practices - including everything from reducing shipping weight to save costs, making the packaging more environmentally friendly, to positioning ourselves better on shelves next to competitor products and so on. I'm delighted to be able to share with you today a sneak peak of our new packaging that will be going live, starting with the new LIFX White low-cost light (and then expanding throughout our range over the coming months).



Figure 1. New packaging and product naming for LIFX White, LIFX White to Warm and LIFX Color.



Figure 2. Reverse side of new packaging and product naming.

Our new packaging is lighter, less expensive and more visually appealing. It stands out well on a shelf, conveys the value proposition to customers and meets the explanatory needs of novice customers without overwhelming them with tech-talk. The packaging is now beautifully aligned with our redesigned mobile app, and will appear on first with the LIFX White and then gradually expanding to all other SKUs over the coming months.

LIFX Switch

While I'm sharing sneak peaks... let's talk about LIFX Switch. I'm also excited to share that LIFX Switch manufacturing is proceeding well, first production units are now in Australia and first customers will soon be in receipt of their devices. As with any entirely brand new product, we will initially be manufacturing in modest volumes and building up from there (you never build tens of thousands of units on a first run of a new product), and early demand has been such that we are already maintaining waitlists for multiple subsequent manufacturing batches.



Figure 3. The first production batch of LIFX Switch is undergoing final testing, along with demonstrations to retailers and installers.



Figure 4. Final packaging for the new LIFX Switch (white).

Summary

While there is tremendous uncertainty in the global environment right now, recent weeks have shown that in spite of the pandemic upheaval, there remains demand for our products. New partnerships such as with Microsoft (refer to the ASX announcements dated 18 May 2020 and 20 May 2020) have contributed to meaningful uplifts in online sales, and in our home market of Australia, sales throughout April were strong with some major retailers recording “best year to date” weeks or even in some cases “best non holiday week” since first assorting LIFX products. For these reasons, and the fact that new products are coming and Europe is growing fast, I think there is cause to be cautiously optimistic and upbeat about our future.

In future investor webinars and updates we'll talk more about our Commercial team efforts and progress. The Commercial business has been impacted by the published delays in LIFX Switch shipments, but as a SaaS or recurring revenue model business, impacts to those revenue streams usually are more subtle. I'll share more on the commercial business in our next update.

On behalf of our team and Buddy's Board of Directors, I wish you safety and health. Thank you again for your ongoing support.

For and on behalf of Buddy Technologies Limited,



David P. McLauchlan

Chief Executive Officer
Buddy Technologies Limited.