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Monday, 27 July 2020

Dear Shareholders,

As with April and May this year, I am hereby pleased to share a summary of the company's unaudited financial results for the month of June. This is in line with my commitment to provide shareholders and investors with as much transparency as possible during this quarter which has been so notably impacted by COVID-19. Accordingly, while this is another one-off and out-of-cycle business update, I will be brief and instead defer to the coming Appendix 4C quarterly report (that we'll be publishing in the coming days) for more detail and commentary on the quarter as a whole.

June 2020 Unaudited Results

We were very pleased to record a strong June 2020, as bricks and mortar retail stores in the United States began reopening (most importantly for LIFX, that included nearly all of Best Buy's more than 1,000 stores across the country). Consolidated revenue for Buddy was A\$2.5 million - up 39% from May (A\$1.8 million) and up 4% from June 2019 (A\$2.2 million), underscoring that demand for the Company's products remains strong even while the pandemic continues to be prominent in several territories in which we trade. Government rebates & subsidies related to COVID-19 were nearly A\$600k for the month, and are included in the revenue figures above.

EBITDA for the month of June was -A\$266k (down from -A\$176k in May 2020, and improved from -A\$492k in June 2019, an improvement of nearly 46%). Combined with April and May, this strong EBITDA result (in a historically "slow" month for retail sales on the consumer side of the business) means that Q4 FY2020 was the Company's best ever quarter from an EBITDA standpoint.

Consolidated margins returned to a more traditional 30% in June (from a delightful, yet unsustainable 45% in May), largely due to credits taken by retail customers, and one-off costs associated with some supply chain changes to achieve broader cost savings. Despite this figure, the Company will still be above its quarterly target margin, well above the year-ago quarter margin, and this result will reflect the significant margin gains delivered when online and direct to consumer sales can flourish.

Both topline revenue and EBITDA were down on internal management forecasts due to the slightly delayed shipment of the first order of the Company's new LIFX White product (total purchase order value of A\$3.8 million - refer to the ASX announcement dated 31 March 2020). This product, which was expected to partially ship by 30 June, instead did so in the first week of July. The other new product slated to ship in June, LIFX Switch, did so and the team is to be commended on the efforts expended in meeting both customer and internal deadlines accordingly.

The Company remains committed to its expense reduction program, and has moved to align all COVID employee salary cuts back to a maximum of 10% (some members of the management team had agreed to pay cuts of up to 50%). Despite this, and a 39% increase in top line revenue over May 2020, expenses only grew 18% in the same period, demonstrating the sustainability of much of the Company's overall expense reduction program (notwithstanding the fact that the voluntary employee salary cut program is being reviewed on a monthly basis, and full salaries will be reinstated team-wide at our earliest opportunity).

Cash on hand at 30 June 2020 was A\$2.5 million (down 11% on the month prior), accounts receivable were A\$2.5 million and inventories were A\$4.1 million, resulting in current assets of A\$9.1 million at the end of the month.

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Shareholders, I continue to be very pleased with these numbers given the environment in which we're competing and the ongoing uncertainty of COVID-19. Despite some consumer business margin fluctuation this month, the commercial business margins remain exceptional and with expenses being managed and well less than our topline revenue growth, we are demonstrating the long-term viability of the business at levels not at all far from where we are today.

Supply chain issues remain amongst our highest priorities to fix - as with April and May, strong demand for our smart lights is currently exceeding supply due to legacy contractual arrangements, resulting in less than 100% of retailer purchase orders being fulfilled. Progress continues to be made, and further updates on this will be provided in due course by way of ASX announcements.

This is an exciting week for the business. As announced last week, on Monday in the U.S., the new low-cost LIFX White will launch at Amazon and Best Buy (refer to the ASX announcement dated 24 July 2020). LIFX White is already the company's largest selling SKU in 2020, and we hope to see continued growth in the product through the balance of 2020.

On behalf of our worldwide team and Buddy's Board of Directors, I thank you for your interest in, and support for, Buddy. Please stay healthy and well.

For and on behalf of Buddy Technologies Limited,



David P. McLauchlan
Chief Executive Officer
Buddy Technologies Limited.