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Buddy Make every space smarter.

Thursday, 25 June 2020

Dear Shareholders,

At the end of May I published a shareholder letter sharing our April progress, with the intention of providing a one-off and more granular set of information on the business than our usual quarterly updates. With the COVID-19 situation evolving so rapidly - and with the uncertainty continuing - I am pleased to share another one-off and out-of-cycle business update.

May 2020 Unaudited Results

The headline from this update is that on an EBITDA basis, May 2020 was the Company's second best month in its history, as we recorded EBITDA losses of approximately -A$176k (improved from -A$1.5M in May 2019, a lift of over 88%). It is also meaningfully improved from April 2020. For these "middle of the year" months, these are remarkable figures to be reporting, and demonstrate that our efforts to overhaul the business and reach the efficiencies needed to be profitable at scale, are working.

Importantly, from an EBITDA standpoint, these results place the Company well on track to record the best quarter in our history. This is a real achievement in the midst of a pandemic, in the typical "slow months" of the annual sales cycle and with top line revenue materially impacted by the closure of most of our bricks and mortar retail locations (retail locations such as Best Buy in the United States have opened up in June, and are expected to be fully opened in July).

Consolidated revenue for Buddy was A$1.8M for the month of May - down 18% from April (A$2.2M), and down 25% from May 2019 (A$2.4M - excluding the Company's 2019 R&D rebate which was received that month) - reflecting the ongoing impact of store closures worldwide combined with the trailing effect on the supply chain (which has a 3-4 month lag). Government subsidies related to COVID-19 were just over A$300k for the month, and are included in the revenue figures above.

While our topline revenue was down on internal management forecasts and prior comparable periods, we outperformed on EBITDA by continuing to exceed our margin targets and continuing to reduce our expenses. Consolidated margins were over 45% (versus 19% in May 2019), reflecting the Company's strong focus on margin growth. Consumer gross margins have been approximately 40%, while commercial gross margins were nearly 90% - both substantially higher than budgeted. In the case of the consumer business, this was due to a reduction in credits taken by retailers (in turn likely due to a combination of packaging changes, the closure of physical stores and improved product margins from online sales and lower BoM costs), and in the case of the commercial business, our revenue mix skewed higher than expected towards service revenue (Buddy Ohm and other recurring revenue streams) and away from lower-margin commercial sales of hardware (Powered by LIFX, commercial lighting sales).

The Company's commitment to an expense reduction program continues to yield meaningful dividends, with a nearly 18% reduction in May 2020 expenses when compared to the prior month (which itself recorded a significant reduction in expenses from the month before). Leading contributors here were a reduction in staff costs and research & development from the prior month. While these expense reductions may not be sustainable over the long-term (for example, employees taking voluntary pay cuts), we are happy with our expense management so far this quarter.

Cash on hand at 31 May 2020 was A$2.6M (up 17% on the month prior), accounts receivable were A$3.2M and inventories were A$9.5M due to a growth in work-in-process and vendor payables primarily due to the LIFX White low-cost light product.

Shareholders, despite a reduction in top-line revenue, I'm very pleased with these numbers. The Company is demonstrating that it can lift margins, manage expenses and improve efficiencies to drive towards profitability. In fact, were it not for ongoing supply chain issues (whereby strong demand is currently exceeding supply due to legacy contractual arrangements, and a resolution for which continues to be management's top priority to correct ASAP) resulting in less than 100% of retailer purchase orders being fulfilled, the Company could have been profitable in both April and May this year.

Looking forward, the coming week will be particularly exciting with the delivery to retailers of the first batch of LIFX White - the US$9.99 low cost white light product - and the delivery to end-customers of the first batch of LIFX Switches. Paired with last week's presale launch of LIFX Candle White to Warm and LIFX Downlight White to Warm, clearly there is much to be excited about on the product front.

Packaging Design Refresh

Last month I shared a sample of some new packaging designs that will be finding their way into retail stores later this year. To continue with that theme, I can now share our new packaging for LIFX Switch, which will find its way into August deliveries of the product (June and July deliveries will have the old packaging).

Figure 1. New packaging for LIFX Switch - White and Black variants.

The original go-to-market plan for LIFX Switch was through trade channels only, however retail interest has been significant and so our packaging had to be redesigned to sit on retail shelves, while also bringing meaningful cost savings. I couldn't be more proud of our new packaging designs - not just for LIFX Switch, but across the board - and can't wait to see them on shelves around the world.

On behalf of our team and Buddy's Board of Directors, I wish you continued safety and health. As always, thank you for your ongoing support.

For and on behalf of Buddy Technologies Limited,

David P. McLauchlan
Chief Executive Officer
Buddy Technologies Limited.