

Monday, 24 August 2020

SUMMARY:

- July was the Company's first EBITDA positive month in 2020, with consolidated revenue of A\$4.9 million, up 90% from June (A\$2.5 million) and up 80% from July 2019 (A\$2.7 million)
- EBITDA for July was A\$36k (up from -A\$266k in June, and significantly up from -A\$647k in July 2019)
- Government subsidies & rebates related to COVID-19 were A\$207k, down 66% from June (A\$600k), meaning that customer revenue was up 138% from June, and up 72% from July 2019
- Total current assets were A\$10.7 million, up 18% from June (A\$9.1 million), comprising A\$5.5 million of trade receivables, A\$3.3 million of inventory and \$1.9 million of cash.

Dear Shareholders,

In the second calendar quarter of this year, I committed to a monthly shareholder update to help ease the flow of information to shareholders and investors in light of the uncertainty brought about by the COVID-19 pandemic. With the pandemic far from over, and a general consensus that retail shopping this coming holiday period will be unlike anything we've seen before (both in how people shop, and what they buy), I'm pleased to continue the practice into the third calendar quarter of 2020.

July 2020 Unaudited Results

As we begin this new 2021 financial year, we do so very strongly and with the Company's first EBITDA positive month of the year. To achieve this result in what is very typically a slow month (middle of the northern summer, which means consumers are in the middle of school holidays, there are no major shopping holidays, etc...) is a result we're very proud of, and speaks directly to the efforts by the broader Buddy team to drive home the "Big Eight" goals for 2020 (refer to the Investor Webinar dated 12 May 2020).

With bricks and mortar retail stores across the United States now fully open, our sales mix shifted back away from online and towards offline retail, impacting margins to a small degree. Expert opinion seems to agree that online will take a much greater role in the holiday shopping season this year than ever before, which if the case, will ease margins up slightly. This would be particularly welcome given the expected volume of sales in this coming period.

Consolidated revenue for July 2020 was A\$4.9 million – up 90% from June (A\$2.5 million) and up 80% from July 2019 (A\$2.7 million), reflecting the impact of the first shipments of LIFX White (the Company's new low-cost US\$9.99 smart light). Notwithstanding last week's announcement of another large LIFX White order (refer to ASX announcement dated 21 August 2020), investors should expect a small lag in reorders of LIFX White – first units didn't go on sale until August, which means that replenishment orders won't commence manufacturing until September. This is expected and is consistent with the introduction of all new products (ie: replenishment orders aren't placed until a sense of the product's market success is gauged).

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The impact of government subsidies and rebates, including those related to COVID-19 was relatively minor this month, amounting to only \$207k, down 66% from last month (A\$600k). The consolidated revenue figures above are inclusive of government subsidies and rebates.

In July, positive EBITDA of A\$36k was recorded (up from -A\$266k in June, and significantly up from -A\$647k in July 2019), making July the first EBITDA positive month of 2020. This comes off the back of last quarter (Q4 FY2020) being the Company's best ever quarter on an EBITDA basis.

Consolidated margins were fractionally lower in July, at just under 30%, with this blended figure pulled down by expected large LIFX White shipments (by design a lower margin product) but yet pulled up by unexpected higher commercial business margins (led by an improvement in the high-margin services revenue mix). The commercial business remains affected by the COVID-19 situation in Latin America and the Caribbean, with some lower margin account losses being unable to be made up for by higher margin account wins that are won, save for the installation of equipment (revenue is unable to be accrued until the installation is complete, which in many cases is awaiting the easing of COVID-19 lockdown restrictions).

Conservative management of expenses remains a highlight for these monthly reports, as expenses were both meaningfully under management forecasts and consistent with prior monthly beats. Employees remained on 10% COVID-19 pay cuts this month and together with reduced advertising and marketing spend (consistent with the Company's stock levels and conservation of resources until the much busier fourth quarter), led to already reduced expenses beating internal management forecasts by a further 7%. By way of reminder, 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.

Total current assets at 31 July 2020 were A\$10.7 million, comprising trade receivables of A\$5.5 million, inventories of \$3.3 million, and A\$1.9 million of cash on hand.

Longer-term shareholders will recognise that Buddy's consumer revenue – ie: LIFX – has historically been seasonal in nature, which is consistent with nearly all consumer electronics product vendors. We are delighted to report these unaudited results which underscore the potential for the holiday quarter. However, in the interests of setting appropriate expectations, investors should not necessarily expect linear or “straight-line” results from here on out. This month's results were strong in large part because of significant deliveries of LIFX White lights, but stock shortages remain and the very positive impact of the restructuring of the Company's inventory finance facility to purchase order financing (refer to the ASX announcement dated 30 July 2020) will not be felt until September at the earliest (there's typically 12 weeks between ordering products from a manufacturer, and receiving them for sale at our US, European or Australian warehouses). In some cases, this lead time can be shortened by the use of air freight, but our strict management of profitability and margins means we will pull this lever sparingly and carefully.

That said, the balance of the year holds much promise. Record orders for LIFX White received last week portend a strong October, and demand across the board – consumer and commercial – remains high. On the consumer side, weathering this period of low inventory in advance of PO financed inventory being manufactured and delivered to customers in the coming months will be key, while making best use of the varying inventory levels available to the business in our various global regions. The commercial business has newly signed customers ready to deploy their Buddy Ohm systems – if only lockdown restrictions would end, but when they do, installers will be busy. We know this is a “when” not “if”, but the timing remains hard to pinpoint.

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Thank you all for your continued support for the business, and on behalf of our team around the world, I wish you health and continued safety.

For and on behalf of Buddy Technologies Limited,



David P. McLauchlan
Chief Executive Officer
Buddy Technologies Limited.

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