



Buddy



ASX



ASX MARKET RELEASE

Buddy Signs Binding Term Sheet for US\$20m Loan Facility with Partners For Growth to Refinance Debt; Fund Growth

SUMMARY

- Buddy has executed a binding term sheet (subject to certain conditions, including completion of final documentation and satisfactory due diligence) with San Francisco-based Partners for Growth ("PFG") whereby PFG has agreed to provide the Company with a loan facility of up to US\$20 million
- Funds drawn down under the loan facility will be used to refinance the vendor debt held by Luminous Wide Limited and Eastfield Lighting (Hong Kong) Co., Limited, which was entered into following the acquisition of LIFX in March 2019, and for the purpose of supporting the Company's global growth
- Performance obligations are specified to ensure that a second manufacturer is rapidly brought online, resulting in an expected expansion of LIFX manufacturing capacity
- Further obligations are specified enforcing commercially standard trading terms, which include obtaining terms from Eastfield which will have the effect of capping the cost of manufacturing LIFX lights and given the working capital financing offered as part of this facility, the Company is anticipating an increase in manufacturing scale of up to 5x in 2021 over historical levels
- Concluding the vendor debt refinancing, which in turn releases limitations imposed on the business around the development, financing and supply of smart lights, is the last major hurdle to placing the business in a position where for the first time, it may be able to build supply in sufficient volumes to meet the growing global contracted demand.

21 October 2020 - Adelaide, Australia

Buddy Technologies Limited ("Company") (ASX:BUD), a leader in IoT and cloud-based solutions for making spaces smarter, is pleased to advise that it has executed a binding term sheet with Partners for Growth VI, L.P. ("PFG") for the provision of a loan facility of up to US\$20 million ("Loan Facility"), subject to the completion of customary due diligence and the finalisation of definitive documentation, to refinance the vendor debt held by Luminous Wide Limited ("Luminous") and Eastfield Lighting (Hong Kong) Co., Limited ("Eastfield") and to support the Company's global growth initiatives, including its rapidly scaling manufacturing needs.

The indicative terms of the Loan Facility are:

- (a) a US\$10 million term loan ("Term Loan") intended to refinance the vendor debt, comprised of two tranches, being a first tranche of US\$7.5 million funded at close and a second tranche of US\$2.5 million funded upon the satisfaction of the following performance criteria:
 - (i) a second manufacturer achieving production-ready status on a high volume existing product of LIFX's, which meets with the approval of LIFX;
 - (ii) Eastfield to meet service level requirements including caps on pricing and maximum turnaround times on submitted purchase orders and provision of manufacturing production schedules;
 - (iii) trade terms with new and existing manufacturers of no less than 45 days; and
 - (iv) margin and/or profitability minimums, to be agreed in the definitive documents.

It is presently proposed that the Term Loan will be on the following terms:

- (v) the Term Loan will have a maturity date 40 months from the funding of each tranche and an interest rate of 12.5% per annum;
 - (vi) a US\$250k commitment fee, payable proportionately alongside each tranche, in respect to the Term Loan; and
 - (vii) the Term Loan may be prepaid at any time with the payment of a prepayment fee equal to the remaining interest payments owed, discounted back at the U.S. 10-year Treasury rate (as quoted by Bloomberg).
- (b) a US\$10 million revolving line of credit ("LoC") that can be drawn down for working capital purposes in amounts that are based on the satisfaction of criteria in respect to the level of accounts receivables, finished goods and inventory POs as follows:
 - (i) Accounts receivable - 70% on U.S. and U.K receivables aged 90 days or less; 70% on Australian receivables, subject to adjustments to be determined;
 - (ii) Finished goods - 60% on finished goods inventory ex Australia; 60% on finished goods inventory in Australia, subject to adjustments to be determined; and
 - (iii) Inventory POs - manufacturing POs to service customers invoicing Buddy's U.S. and U.K. entities, funded at 100% of the cash backing required for purchase using Letters of Credit; for manufacturing POs to service customers invoicing Buddy's Australian entity, funded at 100% of the cash backing required for purchase using Letters of Credit, subject to adjustments to be determined.

It is presently proposed that the LoC will be on the following terms:

- (iv) the LoC will have a term of 36 months from transaction close and a fixed annual interest rate of 12.5% payable monthly only on the balance outstanding;
- (v) a US\$250k commitment fee is payable at close; and
- (vi) an early cancellation fee of 3% is payable if cancelled in the first year, 2% if cancelled in the second year and 1% if cancelled in the third year; and

- (c) subject to the execution of a warrant deed, the Company will issue to PFG warrants in the Company exercisable into 50 million fully paid ordinary shares in the Company with an expiry date 5 years from closing and an exercise price of the lower of:
 - (i) a 20% premium to the 5 day volume weighted average price of BUD shares prior to disclosure of the binding term sheet (calculated at A\$0.07992); and
 - (ii) a 15% premium to the 5 day volume weighted average price of BUD shares prior to transaction close.

To the issue of warrants to PFG will be subject to the Company obtaining shareholder approval. Shareholders are advised that Luminous has agreed to the cancellation of 50 million of its options for nil consideration, following the release of US\$10 million outstanding under the deferred consideration agreement associated with Buddy's acquisition of LIFX in 2019 (refer to the ASX announcement dated 21 October 2020 for further details), thereby resulting in the issue of warrants to PFG having no net dilutionary effect on shareholders.

The practical effect of reaching financial close on this transaction - aside from the refinancing of the vendor debt - is to release a number of contractual limitations on the business which have prevented it from servicing the demand evident in the market. Looking forward, the Company can expect to be able to source smart lights from multiple suppliers, enjoying a broadening of the supply chain in the process. All terms with manufacturers will be on commercially standard terms which won't require special financing terms to align. Together, these benefits are anticipated to yield an approximately 5x increase in manufacturing scale capacity in 2021 over previous years.

The parties to this binding term sheet have agreed to the formalisation and execution of formal documentation within 45 business days following the execution of the term sheet and the Company will provide shareholders with further updates by way of ASX announcements.

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 well over a million homes, and considered to be the #2 brand of smart lights globally. 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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