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Monday, 25 January 2021

## SUMMARY:

- October + November 2020 consolidated revenue of A\$6.2 million; combined EBITDA of - A\$724k, a 45% improvement over the prior corresponding period
- November 2020 recorded positive EBITDA of A\$16k despite ongoing supply shortages
- Consolidated margins were strong at 36% over the period
- As at 30 November 2020, the Company had trade receivables of A\$5.1 million, inventories and work-in-progress of A\$5.8 million, and cash on hand of A\$7.3 million
- All of the Company's worldwide holiday inventory sold into the channel for Black Friday/Cyber Monday + holiday was sold through
  - 90% of the Company's holiday inventory at Best Buy was sold over the Black Friday / Cyber Monday weekend
- Following the completion of the PFG finance arrangements, the Company currently has more product (by \$ value) ordered/in manufacturing, than it had for all of 2020.

Dear Shareholders,

Over much of the past year, I've published roughly monthly unaudited financials in an effort to share as much information about the business as possible with investors, offsetting the uncertainty that has been brought about by the COVID-19 pandemic. As we approached the busy holiday period – made busier by staffing changes in the business, the negotiation and then execution of a whole-of-business refinancing with Partners for Growth (“PFG”) and then most recently efforts to procure all of H1CY2021 inventory from manufacturers now operating under significantly more favorable terms to the Company, this update was necessarily de-prioritized.

However, in early December I stated that I would continue publishing these updates through the end of 2020 but would revert to a conventional reporting cadence for financial information in 2021. To that end, I present an unaudited report of October + November 2020 financial data for Buddy.

### **October + November 2020 Unaudited Financials**

Consolidated revenue for October 2020 was A\$2.1 million (down 18% on September – however September included an outsized \$1.3M of government rebates and subsidies), and for November 2020 was A\$4.0 million (up 88% on October). Consistent with prior months, and guidance offered since mid-year, considerable supply shortages that meant we were unable to

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service customer orders were the primary impact on results in these months. As with prior months, this remained due to unfavorable terms from our (then) contractually exclusive supplier and the inability for our trade and inventory financing to accommodate this. We were delighted to recently report (refer to the ASX announcement dated 4 January 2021) that Buddy has secured new financing arrangements that have immediately removed the deeply impactful commercial trading terms and operational restraints (such as manufacturer exclusivity, manufacturing trade terms, etc...) that so limited the Company's ability to deliver superior results in 2020.

Despite the supply shortages, demand for the company's products was high, and improvements made in the business over the course of the year contributed to very meaningful reductions in EBITDA losses for the period compared to a year ago. In fact, November recorded positive EBITDA of A\$16k (coming off the prior quarter's EBITDA of A\$32k). October recorded EBITDA of -\$739k, with the combined two-month period's EBITDA of -\$724k being an improvement of 43% over the prior year comparable period of -\$1.3M, and 14% better than management forecasts.

The impact of the Company's COVID-19 subsidies amounted to just A\$266k for October and November combined. The Company does anticipate declining COVID-19 related subsidies received through March 2021, subject to meeting the continued requirement of a 30% or greater decline in year-on-year revenues.

Consolidated margins were strong in October – and unlike September, were organic in nature without the outsized influence of government subsidies - at nearly 37% (up over 6% from management forecasts – largely due to a particularly high margin mix of consumer product sold in the month, and slightly higher than expected margins in the commercial business). November margins were over 36% (up over 4% from management forecasts – due to product mix in the consumer division). These are good numbers – and demonstrate that only higher topline revenue is needed to place the Company in an EBITDA positive position each month. The Company does have the demand from customers for such topline revenue, and we anticipate our new financing and manufacturing arrangements should allow us to build that volume of product.

We continue to be highly focused on expenses, and October and November continued the 2020 trend of robust expense management, with combined expenses for the period coming in 8% under management forecasts. As continues to be the case, the voluntary employee salary cut program is being reviewed on a monthly basis but remains at an average of 10% across the team right now. Unusual expenses in the period included legal and professional services costs associated with the PFG refinancing, and elevated testing and laboratory certification costs for LIFX Clean and derivative products. To have continued to reduce expenses despite these additional costs, reflects the fiscal discipline of the entire Buddy team through this period.

Total current assets at 30 November 2020 were A\$18.2 million, comprising trade receivables of A\$5.1 million, inventories and work-in-progress of A\$5.8 million, and cash on hand of A\$7.3 million.

### **Black Friday / Cyber Monday**

The holiday shopping weekend immediately following Thanksgiving in the United States, is known as the Black Friday / Cyber Monday (“BFCM”) weekend and has historically been a significant trading period for the Company. This year, the impact of the COVID-19 pandemic, and regional lockdowns in both the United States and Europe, meant that retailers reported foot traffic declines of over 92% on Thanksgiving evening, and declines of more than 70% on Black Friday. A great deal of this traffic moved online, but not all of it, and especially with Amazon’s global (and wildly successful) Prime Day sales period barely being only 5 weeks prior, sales for many in the consumer electronics space were down on expectations after record Prime Day sales.

On the one hand, BFCM end-customer sales are not a meaningful measure for the Company, since stock purchased by retailers for the BFCM holiday weekend is ordered months prior, and if not paid for, is invoiced well prior to the holiday weekend (in many cases, on a “no returns” basis). That said, retailers that had LIFX stock on hand outperformed over the BFCM weekend. A case in point is Best Buy, which sold 90% of its BFCM + Christmas stock over just the BFCM weekend. Elevated sales figures for November (relative to prior months) reflects stock sold into retail customers prior to the BFCM weekend, which while still supply constrained, benefitted from fresh deliveries of any-available product prior to the holiday weekend.

It was certainly the case for LIFX that the proximity of Amazon Prime Day had an impact on BFCM sales. Taken together, Amazon Prime Day + BFCM was certainly the Company’s best ever sales campaign, however it was difficult to escape the realities of lockdowns, COVID store closures and ultimately stock shortages in November. Regardless, all product ordered and sold into our retail customers for holiday, whether for BFCM or Christmas, was sold through by the end of the year. Replenishment orders shipped in December, are continuing into January and will continue through April. Further replenishment orders being placed now (subsequent to the new financing facility being in place) will deliver from late March through May.

### **Supply + Replenishment**

While I’ll share further details in subsequent communications, I can say that significantly larger replenishment orders have now been placed following the completion of the refinancing arrangements with PFG. In fact, the Company currently has more product on order with our manufacturers than it ever has in its history (and more than was able to be ordered in all of 2020). Orders that were unable to be supplied last quarter will be met with newly replenished inventory this quarter, as the Company begins meaningfully expanding its retail distribution in the United States to new channels and retail customers (and our supply chain finally hits stride and delivers significant volumes of product to the channel).

On behalf of everyone at Buddy, thank you for your continued support of our business. I will shortly publish my annual New Year Letter to Shareholders summarizing 2020 and providing our viewpoint and intended priorities for 2021, and our Appendix 4C Quarterly Report will be

published in the coming days – a little earlier than usual, as we intend to have it published prior to Company's AGM on 29 January 2021.

For and on behalf of Buddy Technologies Limited,



**David P. McLauchlan**  
Chief Executive Officer  
Buddy Technologies Limited.