



ASX MARKET RELEASE

Update on Financial Guidance and March 2021 Results

27 April 2021 - Adelaide, Australia

Buddy Technologies Limited ("Company" or "Buddy") (ASX:BUD), a leader in IoT and cloud-based solutions for making spaces smarter, wishes to advise the market of the following matters.

March 2021 Results

The Company refers to the ASX announcement dated 26 March 2021 titled "LIFX Replenishes Amazon, Best Buy; Fuels Record-Breaking March" ("March Announcement") and wishes to advise that as Buddy's financial team was closing the books on the Q3FY21 financials (January - March 2021), a reporting error in respect to the Company's internal management reports and accounts for the Company's March sales was identified. This error meant that the Company's management accounts for March had incorrectly included intercompany accounts (internal transfers between subsidiaries) and, as a result, the revenue figures for the month of March that were reported to both the Audit & Risk Committee and the Board of Directors were inflated.

Accordingly, the Company formally retracts the following statements in the March Announcement, which were made on the basis of the incorrect management accounts:

1. "March is on track to be the Company's highest revenue month ever, revenue expected to be more than double 2020's best month and expected to be substantially EBITDA positive";
2. "March 2021 is expected to be the highest revenue month ever for LIFX";
3. "March revenues are expected to exceed the combined holiday revenue for November and December 2020"; and
4. "Accordingly, March is also expected to deliver the highest monthly (positive) EBITDA in the Company's history",

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as these statements were based on the erroneous information detailed above and these milestones were ultimately not achieved. The Company advises that customer revenue for the March 2021 quarter was A\$5.0 million.

The Board of the Company has investigated how this error has occurred and considers this to be an isolated incident, noting that the intercompany accounts are regularly taken into account in the preparation of the Company's period filings (including the Appendix 4C). Notwithstanding this, to mitigate the risk of such an error occurring in the future, the Company intends to establish various measures (ie. checks and balances) which include:

1. implementing additional review steps;
2. increasing all internal reconciliations to a weekly cycle – across the sales, billing, inventory and revenue systems; and
3. auditing all intercompany transactions for the past financial year (noting that 1H FY2021 was externally reviewed as part of the Company's half yearly report in February 2021 and no issues were identified), as well as auditing all shipment transactions in the same period to ensure that billings and shipments have been correctly reconciled.

The Company had previously commenced the process of strengthening its finance team via the appointment of a new Financial Controller (who has already commenced) and a new Director of Financial Planning & Analysis (who will commence in the coming weeks) and these new appointments are expected to take an active role in implementing the measures (detailed above).

Financial Guidance Update

The Company refers to the ASX announcement dated 9 February 2021 titled "Buddy Announces H2 FY 2021 Revenue + Earnings Guidance" ("February Announcement") and wishes to provide the following updates:

1. whilst the Company was in trading halt last week, the Company's supply and operations team was notified by the Company's manufacturers in China that an entire production run's allocation of a critical semiconductor component for the Company's smart lights (which was being held on behalf of Buddy by the supplier), had been sold to a third party without the Company's knowledge - this component, an LED driver chip, is found in every one of the LIFX products and is currently in significantly high demand across the manufacturing landscape ranging from consumer electronics to automotive; and
2. the Company understands that the present situation is unprecedented, and as a result, without that required LED driver chip component, the Company's manufacturing activities have ceased until further notice.

The Board considers that the occurrence of the above matters introduces a material uncertainty as to the Company's ability to manufacture the products needed to meet the Company's revenue and earnings guidance for H2 FY2021 (detailed in the February Announcement). Further, depending on when the component (or a replacement component, as outlined below) becomes available, management may need to make material adjustments

to the Company's sales plans to enable existing inventories to last through any gap in supply due to this shortage.

On this basis, the Board has determined to withdraw all previous guidance in respect to the Company's H2 FY2021 revenue and earnings guidance and does not consider it appropriate, at this time, to provide an updated revenue and earnings guidance.

With the critical parts shortages currently up and down the Chinese supply chain and the subsequent 100-day review of the semi-conductor supply chain announced by the U.S. Federal Government in February 2021 (in response to the threat the supply chain shortages pose to the U.S. economy), the Company has been working daily with its suppliers to ensure sufficient supply to meet the Company's needs (noting that dealing with parts shortages is, as with any manufacturer of a hardware product, a weekly or even daily occurrence for Buddy). However, the Company has never faced a component shortage that has brought manufacturing to a full pause.

Notwithstanding this, all hands are on deck to resolve this situation as fast as possible, and there are several parallel paths that the Company is pursuing concurrently, being:

1. LIFX has teams in Melbourne and China evaluating alternative components from other suppliers. Investors are advised that replacing this component with a new one from an alternative supplier may require up to two months (due to the testing and quality assurance process – after which mass production could resume) and would thus push deliveries of final product into the next quarter; and
2. LIFX also has teams looking into its supply chain for alternative supply of this component, noting that the Company is in a position to move forward on smaller and more immediate production runs if the Company can secure quantities of this component in batches.

Based on volume shipments of product for the year arriving in late March 2021, the Company advises that it is presently slightly ahead of its supply forecast in terms of shipments and on-hand (landed) inventory. The most recent shipment of product from the factory has just arrived at the Company's warehouses, and a further shipment is presently inbound by sea and due to arrive in May. None of those shipments are affected by this component shortage, and while the Company can no longer count on further inventory shipments this quarter, the Company does have meaningful levels of on-hand inventory currently from which to draw upon.

The Company advises that, as at 31 March 2021, the Company had A\$5.2 million of inventory on hand and received an additional A\$3.9 million of inventory in April 2021 (with an additional A\$1.3 million of inventory in transit). At historical margins this inventory has a maximum sales revenue value to the Company of approximately A\$14.8 million. Having regard to the manufacturing halt (referred to above), and in order to ensure stock continuity at retail locations, the Company may need to substantially alter its sales plan by rationing the release of this inventory over a longer period of time than was originally envisaged, or rationing this inventory across various sales channels.

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Given these recent developments, the Board is continuing to closely monitor the Company's expenses and cash flows and will remain diligent with respect to the careful management of expenses that was initiated at the beginning of the COVID pandemic.

There is no avoiding the fact that these two developments in the Company's business – coming nearly on top of each other – have created challenges for Buddy. The Board and the Company's senior management team are completely united in working towards turning the Company's existing stocks of inventory into cash, to ensuring that retailers have as much stock as possible, and that backorders of existing product are filled. The Company's supply team is vigorously working the supply chain issue, and while finding a replacement inventory of the critical component is the highest priority, sourcing an alternative is already progressing rapidly. Shareholders are advised that Buddy will continue to apprise the market of developments in respect to these matters and any other material issues as they arise.

For and on behalf of Buddy Technologies Limited,



Richard Borenstein
Chairman of the Board
Buddy Technologies Limited.



David McLauchlan
Chief Executive Officer
Buddy Technologies Limited.



Richard Jacroux
CFO/COO
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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