



EROAD

Market Release

26 March 2022

EROAD delivers financial result laying the foundation for growth

Transportation technology services company EROAD (ASX/NZX: ERD), with its purpose of safer and more sustainable roads, today released its financial results for the 2022 Financial Year.

All numbers are stated in New Zealand dollars (NZ\$) and relate to the twelve months ended 31 March 2022 (FY22). Comparisons relate to the twelve months ended 31 March 2021 (FY21) unless stated otherwise. The Coretex merger completed on 30 November 2021. All financial numbers include four months of Coretex contribution.

Key highlights:

- Revenue increased from \$91.6m to \$114.9m reflecting the merger of Coretex and organic growth across all markets
- New Zealand continued to deliver strong growth in new and existing customers reaching over 100,000 connected vehicles and Australia grew significantly delivering its first year of positive EBITDA
- North America started to regain growth momentum following the Coretex merger which improved product market fit and capabilities to acquire enterprise customers
- The Coretex merger was a major milestone marking the beginning of EROAD's transformation advancing its growth strategy
- Reported EBITDA reduced from \$30.7m to \$21.0 and Normalised EBITDA¹ fell \$28.8m to \$27.3m reflecting increased operating expenditure as investment was made in capability to build EROAD's momentum of growth
- FY23 Revenue is anticipated to be \$150 - \$170m and FY23 EBIT between -\$5m and breakeven
- EROAD is in a period of significant transition to build greater growth momentum targeting to deliver ongoing strong growth in revenue, increasing to at least \$250m by FY25.

“EROAD has made significant progress accelerating its growth strategies and delivered on its FY22 financial result despite challenging macro-economic conditions and a number of one-off impacts. New Zealand had an exceptional year with growth in new and existing customers and a huge number of customer renewals. In North America the team has been focused on

¹ Normalised for Transaction and Integration costs of \$7.6m and acquisition revenue of \$1.3m

improving our product market fit and enterprise capabilities through R&D and the merger with Coretex to regain growth momentum” said Mark Heine, Acting Chief Executive Officer.

EROAD Chair Graham Stuart says: “The Coretex merger marks the beginning of a transition for EROAD by doubling down on our North American growth strategy. Through the integration we will add resource and sharpen our focus on this market to ensure we deliver on this strategy while retaining focus and resource on our successful New Zealand business and the growth option Australia provides in the medium term.”

Financial results reflect investment in capabilities for future growth

Revenue increased from \$91.6m to \$114.9m reflecting the merger of Coretex and organic growth in units, dashcams and additional add-on subscriptions sold to customers.

Over the period, contracted units grew by 64% to 208,697 reflecting the merger of Coretex which added 66,157 units on 30 November 2021 and organic growth across all the markets. New Zealand has had yet another successful year, achieving good growth despite the challenges that COVID-19 has brought. Australia delivered its first year of positive EBITDA reflecting the successful completion of the Venita roll-out and continued growth in small-to-medium customers. North America growth slowed prior to the merger of Coretex as EROAD experienced high churn from its small-to-medium size customers through the 3G to 4G upgrade programme. Growth gained momentum following the merger with Coretex, which improved EROAD’s product market fit and increased capability to win enterprise customers

EROAD’s stand-alone Asset Retention Rate remained high at 93.4% (FY21: 94.9%). It was pleasing to see some 1,131 customers renew their plan over the year, representing some 31,597 contracted units reflecting high renewals from New Zealand enterprise accounts and the North American 3G upgrade programme. Coretex’s Asset Retention Rate was 98.4% since the completion of the merger, reflecting low enterprise customer churn in North America and Australia. EROAD’s Annualised Monthly Recurring Revenue metric, which provides a forward view of sustainable revenue, increased from \$88.4m to \$134.6m at 31 March 2022 and Future Contracted Income increased from \$141.9m to \$190.2m reflecting the considerable number of renewals that occurred during the period as well as the addition of Coretex contracts.

Operating expenditure increased significantly from \$61.2m to \$93.9m. This increase includes transaction and integration costs (\$7.6m), four months of Coretex operating expenditure (\$13.6m) and increased employee costs (\$8.3m) as EROAD invested in its people capability in a tight labour market to ensure delivery of its future growth strategy.

Accordingly, reported EBITDA reduced from \$30.4m to \$21.0m, representing an EBITDA margin of 18%. For FY22, once transaction and integration costs are excluded, normalised EBITDA is \$27.3m, a decrease from normalised EBITDA for FY21 of \$28.8m. EROAD’s normalised EBITDA margin is 24%. EBIT fell from \$5.1m in FY21 to a reported loss of \$7.2m and a normalised EBIT of \$0.9m reflecting significantly higher non-cash amortisation and depreciation following the acquisition of Coretex.

As anticipated, research and development spend increased from \$21.3m to \$31.8m, of which \$1.4m related to integration. As EROAD moves ahead with its growth strategies, research and development continues to focus on opening up our addressable market for Enterprise customers. For FY23, R&D is expected to increase to around \$38m.

Significant progress accelerating growth strategies

EROAD continued to extend its platform offering with a focus on opening up the addressable market for Enterprise customers. During the year EROAD has released 10 enhancements and nine new products to enable growth, including Clarity Solo Dashcam, EROAD Analyst, EROAD Where Mini Tags, EROAD Geoalerts and EROAD Satellite communications. EROAD has now built up a video telematics portfolio with the launch of Clarity dashcam in March 2021, Clarity Solo (with no in-cab requirement for a pre-installed EHUBO unit) in October and the Coretex Corevision camera launching in FY23 in North America .

In what was a major milestone for EROAD, on 30 November 2021, EROAD completed the Coretex merger. Significant progress has been made with the integration of the Coretex business with sales activities already underway with the Coretex 360 platform and Corehub hardware solutions provided as EROAD's next generation platform solution. The merger also provided access to a large pipeline of enterprise customers, and since completion, solid progress has been achieved towards securing this business, with a number of pilots for potential large enterprise customers in progress. In the North American market alone, EROAD currently has eight Enterprise customer pipeline opportunities at the pilot stage relating to potential opportunities of around 26,000 units.

The merger also accelerates EROAD's growth by adding new strategic customer verticals, broadening our product offering and customer base and positions EROAD to become a bigger player in International telematics.

The integration of the two businesses is targeted to complete over the next year with the focus in H1 FY23 being on a strategy refresh of the merged businesses to maximise synergies, integration of the key products and platform by the end of CY2022 and aligning our customer service models across the markets to set our customer service levels apart from our peers.

Chief Executive Succession

In April this year, it was announced that EROAD's founder, Steven Newman, would be stepping down from EROAD's Board and as Chief Executive Officer. Over his long career as an entrepreneur, Steven has been an innovative visionary in digitizing the transport sector with the aim making our roads safer and more sustainable. In EROAD, he has created a great New Zealand success story and positioned it to become a significant player in the international telematics market. EROAD thanks Steven again for his inspirational leadership, vision and enormous work effort without which EROAD would not be where it is today.

As with many companies, particularly in the technology space, it is important that founder succession is actively planned for, and the Board, including Steven, began a global search process in late 2021 for a new Chief Executive Officer, to allow Steven to step back from the day to day responsibility of leading the company. EROAD has transformed significantly over its 14 year history, including the recent acquisition of Coretex. Accordingly, now is the right time for a new Chief Executive Officer. The global search process has progressed well and is now in the final stages of an appointment, with an announcement expected soon.

On Steven's resignation the EROAD Board had no hesitation in appointing Mark Heine, EROAD's General Counsel and Company Secretary as Acting Chief Executive Officer while the Board concluded the process. EROAD is in the fortunate position of having executives of Mark's calibre to play key roles in leading our next phase of growth.

Well positioned to increase momentum in FY23 and beyond

Looking ahead to FY23, growth momentum is expected to further build through the year with the successful conversion of some of the North American enterprise pipeline opportunities. The enterprise pipeline remains robust with a total of 18 enterprise customers at the pilot stage across all the markets, representing some 30,700 units and 10,000 microtags.

Revenue growth for FY23 will reflect the lumpy nature of enterprise sales and the phasing of the hardware roll-outs. In addition, there are a number of enterprise customers due to renew their contracts during the year. It is anticipated Revenue will be between \$150 million to \$170 million, reflecting the contribution of a full year of Coretex and continued growth across all the markets. FY22 has been a significant year of investment in capability to prepare for growth and this investment will continue into FY23. As a result, EROAD is targeting normalised EBIT of between -\$5m to breakeven (FY22: -\$0.9m). It is expected operating leverage will improve from FY24 onwards.

Last year EROAD started a significant period of transition despite challenging macro-economic conditions across all of the markets. EROAD has accelerated its growth strategies and is well positioned to build greater growth momentum over FY23 and beyond. Longer term, EROAD is targeting to deliver ongoing strong growth in revenue, of at least \$250m by FY25.

EROAD will release its Annual Report and Sustainability Report in June.

Ends

Authorised for release to the NZX and ASX by EROAD's Board of Directors.

Conference Call details:

EROAD's Acting Chief Executive Officer, Mark Heine, and Acting Chief Financial Officer, Margaret Delany, will give a presentation on the company's financial and operational performance for FY22 via a teleconference commencing on Thursday 26 May 2022 at 11:00am NZT.

Register in advance for this webinar:

When: Thursday 26 May 2022

Time: 11:00am NZT

Topic: EROAD FY22 Results Announcement

https://uso2web.zoom.us/webinar/register/WN_Vg17mfpRTAGZ6JvPmblwdQ

After registering, you will receive a confirmation email containing information about joining the webinar. A replay of this conference call will be available once it has been uploaded to the EROAD website under 'presentations' on <https://www.eroadglobal.com/global/investors/>

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Non-GAAP Measures

EROAD has used non-GAAP measures when discussing financial performance in this document. The directors and management believe that these measures provide useful information as they are used internally to evaluate performance of business units, to establish operational goals and to allocate resources. Non-GAAP measures are not prepared in accordance with NZ IFRS (New Zealand International Financial Reporting Standards) and are not uniformly defined, therefore the non-GAAP measures reported in this document may not be comparable with those that other companies report and should not be viewed in isolation or considered as a substitute for measures reported by EROAD in accordance with NZ IFRS.

The non-GAAP measures EROAD have used are Adjusted EBITDA, Annualised Monthly Recurring Revenue (AMRR), Costs to Acquire Customers (CAC), Costs to Service & Support (CTS), EBITDA, Normalised EBITDA, EBITDA margin, Normalised EBITDA margin, Free Cash Flow and Future Contracted Income (FCI).

The definitions of these can be found on pages 43 of the investor presentation. All numbers relate to the 12 months ended 31 March 2022 (FY22) and comparisons relate to the 12 months ended 30 March 2021 (FY21), unless stated otherwise. All dollar amounts are in NZD.