



TRANSCRIPT

EROAD ANNUAL SHAREHOLDERS MEETING

Tuesday, 28 July 2020, 4.45pm

Eden Park

Welcome	<p>Graham Stuart, Chairman</p> <p>Tena koutou, tena koutou, tena koutou katoa.</p> <p>Good afternoon ladies and gentlemen and thank you for coming.</p> <p>Looking out at Eden Park it would be remiss of me I think not to acknowledge the passing yesterday of Andy Haden, who spent a lot of his time running up and down that green track there.</p> <p>My name is Graham Stuart and I am Chairman of EROAD Limited.</p> <p>On behalf of your directors, Steven Newman, our CEO and the EROAD team, a very warm welcome to you and those of you that are following our meeting online. I appreciate that you have taken the time to join us and we will update you on our FY20 financial results, the progress we have made delivering on our strategy.</p> <p>Before we kick off, I just want to sort of do some house keeping. In the event of an emergency, if you take your time and follow the people who tell you they are in charge, out the way you came and through Gate A and the assembly area is immediately outside Gate A. And there are restrooms to the rear of the room on the left hand side.</p> <p>With that, also I am pleased to confirm that we have a quorum represented here today and therefore I'll declare the 2020 Annual Shareholders' Meeting of EROAD Limited open</p>
Our Board	<p>Graham Stuart, Chairman</p> <p>Up front with me and online we have:</p>



	<ul style="list-style-type: none">• Barry Einsig somewhere, be aware he is in the ether. Barry's an independent director who joined the Board in January this year. Barry brings to the Board a deep understanding of the North American transport market and for that matter the global market. He has an extensive and very impressive experience in connected vehicles and smart transport networks. In short, he is an encyclopaedia of all matters transport related.• Sitting here also in no particular order, we have Tony Gibson, Susan Paterson, Steven Newman our Chief Executive officer, and our Chief Financial Officer, Alex Ball• Sitting in the front row here, is Mark Heine who is the General Counsel to the EROAD Board and to the Company.• We are also joined today by a number of the senior management and other EROADers, many of whom are shareholders. <p>I would like to take this opportunity to thank Michael Bushby and Candace Kinser, who have left the EROAD Board recently, for their contribution to the EROAD Board. In early 2019, the Board undertook a thorough review of our capabilities. As a consequence of that review Susan Paterson has joined the Board, and now Barry Einsig, and now we see Michael and Candace have stepped off the Board. The Board will continue to review its composition, we are trying to find the right balance between experience and fresh ideas, that's not to say experienced people can't have fresh ideas, but it's a case of making sure we have those capabilities. It is something that the Board takes seriously and we continue to review and discuss.</p> <p>On arriving today, you will have been greeted by staff of Computershare, our share registrar. They are available to support you with the formal aspects of the meeting, and to help us through the voting process. Also here today we have our auditors KPMG, and our company's solicitor Chapman Tripp.</p>
Agenda	Graham Stuart, Chairman <p>The format of today's proceedings will comprise of presentations from briefly myself, then Steven, followed by Alex. Steven will make some concluding comments before we move to the formal part of the meeting. At the conclusion of the formal part of the meeting, I will open it up for questions on anything, so those questions could relate to matters that have been raised in Steven's and Alex's presentation or my own, or any other matters that shareholders may wish to. At the conclusion of the questions, we will conclude the formal part of the meeting, and I would encourage you to stay and enjoy some light refreshments and engage in conversation with the EROAD team.</p>



Chairman's Overview	<p>Graham Stuart, Chairman</p> <p>Its an understatement to say that we are living in unprecedented times, and a great many things have changed throughout the world. However, EROAD's passion and energy for solving our customer's problems and the growth opportunities that this presents the business remain.</p> <p>Our customers choose us – because of customer service, because of our solutions, because of our reliable and accurate and because our solutions are easy to use. These factors become even more important in times of an economic downturn.</p> <p>Now, more than ever, EROAD's values of safety, trust, integrity, team work, and innovation position us well to be able to deliver safe and efficient outcomes for our customers.</p> <p>We continue to deliver on our strategy – with 116,488 contracted units, greater than 95% asset retention rate and by growing monthly sales revenue per unit to \$58.38.</p> <p>EROAD is a purpose-led company, driven by making safer, more productive roads</p> <p>EROAD solutions directly impact on road safety:</p> <ul style="list-style-type: none">• We improve driver behaviours,• We reduce well-known precursors to road accidents,• We provide service and maintenance monitors to enable our customers to run safer vehicles on our roads; and• We provide deep insights to customers both in forms of business and government, in order for them to make better decisions. <p>EROAD is pleased to have delivered another period of strong growth in all key metrics. We have also advanced our strategy and invested for the future. In the past year:</p> <ul style="list-style-type: none">• Revenue increased by 32% to \$81.2m. We delivered an increase in EBITDA margin of 31% and we delivered profit before tax of \$1.4m, demonstrating increasing scale and improved operating leverage.• Our Future Contracted Income increased by 14% to \$134.4m up from \$117.4m.• Free Cash Flow was an outflow of \$12.8m. This reflected \$16.5m spent on investing activity during the year.• We remain in a strong financial position, with sufficient headroom from our banking facilities of @\$23.9m to be able to continue to grow and fund organic growth.
----------------------------	--



The quality of our products benefited from the continued investment in research and development and the quality of our customer service is reflected in strong growth. Contracted units grew by 21%, our customers remain loyal with 95% asset retention rate and our monthly revenue per unit rose by 6% to \$58.38.

EROAD spent some \$15.6m on R&D which will ensure that we retain customers and it position us to reach our next major milestone of 250k+ connected vehicles.

We continued to invest in our operating leverage and scalability. \$6.9m invested in new generation business systems – this will not only enable us to help our customers but also drive efficiencies out of our business.

Backed by a strong foundation of energised and capable people, EROAD is driven by a common purpose of safer and more productive roads. We continued to create shareholder value through the last financial year.

During the year, we extended the platform. We had seven key launches of products and services. We scaled the business for growth, we completed the roll-out of new generation of business systems and supporting business processes. We built capability in sales and customer support and we launched our new leadership programme. Most importantly, last year we chose to grow. We added 20,282 new contracted units, and we built significant capability, ensuring that we are ready to execute on appropriate opportunities that may arise in this current year.

We also refinanced our debt facilities and extending the duration of the term of the debt.

Like every business, in March our Board and management and our over 300 EROADers navigated into a new reality that came with the COVID-19 global crisis.

I'm proud to say that ERAOAD continued to operate effectively under our global business continuity plan. EROAD's employees, products and services continued to support the supply chain and the activities of our customers.

Many of EROAD's customers provided essential services that kept the New Zealand, North American and Australian economies running, despite the operating restrictions imposed to stop the spread of COVID-19.

We would like to take this opportunity to thank all our EROAD customers that provided essential services for their outstanding efforts during this time. EROAD itself was deemed essential service and was able to keep operating to support these customers.



	<p>This is my last slide, and in this you will see the severity of the lockdown that occurred in New Zealand.</p> <p>And you also get an idea of some of the impacts on the different segments that we've supported. This type information is very useful for EROAD to be able to understand the market and how we can support our customers to navigate through these uncertain times.</p> <p>Now, I will hand over to Steven to present on the business.</p>
CEO's Address	<p>Steven Newman, Chief Executive Officer</p> <p>Good evening everybody, and good evening, good afternoon, good morning to everyone online.</p> <p>I love this part of the year where we get to explain how we did over the previous year. We have certainly got a lot of things to celebrate and share.</p> <p>This slide really shows a story of growth which has continued, you can see, for the last two half years, we have grown in our Australia numbers so we can provide more transparency around that, but we have a compound growth rate of the last 6 years of 42%. So we continue to grow in New Zealand, and we got to add some incredible Enterprise accounts in North America.</p> <p>We are next going to look at a break down by market.</p> <p>So, in New Zealand, we continue to grow and that provides the cashflow to fund growth both in new markets and new products. New Zealand went through significant growth, delivering 21% in revenue year on year, and the revenue came really in two forms: one is increase in subscriber vehicles, and secondly in the additional ARPU per vehicle.</p> <p>Contracted units increased 10,256 which is 30% of these new customers from civil contracting, agriculture and forestry. We also renewed 8,123 vehicles, as they come up to the end of their 36 month contract. And 6,283 of those were on the original Ehubo1 solution, and the sales team did an incredible job upgrading 42% of them to the latest Ehubo2. That in itself increases monthly ARPU. There were a number of SaaS services which we will talk about, and we have some of those being demonstrated today, being our Inspect product and our Logbook. This combined to an increase in ARPU of \$2.04 per month. Also retention rate was incredibly strong at 96.1%.</p> <p>Over to North America.</p>



	<p>North America was really a coming of age. We are now established in that market, and it contributes strongly both the revenue and EBITDA lines of growth.</p> <p>Revenue growth was 62% year-on-year to \$24.8 million. The most significant thing that happened during the year was the winning of two large enterprise customers, which contributed strongly to the 9,342 contracted units added. This represented a 38% year on year growth. EBITDA significantly increased. In FY19, it was \$0.4 million and that increased to \$7.5 million in FY20.</p> <p>We continue to add additional services to our North American product to make us more attractive for Enterprise. One of the products that we will be adding in the coming months, is a product called EROAD Go. And that allows these larger fleets to connect EROAD to their logistic systems. So that's pretty exciting and allows us to address a market we were previously unable to address. And also later in the year, we will be introducing our cameras to help with health and safety outcomes, and it is becoming a requirement for insurance of trucks in North America.</p> <p>In terms of Australia, we are relatively new in this market. We have a very promising enterprise pipeline of future business, and things were progressing well prior to COVID, there were a number of possibilities there which we were in the final stages of talking about contract terms, before doing into COVID. Those opportunities are still available to us but have been pushed out. We won our first trans-tasman customer from the Australian end, we've got a number of customers which have their services on in New Zealand, and then subsequently put them on in the US (<i>sic Australia</i>). We had our first situation where we won them in Australian and then they rolled out the balance of their fleet of nearly 500 units in New Zealand. So, some great progress.</p> <p>Before I hand over to Alex, I would like to personally thank the contribution of Michael and Candace, as Board members for the last sort of ten years for Michael, and eight years for Candace.</p>
Financial Statements and Auditor's Report	<p>Alex Ball, Chief Financial Officer</p> <p>Thank you Steven, and good afternoon/evening/morning everybody.</p> <p>As Graham has outlined, EROAD delivered another period of strong growth in the year ended 31 March 2020.</p> <p>Revenue increased 32%, reflecting strong growth in both the North American and New Zealand markets, for the reasons that Steven has outlined.</p>



EBITDA therefore was up a pleasing 73%, which resulted from an operating margin of 33% compared to 25% last year. This demonstrates the improving operating leverage that EROAD is now beginning to deliver on as it grows.

The growth in Revenue and EBITDA resulted in a reported profit before tax of \$1.4m, up from a loss of \$5.1m in the prior year.

Free Cash Flows were at \$12.8m outflow, which while only a slight improvement on last year's outflow of \$13.1m, did include a \$5.2m increase in software development costs, as EROAD continues to invest in R&D to ensure customer loyalty, unit growth and increasing average revenue per unit.

As I outlined at last years Annual Shareholders' meeting we use seven key financial metrics that we and you as investors can measure our financial performance by, and I'll just run through those over the next few slides.

If I start with this one, which is our Leading Growth Indicators.

Annualised Monthly Recurring Revenue on the left hand side of the slide, or AMRR, gives you a forward view of revenue. This increased from \$66.5m to \$86.0m at the end of the year, reflecting the growth in recurring revenue from new units onboarded during FY20 and growth in our ARPU, or Average Revenue per Unit in our Software as a Service revenue.

Future Contracted Income, which is the next one in the middle, which represents contracted SaaS revenue, increased from \$117.4m to \$134.3m with an average remaining contract life of 2 years. This ensures EROAD is well positioned, despite any economic uncertainty that we might face into and that we are currently experiencing.

As you are aware, research and development is critical to a business such as ours, so its important that we look at our investment there, and our investment in reliability, scale and quality continues to pay us back with consistently high asset and customer retention rates as Steven outlined earlier, strong growth in units and a growing Average Revenue Per Unit or ARPU. We continue to anticipate that spend will increase in the 18-22% range of revenue, however we do not spend without a good investment case in any event.

Moving on to the metrics around creating Enterprise value from our existing customer base.

Monthly Software-as-a-Service Revenue per Unit, otherwise as I've said, known as APRU, increased in the year \$55.08 to \$58.38. We can't take credit for all of that growth, as the stronger USD versus NZD exchange rate in FY20 accounted for about \$1.23 of that. However the rest of the uplift is as a result of upgrading customers from Ehubo1s to Ehubo2 in New Zealand and as we



	<p>renewed those customers, and selling more SaaS products across all of our markets to current customers.</p> <p>Reflecting our strong customer value proposition, we also saw another period of customer loyalty really reflecting in here in the asset retention rate on the right hand side of the slide, which remains stable at of 95.2%.</p> <p>Finally on the monitoring performance side of things in terms of profitability, our cost to acquire customers as a percentage of revenue, fell in the year from 22% to 20% reflecting the further operating leverage that we generating, and we will expect that to trend down further over time.</p> <p>Cost to Service and Support as a percentage of revenue, again was consistent at 4.6% in our expected range of 4-5%. And again we expect this to trend down further over time, as our operating leverage improves as we see that investment that we have made in our business systems start to pay back.</p> <p>Just then to move on into our financial position.</p> <p>EROAD remains in a solid financial position and we believe is relatively economically resilient. We significant contracted future income of \$134.4m as I've outlined, and as we've also illustrated here, we have strong diversity across geographic markets, customer segments and as well, into different industries.</p> <p>We have \$23.9 million of annual debt facilities that we can draw on that is undrawn at the balance date, from our overall increased facility of \$60 million. We consider this to be able to fund the anticipated levels of organic growth, that the business is going to generate, but as we've previously indicated, any significant opportunities be they organic or inorganic, that would be outside of that would most likely have to be equity funded.</p> <p>While we are well positioned, and we are heading into choppy waters and we are heading in all three markets into those choppy waters, as a result of the downturns and lockdowns, it is important that we stood back, and undertook a full review of the potential scenarios in those markets, and the potential responses that EROAD could have and has had for those scenarios. We have also increased the frequency of our financial reviews and we are keeping a close eye particularly on debtor collectability.</p> <p>With that I will hand you back to Steven for his concluding remarks.</p>
CEO's Address (continued)	Steven Newman, Chief Executive Officer Thank you Alex.



As you can see on this slide, we still have significant growth opportunities ahead of us in all three markets. But we are in a period of chaos, and many of our customers are still trying to understand what that impact of the economic downturn is on their business.

While you're in a period of chaos, generally, you are not making many decisions. We expect that once we get through this period of chaos, we're not sure how long that is and it will be different for different markets - when we look at our North American business, our staff up there have been in lockdown for 14 weeks, and as they look forward things look bleaker now than they did 14 weeks ago. That same impact for our customers. So I think that is likely to be our most effected market. In New Zealand we bounced back quite quickly, having been in lockdown and we have had some good months, I'll talk about that some more later. But we are seeing that a lot of the stimulous packages to support income earners both in NZ and AU are going to come off and also some of the mortgage holidays are also going to come off in the next 3-4 months, so again that creates chaos so it is uneven waters for us, but we know that once we get through that, most markets will be in a recession and we know that telematics and the ability to help our customers manage their cost bases within their businesses will be very much desired.

So as I mentioned, there are two ways that EROAD can increase revenue, one is of course adding more subscriber vehicles and the other one is about growing ARPU. And I think one of the pleasing things for this last year was the ability that we demonstrated in being able to upsell our customers. So we have already talked about the selling up of Ehubo1 to Ehubo2 in NZ, when you look at that set of slides, we still have 37% of our subscribers in NZ in Ehubo1 and 57% on Ehubo2 so there is still opportunity for further upselling.

When we look at North America we have three main customer plans, one is the ELD only, that's the driver fatigue product and that's sort of in the \$35 range, and that is only 8%. The next package we sell is called Total Tax, that's sort of around \$40 per monthg, we've got 37%, but the most expensive or most valuable plan for our customers which is around that sort of late \$40s that's 48% of our customer base, so I think we're doing a really good job of continuing to add value to our customers, and as we add more value, we actually open up our addressable market too, so it's a win-win in terms of that linkage of delivering more value which is primarily R&D and increasing our market share.

One of the things that we have in our future platforms area, is there are more and more applications that operate on smart devices. So on the right of this screen, you can see in NZ we have an Inspect product, which is pre and post vehicle inspection, and we also have a logbook for managing driver fatigue. So, both of those products have been taken up strongly last year, and we expect that to further improve this year.



In Australia, we added the Fuel Tax Credits, you know, so all of these new products are opportunities to add ARPU, and really the best time and most cost effective way is when we are renewing customers to talk about those. Many of these new services range from \$3-\$7 per vehicle per driver per month.

The next slide shows some of the products we have delivered during the course of this year, and number of those are being displayed, so we've got our Product team here and demonstrations at the back of the room. We are also going to have a few videos to show some of these new products, and how they add value to our customers.

So the first one of these is EROAD Where. So, I think we'll watch the video and I'll provide a little bit more detail on that.

(video plays)

So this product was an idea of how we could leverage off the many vehicles we already have with Ehubos in it, so every one of the Ehubos has a blue tooth connection, and we can have that on and looking out to see if they can see these EROAD Where tags. Vehicles in New Zealand drive about 50m kms a week, so if you've got a micro asset or a small asset within about 60m of the road we will pick it up. In addition to that, there's a smart device application which can also be used to pick it up. So, this is really one of our incubator areas, really trying to understand how our different customers will use it. It seems to be quite an exciting product and a differentiator for our Enterprise accounts. Genevieve has been doing a great job, who is our Head of Marketing, in terms of trying to understand this and where it sits within our customer base, so we're pretty excited about that one and the future of it.

Onto the next product, which is our new Logbook.

So, this is all about managing driver fatigue. This is a New Zealand product, and this is a refresh, significant refresh, based on an earlier product that we delivered to add more value and make it easier for drivers to use. So lets have a look at it.

(video plays)

So both of these products are being displayed at the back of the room, so go and have a look.

In terms of the outlook at previously provided for FY21, we're now one quarter into it and that remains unchanged.

As we've previously said, economic uncertainty across all our three markets makes it really difficult in terms of sharing any more clarity on what FY21 will



produce for us, but we remain confident that we are well placed. We have a strong customer proposition, future contracted income, we have a diverse customer base both in terms of what they do and the sizes of our customers. So I think we're incredibly well placed. Today we released our Q1 results, and that showed that there was growth, which we're encouraged, particularly in New Zealand where we are back to sort of pre-COVID numbers on a monthly basis, but again there is the uncertainty I mentioned before, is the stimulus packages come off. There looks like there will be government support in both NZ and AU in terms of horizontal structure, which our civil contracting customers make up about 28% of our customer base. So I think they will be doing quite well in this next period as we try and build our way out of the current downturn

So growth-wise for FY21, we will grow, it won't be at the levels that we had anticipated for this year pre-COVID or at the kind of levels we had for FY20. We have good pipelines for growth, and as markets open up, our customers get comfortable with the new reality, then I'm sure our business will continue to grow, particularly as we support our customers manage their cost base. They might not have the kind of certainty they had around their top line revenues, but there is certainly a lot we can do to help them manage their costs in addition to their safety.

So in closing, I think EROAD is incredibly well placed and we are ready. We continue to support our customers, many of which will be critical to re-building the economies in the markets we operate. We have the cashflows and the funding facilities to support anticipated organic growth and we continue to look at growth opportunities, both organic and inorganic.

It's a time for us to be bold, and we have some of the largest product launches planned for the end of this year.

Many of these new products are the first deliveries off our new future platforms for growth. We look forward to sharing those with you.

I'll hand back to Graham to take us through the formal part of the meeting.