



## Market Release

25 November 2022

### EROAD is repositioning for a changing environment

Transportation technology services company EROAD (ASX/NZX: ERD), with its purpose of safer and more sustainable roads, today released its financial results for the six months ended 30 September 2022.

All numbers are stated in New Zealand dollars (NZ\$) and relate to the six months ended 30 September 2022 (H1 FY23), unless stated otherwise. H1 FY23 includes a full six month contribution from Coretex. Comparisons will be made to both the six months ended 30 September 2021 (H1 FY22) and the six months ended 31 March 2022 (H2 FY22) which includes a four month contribution from Coretex.

### Financial Highlights

- Reported Revenue increased from \$48.0m in H1 FY22 to \$85.4m for H1 FY23 reflecting a full six-month contribution from Coretex, one-off acquisition accounting adjustment of \$7.0m relating to the Coretex merger and growth across all markets.
- Annualised Monthly Recurring Revenue increased by \$23.7m (18%) from \$134.6m in H2 FY22 to \$158.3m in H1 FY23 reflecting growth across all markets and a FX benefit of \$13.6m.
- EBIT increased from a loss of \$0.4m restated in H1 FY22 to a reported profit of \$1.0m. Normalised<sup>1</sup> EBIT loss increased from \$2.5m in H2 FY22 to \$3.4m in H1 FY23.
- EROAD remains on track for Normalised<sup>1</sup> Revenue of between \$154m - \$164m\* and, with management's focus on cost-cutting initiatives, remains on track for FY23 Normalised<sup>1</sup> EBIT of between \$-5m and breakeven (subject to FX) despite headwinds.

### Strategic Highlights

- Rationalisation of product suite is underway which increases the efficiency and velocity of EROAD's engineering teams and reduces R&D spend across the platforms.
- Began a cost cutting programme, which will benefit H2 FY23 and beyond. Further initiatives underway will continue to provide increased opportunity for cost-out from FY24.

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<sup>1</sup> Normalised for Non-cash acquisition accounting adjustments and integration costs

- Looking forward, operating cash flow will improve from decreased integration and personnel costs and forecasted higher revenue.
- New Zealand continues to deliver consistent strong growth with new and existing customers.
- EROAD has proven the product market fit with the Coretex products by winning business against some of its strongest competitors in North America.
- EROAD's pipeline of opportunities remains robust with 22 enterprise customers at the pilot stage across all the markets, representing some 32,300 contracted units.
- Strategic review focused on profitable growth, with a broader range of commercial models being unlocked from the Coretex merger.

"I'm proud of the progress the EROAD team has made against our strategic priorities. We have delivered 18% growth in Annualised Monthly Recurring Revenue (AMRR) from H2 FY22 and won a contract to supply an North America Enterprise customer for over 9,000 trucks, alongside making progress integrating EROAD and Coretex. We moved early on a cost out programme to ensure we are able to deliver profitable growth." says Mark Heine, Chief Executive Officer.

EROAD Chair Graham Stuart says: "Overall, your Board is responding decisively to repositioning EROAD to ensure we succeed and deliver to shareholder expectations. With a sharp focus on shortening investment horizons, we are looking for a quicker return on investment from R&D spend and undertaking an on-going programme of cost-cutting initiatives. EROAD's financial performance for the first half represents a business in transition. We expect the tough decisions taken during this year will positively impact on performance in the second half and beyond and, coupled with the outcomes of the strategic review, will set the business towards profitable growth."

### **H1 FY23 financial results reflect a period of transition**

Revenue increased from \$48.0m in H1 FY22 to \$85.4m in H1 FY23 reflecting a full six month contribution from Coretex, a \$7.0m non-cash acquisition accounting revenue relating to the Coretex merger and growth across all markets. Annualised Monthly Recurring Revenue, which provides a forward view of on-going revenue, has increased by \$23.7m (18%) from \$134.6m in H2 FY22 to \$158.3m in H1 FY23 reflecting growth across all markets and a FX benefit of \$13.6m. EROAD continued to execute its growth strategy, growing contracted units to 217,519 and 1,019 customers adding products and services to their plan such as Clarity Connect Cameras, Enterprise Data Connector, Logbook and Inspect subscriptions. New Zealand continues to deliver strong and stable growth. North America saw gross sales of 7,572 units, more than three times that of H1 FY21, with some 75% of new sales coming from Coretex subscriptions. However, in North America, EROAD continues to be impacted by high churn in small-to-medium Ehubo customers as a result of the macro-economic conditions and

the increased competitiveness.

EROAD continued to benefit from high asset retention rates for both EROAD and Coretex customers despite the challenging and competitive environment. EROAD has successfully renewed 918 customers contracts over H1 FY23, representing some 21,336 contracted units. This included one of EROAD's largest North American enterprise customers, ABC Supply, for over 6,000 subscriptions through to at least August 2024. ABC Supply is one of North America's largest wholesale distributors of roofing, siding, and other select exterior and interior building products, and has been partnering with EROAD since 2019. The team in North America and Australia have been focused on renewal of contracts as EROAD enters into a renewal phase for some of EROAD's larger Enterprise customers in these regions.

Operating expenditure for H1 FY23 was \$64.6 million reflective of the additional Coretex operating expenditure, integration costs of \$5.5m, inflation and pressure in the labour market for specialist skills.

Reported EBITDA increased from \$12.3m in H1 FY22 to \$20.8m. For H1 FY23, once the one-off non-cash acquisition accounting revenue and integration costs are excluded, normalised EBITDA is \$16.4m, representing an EBITDA margin of 19%. EBIT increased from a loss of \$0.4m restated in H1 FY22 to a reported profit of \$1.0m. Normalised EBIT loss increased from \$2.5m in H2 FY22 to \$3.4m in H1 FY23.

EROAD has taken a number of steps in 2022 to reduce its cost base and run the business more efficiently. While EROAD is only at the start of this journey, a number of meaningful actions were taken to reduce operating costs for H2 FY23 and beyond including reducing headcount (net reduction of approximately 40 roles) and operating costs, reducing the number of office leases and renegotiating contracts with suppliers. It is expected that these initiatives, together with the completion of the integration and reduction in personnel costs, will see operating leverage start to improve. Further initiatives underway will continue to provide further opportunity for cost-out from FY24

As anticipated, research and development spend increased from \$13.3m in H1 FY22 to \$20.5m in H1 FY23. EROAD continues to expect to spend around \$38m for FY23. EROAD is focused on increasing the return on investment made in research and development by rationalising its product suite and increasing the efficiency and velocity of its engineering teams.

Free cashflows continue to be impacted by a combination of the merger with Coretex, R&D investment and growth in inventory as global supply chain pressures were addressed. EROAD renegotiated a new syndicated debt facility of \$90m in March 2022 to provide future capacity to grow. Headroom of around \$41.8m as at 30 September 2022 will support the R&D and integration investment planned for FY23 and fund hardware to enable EROAD to pursue large

Enterprise opportunities.

### **Delivering progress on strategic initiatives to reposition EROAD**

Integration of Coretex, which was almost half the size of EROAD, has been a key focus following the completion of the merger in November 2021. The integrated platform is expected to be live by the end of 2022, with the focus then on integrating Clarity Dashcam and the US tax products in the first quarter of 2023. Work will also begin on simplifying the platforms with a single ingestion engine for multiple telematics device types, reducing SaaS overhead and improving performance of the platforms in the medium term.

With the expanded portfolio of products and capabilities, following the merger with Coretex, EROAD is now beginning to convert its pipeline to sales in the North American market, proving the product market fit with CoreHub. North America saw gross sales of 7,572, more than 3 times that of H1 FY21, with some 75% of new sales coming from Coretex subscriptions. However, in North America, EROAD continues to be impacted by high churn in small-to-medium Ehubo customers as a result of the macro-economic conditions and the increased competitiveness. Following a rigorous and competitive procurement process lasting 18 months, earlier this month EROAD was awarded a contract to supply its CoreHub technology and SaaS solutions to North American foodservice operator Sysco for over 9,000 trucks, with further growth potential. EROAD and Sysco will work together to rollout EROAD's solutions across the next 12 months. Sysco will utilise EROAD's fully integrated solutions to provide supply chain assurance for critical food service distribution throughout North America.

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The Board of EROAD has appointed an external consultant to assist with a thorough strategic review. The strategy review is looking to build on the progress made in H1 FY23 towards profitable growth. The review looks to build on the cost-out initiatives already implemented in H1 FY23, alongside further rationalisation of products. A key focus for EROAD is the North America market, and this review is working towards a more focused and disciplined market strategy. EROAD will conclude the strategy review before the end of FY23 and provide a more detailed update to the market.

## **Looking forward**

EROAD today reconfirms guidance provided to the market as part of its market update on 7 November 2022. With more clarity around the conversion of the North American enterprise pipeline, the FY23 revenue guidance was narrowed to between \$154m - \$164m subject to FX movements (previous guidance \$150m - \$170m). EROAD has a number of headwinds on operating costs, however management has been focused on cost reduction initiatives to help offset the impact of inflationary and supply chain pressures to ensure EROAD remains on track to achieve a FY23 Normalised EBIT of between \$-5m and breakeven.

EROAD expects Revenue growth momentum to continue to build in FY23 and beyond reflecting continued strong growth in New Zealand and the improved product market fit with the CoreHub product in North America. The Enterprise pipeline remains robust with a total of 22 Enterprise customers at the pilot stage across all the markets, representing some 32,300 contracted units. EROAD expects revenue growth will continue to reflect the lumpy nature of enterprise sales and the phasing of the hardware roll-outs. The key focus for the second half of FY23 will also be the retention and renewal of EROAD's large North American and Australian Enterprise customers.

Times are tough for most businesses and industries, as such it's not surprising that buying decisions are just taking longer, which we expect will push out the timing to reach EROAD's \$250m revenue target beyond FY25. EROAD continues to have significant growth opportunities as it is beginning to see the benefits of the improved market fit of Coretex products with higher gross sales in North America and good conversion of pilot opportunities to sales. Businesses continue to increasing their demand for solutions focused on sustainability, data and managing assets.

## **Ends**

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

## **Webinar details:**

EROAD's 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 H1 FY23 via a webinar commencing on Friday 25 November 2022 at 11:00am NZT.

Register in advance for this webinar:

Topic: EROAD H1 FY23 Financial Results Announcement

When: November 25, 2022

Time: 11:00 AM NZT

Register in advance for this webinar:

[https://us02web.zoom.us/webinar/register/WN\\_rXDIOXdTd2LRf4AWduN5](https://us02web.zoom.us/webinar/register/WN_rXDIOXdTd2LRf4AWduN5)

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 Annualised Monthly Recurring Revenue (AMRR), Costs to Acquire Customers (CAC), Costs to Service & Support (CTS), EBITDA, Normalised EBITDA, EBITDA margin, Normalised EBITDA margin, Normalised Revenue, Free Cash Flow and Future Contracted Income (FCI).