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Market Release

EROAD to acquire Coretex to accelerate key growth strategies 14 July 2021

EROAD Limited (NZX/ASX: ERD) is pleased to announce that it has entered into a conditional agreement to acquire 100% of Coretex Limited (“Coretex”) (the “Acquisition”), a telematics vertical specialist provider delivering enterprise grade solutions, partly funded by an underwritten conditional placement to raise NZ\$64.4m (“Placement”) and a share purchase plan to raise NZ\$16.1m (“SPP”). The acquisition is expected to complete in early H2 FY22 and is subject to conditions, including Commerce Commission clearance in relation to Coretex’s New Zealand business, Overseas Investment Office approval and EROAD shareholder approval.

Key highlights

- The Acquisition accelerates EROAD’s key growth metrics by two years enabling it to capture the significant growth opportunity in North America and Australia
- The Acquisition drives synergies and accelerates revenue growth by adding new strategic verticals, providing broader product market fit and increasing customer base
- EROAD to acquire Coretex for NZ\$157.7m upfront consideration and NZ\$30.6m contingent consideration payable in FY23 (subject to Coretex achieving certain performance milestones)
- Acquisition is accretive from an earnings basis in FY23, following growth investment in FY22 to drive synergies
- The Acquisition will be partly funded by a NZ\$64.4m fully underwritten conditional placement and a NZ\$16.1m share purchase plan
- EROAD saw accelerating growth in all markets in Q1 and reiterates FY22 ‘stand-alone’ revenue guidance

Steven Newman, Chief Executive Officer comments:

“The acquisition of Coretex is truly transformational for EROAD. Accelerating our key growth metrics by two years in North America and Australia and positioning us to become a bigger player in the global telematics market.”

“EROAD and Coretex both aspire to create a safer, more sustainable and more productive society. Combining EROAD’s expertise in broadly adopted regulatory telematics solutions with Coretex’s extensive vertical telematics expertise and products creates an advanced market fit”

“We have always stated that an acquisition would be part of our growth strategy to reach our medium and long-term goals. We have been clear we would seek complementary and proven



technology to augment our product range. To accelerate growth, any acquisition needed to deliver increased capability, improved customer experiences and access to additional market verticals. In Coretex we have found a highly complementary partner which allows us to satisfy these criteria.”

Acquisition of Coretex

A wholly owned subsidiary of EROAD has entered into a conditional agreement to acquire 100% of Coretex. Coretex is a telematics vertical specialist provider delivering enterprise grade solutions with connected units in North America, Australia and New Zealand. Coretex is focused on growth verticals of less than a truck load (LTL), refrigerated transport, construction, and waste & recycling. Coretex has a well advanced pipeline of North American Enterprise customers. In FY22 Coretex is forecast to deliver AMRR of between \$50-\$53m and EBITDA of \$7-9m.

Both EROAD and Coretex aspire to create a safer, more sustainable and more productive society. EROAD’s customer solutions not only help to reduce speed, ensure vehicles are safe and improve driver behaviour, but they also help our customers achieve greater fuel efficiency, reduce compliance costs and improve fleet productivity. Coretex’s specialist products complement EROAD’s solutions. For example, Coretex’s refrigerated transport solutions optimise compliance, safety and fuel consumption to help reduce wastage and emissions. Furthermore, their construction solutions help reduce construction and industrial wastage and their waste & recycling solutions help reduce contamination.

The Acquisition is transformational and significantly accelerates EROAD’s key growth metrics by two years by providing:

- Increased product market fit with proven technology solutions in new verticals and significantly increasing EROAD’s addressable market
- Increased Enterprise grade solutions as well as gaining a number of key Enterprise accounts which increases EROAD’s ability to win Enterprise customers
- Access to Coretex’s next generation platform, which provides EROAD with the ability to accelerate its technology and product roadmaps with the combined expertise of product and engineering teams
- 64,177 units in North America, Australia and New Zealand, significantly lifting EROAD’s market position in North America and Australia
- Increased growth velocity toward 250,000 units and positions EROAD to become a bigger player in the global telematics market

On a proforma basis the Acquisition would have increased FY21 Revenue from \$91.6m to \$138.2m and increased FY21 AMRR from \$88.4m to \$131.1m. Connected units in North America, Australia and New Zealand increase from 126,203 to 190,380. The customer base changes significantly increases EROAD’s presence in North America and Australia, increasing the proportion of Enterprise customers from 40% to 53% and providing entry into new growth verticals.



Under the Acquisition agreement, EROAD pays NZ\$157.7m in upfront consideration and NZ\$30.6m consideration contingent on certain performance milestones.

The upfront consideration equates to an attractive multiple (3.1x EV/FY22 AMRR¹). The Acquisition is expected to be accretive on an earnings basis in FY23, following growth investment in FY22 to drive synergies. The contingent consideration of \$30.6m is also payable in FY23, if performance conditions are met, the acquisition multiple would be 3.7x EV/FY22 AMRR¹.

The acquisition of Coretex is subject to clearance from the NZ Commerce Commission in relation to Coretex's New Zealand's business (14% of Coretex's FY21 units) and Overseas Investment Office consent. The acquisition of Coretex is also subject to EROAD receiving shareholder approval for the Acquisition, which is to be sought at a Special Shareholders Meeting ("SSM") expected to be held 30 July 2021, notice of which is released to the NZX and ASX today. Shareholders who cannot attend the SSM in person will be able to participate online, as detailed in the Notice of Meeting.

Capital Raise

The total consideration will be funded by the issue of EROAD shares to Coretex shareholders (NZ\$96.0m), a NZ\$64.4m fully underwritten conditional placement, a NZ\$16.1m share purchase plan (SPP) and NZ\$11.8m of existing cash. Both the placement and SPP are structured to provide all shareholders, where possible, at least a pro rata allocation of shares. Reflecting the Board's commitment, all EROAD Directors that are eligible intend to participate in the capital raise. Steven Newman will be participating in the Capital Raise for A\$3m.

Placement

- Fully underwritten placement to raise NZ\$64.4m with approximately 11.5m new fully paid ordinary shares ("New Shares") to be issued, representing 14.1% of existing shares on issue.
- New Shares issued in the Placement will be issued at NZ\$5.58/A\$5.25 per New Share representing a 9.2 % discount to the last closing price on ASX of A\$5.78 on 13 July 2021 and a 9.2% discount to the five day volume weighted average on ASX on A\$5.78 on 13 July. The issue price of NZ\$5.58 reflects a 9.2% discount to the last closing price on NZX of NZ\$6.15 on 13 July 2021 and a 9.5% discount to the five day volume weighted average on NZX of NZ\$6.17 on 13 July.
- Settlement of the Placement will be subject to EROAD receiving shareholder approval for the Placement, which is to be sought at the SSM as outlined above

¹ Based on upfront consideration and using midpoint of \$51,5m for Coretex FY22 stand-alone AMRR guidance



SPP

- EROAD will offer eligible retail shareholders (as at the Record date of 13 July 2021 the opportunity to acquire up to A\$30,000 (Australian shareholders) and NZ\$32,000 (New Zealand shareholders) in New Shares via a Share Purchase Plan
- The issue price for the New Shares issued under the SPP will be the lower of the placement price and the five-day volume weighted average price of EROAD shares traded on the NZX during the five trading days up to, and including, the SPP closing date
- SPP to raise NZ\$16.1 million, subject to the Board's discretion to accept oversubscriptions and is not underwritten
- In the event the SPP does not raise the full NZ\$16.1m, EROAD remains fully financed for the Contingent Consideration, which would be funded by existing cash and the Company's existing debt facilities
- Further details of the SPP will be found in the offer document to be made available to existing shareholders on 20 July 2021.

Scrip Consideration

- Up to NZ\$96m scrip consideration comprising the issue of 16 million new fully paid ordinary EROAD shares at an issue price of \$6 per share, resulting in Coretex shareholders having a 14.2% interest in EROAD following completion of the Placement, SPP and Acquisition (assuming contingent consideration payable in full)

Canaccord Genuity (Australia) Limited is acting as Lead Manager and Underwriter to the Placement. Bell Potter Securities Limited are acting as Co-Lead Manager to the Placement.

For more information on the capital raising please refer to the investor presentation released today on the ASX and NZX.

Independent Report

Grant Samuel has prepared an Independent Report on the merits of the Acquisition. A copy of the report has been released today on the ASX and NZX. In Grant Samuel's opinion the strategic rationale for the Acquisition is sound and management's assessment of the potential synergy benefits appears reasonable.

Timetable for Capital Raise

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| Record Date for SPP | 13 July 2021 |
| Announcement of Placement and Acquisition | 14 July 2021 |
| Placement closes | 14 July 2021 |
| Trading halt lifted and shares recommence trading | 15 July 2021 |



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| SPP Offer opens – Offer documents sent to shareholders | 20 July 2021 |
| EROAD shareholder meeting to approve the Acquisition and Placement | 30 July 2021 |
| SPP offer closes | 3 August 2021 |
| ASX Settlement of Placement | 4 August 2021 |
| NZX Settlement of Placement | 5 August 2021 |
| Allotment and commencement of trading in new shares | 5 August 2021 |

EROAD Q1 Operating Update

For the three months ended 30 June 2021, EROAD sold 4,152 contracted units reflecting accelerating quarterly growth across all markets.

| | Total at 31 March 2021 | Total at 30 June 2021 | Added in quarter |
|--------------------------|------------------------------|--------------------------|------------------|
| Contracted Units* | 126,203 | 130,355 | 4,152 |
| New Zealand | 87,892 | 90,747 | 2,855 |
| North America | 35,437 | 35,827 | 390 |
| Australia | 2,874 | 3,781 | 907 |
| Clarity Dashcam | 1,054 | 2,984 | 1,930 |
| New Zealand | 34 | 411 | 377 |
| North America | 1,020 | 2,552 | 1,532 |
| Australia | - | 21 | 21 |

*Total Contracted units is a non-GAAP measure used by EROAD which represents the total units subject to customer contract and includes both Units on Depot and units pending instalment.

Contracted units grew by 4,152 in Q1 FY22 reflecting good growth in New Zealand and Australia. Unit growth in North America remains slow, however there are signs the economy is opening up. Reflecting this, EROAD currently has two enterprise customer prospects in pilot for its Ehubo delivered services (approx. 1,500 units) as well as a solid mix of mid-market pilots either launched or beginning soon. There are also further pilots for Clarity Dashcam with existing and new customers.

In New Zealand, 216 customers (representing 7,845 units) renewed their contract. Overall, Group Asset Retention remains high at 95.5% for 30 June 2021. However, following its acquisition, a North America enterprise customer (c. 1,700 units) has given notice it will deinstall EROAD units in H1 FY22 to align its technology with its acquirer.



EROAD continues to make good progress with selling additional services during the quarter through EROAD Day Logbook (adding 425 driver subscriptions), Inspect (627 subscriptions added) and EROAD Where (1,580 tags added). Since entering the partnership with Philips Connect on 2 June, EROAD has sold 322 Philips Connect Solutions.

EROAD FY22 ‘stand-alone’ Guidance

EROAD reiterates its FY22 ‘stand-alone’ revenue guidance. Percentage revenue growth in FY22 is anticipated to strengthen from FY21 (13%), but not be at the FY20 level (32%). EROAD continues to expect R&D to be between 24-27% of revenue during FY22. Given expected one-off integration costs in FY22 standalone EBITDA margin now is expected to be between 28-31%. Excluding these EBITDA margin will be consistent with FY21.

Additional information

Additional information regarding the acquisition and capital raising is contained in the presentation which accompanies this announcement. The presentation contains important information including key risks and foreign selling restrictions with respect to the capital raising. Nothing contained in this announcement constitutes investment, legal, tax or other advice.

Ends

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

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Conference call details

EROAD will host a conference call to discuss the acquisition and capital raise at 12.30pm NZST on Wednesday 14th July. Register in advance for this meeting:

https://us02web.zoom.us/meeting/register/tZEpdOmhqjwoHdxq-LKt9SbH3IMBRwRhVa_g

After registering, you will receive a confirmation email containing information about joining the meeting.



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 on the 15th July under 'presentations' on <https://www.eroadglobal.com/global/investors>

About EROAD

EROAD Limited (ASX: ERD; NZX: ERD) ("EROAD") purpose is safer and more sustainable roads. EROAD develops and markets technology solutions to manage vehicle fleets, support regulatory compliance, improve driver safety and reduce the costs associated with operating a fleet of vehicles and inventory of assets. EROAD has a proven SaaS business model and is experiencing continuing growth in installed units and revenue. EROAD has operations in New Zealand, North America and Australia with customers ranging in size from small fleets through to large enterprise customers. For more information visit <https://www.eroadglobal.com/investor>

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