



## EROAD moves into profit in record year of growth

**18 May 2018** EROAD Limited reported record growth of Total Contracted Units in both Australia and New Zealand and North American markets of 61.5%, revenue of \$51.5 million, EBITDA of \$15.0 million and Net Profit after Tax of \$0.2 million.

### Financial Highlights

- Total Contracted Units up 61.5% to 77,600 (FY17: 48,041)
- Revenue up 57% to \$51.5 million (FY17: \$32.7 million)
- EBITDA up 113% to \$15.0 million (FY17: \$7.1 million)
- Net Profit after Tax of \$0.2m vs a net loss after tax of \$5.3 million in FY17, a positive change of \$5.5 million
- In the second half of the year the business graduated from start-up mode, generating self-sustaining cash flows for the first time
- Major growth among enterprise customers including Downer Group, Waste Management, Fulton Hogan and food distributor Bidfood
- Raised \$21.5 million of new capital; \$6 million through a Share Purchase Plan for existing shareholders (that was 90.78% over-subscribed), and \$15.5 million through a strongly supported equity placement to existing and new institutional shareholders
- Secured new credit facility from the BNZ to support future growth, with the limit increased within six months by BNZ to fund higher growth.

### Operational Highlights

- Record sales growth of 191% in North America now means that EROAD has a credible beachhead in this market
- The ANZ business achieved four consecutive quarters of record sales growth, resulting in 42% year on year growth, and indicative of the potential for continuing growth in this market
- In Q3, sales in North America exceeded sales in Australia and New Zealand for the first time
- Launched new driver and vehicle safety tools to extend EROAD's market-leading suite of health and safety products and services including Posted Speed on box, and EROAD Inspect vehicle checklist product on Android and iOS mobile devices
- Launched EROAD Inspect on Ehubo2 in North America
- The Federal Motor Carrier Safety Administration (FMCSA), through the Department of Transportation's National Training Center (NTC), selected EROAD as one of four ELD devices for use in training commercial motor vehicle inspectors and investigators
- The Project Management Institute of New Zealand (PMINZ) awarded EROAD's ELD development its Project of the Year award at the institute's annual awards.

### Strategic Highlights

- Engaged First NZ Capital to undertake a strategic review of EROAD's North American business focused on evaluating options to further capture the compelling growth opportunity in North America
- Graham Stuart, previously chief executive officer of Sealord Group and a former CFO and director of strategy & growth at Fonterra, joined the EROAD board of directors and assumed the Chair of the Finance, Risk and Audit committee
- EROAD selected to participate in the first multi-state truck pilot on the I-95 to explore the feasibility of a Mileage-Based User Fee (MBUF) along the United States' eastern seaboard



- US Federal Government, in its annual Economic Report of the President, proposed a move from fuel tax to road user fees
- Australia's Federal Minister for Urban Infrastructure, the Honourable Paul Fletcher, announced a heavy vehicle charging pilot and a business case pathway for local heavy vehicle trials, in response to more rapid adoption of electric vehicles in the freight sector.

## Full-year to 31 March 2018

EROAD (NZX:ERD) today reports record sales and profit growth for the year ended 31 March 2018. Four consecutive quarters of record sales growth drove profitability in ANZ business, and in North America EROAD capitalised on the Federal Government ELD mandate to drive record sales volumes.

Chairman Michael Bushby said the board was pleased to see EROAD had now established a credible beachhead in North America, providing strategic options for future growth and development in this highly attractive market.

"The hard work that has gone into developing a best-in-class ELD solution that allows us to address the US-wide opportunity has paid off with annual growth of 191% in North America. We have begun planning for our next phase of growth in North America, which may involve deeper strategic partnerships, and have engaged First NZ Capital to help us with this work," Mr Bushby said.

Strong growth in the ANZ business has been driven by increased penetration in light vehicle fleets and continued focus on health and safety. While EROAD is the world leader in RUC (road user charges) collection technology, it is also now a strong player in the broader telematics industry.

To support further growth, the company secured a new credit facility from BNZ to fund in-vehicle hardware and raised \$21.5 million of new capital, \$15.5 million through an equity placement to existing and new institutional shareholders and \$6 million through a Share Purchase Plan for existing retail shareholders. The proceeds from the equity raise are primarily being used to assist with changes in processes and systems to improve customer experience and efficiencies and new business opportunities.

The company achieved a sales and customer support scale-up of many multiples this year, and in a number of quarters carried out more sales and customer onboarding than entire previous years. This proved extremely challenging and the business learned a great deal from this rapid growth. EROAD is continuing to implement improvements arising from these lessons to ensure sustainable ongoing growth at scale.

In New Zealand EROAD continued expansion into light commercial vehicles and existing customer fleets, including some of its major enterprise customers. EROAD rounded out its portfolio of health and safety products with new driver and vehicle safety features to support record growth, and introduced charging for the new features.

Total Contracted Units rose to 77,600, representing a 61.5% increase on last year. The company maintained a high customer retention rate of 98% and the proportion of customers renting EROAD's hardware, rather than purchasing hardware outright, in FY18 was 90%.

Future Contracted Income (FCI) reached \$92.8 million in FY18, up from \$59.9 million last year, driven by the high number of contracts for renewal, a high renewal rate and strong sales growth.

Chief Executive Officer Steven Newman said, "We have continued to strengthen our leading position in Australia and New Zealand; with sales in the second half of the year surpassing our previous sales record in the first half of the year. In North America, our investment in our ELD solution and sales team helped deliver a 191% increase in sales. Our North American business is now close to cash flow breakeven on a monthly basis."



The company continued to build on its track record of innovation and disruption, with the first tethered in-cab ELD solution to be registered with the FMCSA (Federal Motor Carriers Safety Administration) and the first independently verified ELD to be launched to the North American market. The quality of its ELD development was recognised in New Zealand where it won Project of the Year at the Project Management Institute of NZ (PMINZ) Awards.

### **Australia and New Zealand (ANZ)**

The company's business in ANZ recorded four consecutive record sales quarters.

EROAD continued to increase its share of RUC in New Zealand, collecting 42% of all heavy vehicle RUC, up from 38% in 2017 and 81% of all eRUC (electronic RUC). In June 2017, a major milestone was reached, with eRUC payments in New Zealand overtaking paper RUC payments for the first time. At the end of FY18 EROAD had collected \$1.9 billion in RUC since it began offering its services to customers.

An additional 7,863 units were added in ANZ in the first half of FY18, a record that was surpassed in the second half of the year, with a further 10,041 units added. These 17,904 additional units in ANZ amounted to 42.7% annual growth in what is still a growing market.

A key driver for growth in ANZ was increased penetration into key enterprise fleets, many of which followed up installation of EROAD in their heavy vehicles with light vehicles to meet health and safety obligations.

"Our focus on solving complex problems for our customers applies to light as well as heavy vehicles," Mr Newman said. "Both are subject to the same health and safety requirements, and are discovering that preventative safety is key to improving road safety and compliance – as well as reducing costs."

A new trend in customer contract terms had a significant impact on the FY18 result, with approximately 40% of new unit sales being contracted for terms in excess of the standard 36 months, being either 48- or 60-month contracts. These longer-term contracts reflect customer preferences and are often linked to vehicle lease terms. Economically, longer-term contracts are a positive outcome for the business. It does, however, change the accounting treatment for these contracts with many of these longer-term contracts being required to be treated as a finance lease. This results in the revenue and costs associated with the lease (e.g. cost of the hardware, installation, activation and costs of acquisition) needing to be recognised on the commencement of the lease, rather than monthly over the life of the lease as is normally the case. This change in contracted terms has resulted in finance lease revenue in FY18 of \$5.8 million (FY17: \$0.8 million).

The majority of sales in Australia continued to be mainly New Zealand customers with Australian operations. EROAD's Australian solution continued to focus on health and safety and fleet management requirements. The move towards road charging reform is gathering momentum: the Australian Federal Government announced in December a heavy vehicle charging pilot in response to the potential rapid adoption of electric vehicles in the freight sector. EROAD is well-positioned to support and participate in this trial, drawing on its experience with road charging pilot programmes in Oregon and California.

### **North America**

The ELD mandate significantly changed the landscape for EROAD in North America, delivering record sales results. As motor carriers prepared their fleets for the December 2017 compliance deadline, EROAD unit sales grew 59.6% in the first half of FY18, and 82.4% in the second half of the year when the mandate came into force.



During an initial soft enforcement period in Q1 of calendar year 2018, as motor carriers incorporated the technology into their operations, EROAD continued to attract new customers due to the quality of its solution. The company's investment in R&D, as well as its decision to develop a tethered device and to have it independently verified by PIT Group, have helped differentiate it in the market.

"We were very pleased when we submitted our ELD for review to an independent website, eldratings.com, to have it rated third in the market," Mr Newman said. EROAD's ELD is also the only device in the top five on the site with a five-star customer rating.

EROAD's reputation with trucking associations and regulators has helped to strengthen EROAD's position in an evolving ELD market. The EROAD ELD was one of four devices that FMCSA provided to the US Department of Transportation's National Training Center for training of inspectors and investigators.

Following the company's participation in the largest road charging pilot to date in North America, the California Road Charge Pilot, EROAD was invited to participate in the first multi-state truck pilot, which will explore the feasibility of a Mileage-Based User Fee along the United States' eastern seaboard.

Interest in North America in exploring distance-based road user charging was demonstrated for the first time at a federal level in March 2018 with the annual Economic Report of the President proposing replacing the fuel tax with a user fee.

EROAD followed the launch of its ELD in FY18 with a DVIR (driver vehicle inspection reports) solution, EROAD Inspect, available on the same Ehubo2 in-vehicle device as its ELD and tax solution. Customer uptake of Inspect has been significant, with close to 200,000 vehicle inspections completed in the first three months.

Mr Newman said the company was pleased with record sales growth in North America in FY18. However, to continue to improve its growth trajectory, EROAD has appointed First NZ Capital to assist with a strategic review of the North American business.

## **Outlook for FY19**

The growth in units this year has put the company on a stronger financial footing, and the experiences gained from a rapid scale-up in sales and customer support means EROAD is in a good position for the year ahead, said Mr Newman.

This came at a time when the global trend towards electronic road user charging as an alternative to fuel taxes was accelerating due to the commercialisation of electric trucks and vans, which will rapidly and severely impact fuel tax-based road funding, he said.

In addition, a parallel trend of addressing driver fatigue and improving road safety was promoting the growth of regulatory telematics, said Mr Newman. The mandated use of electronic logging devices in North America was part of a global move to better manage fatigue in the transport industry.

"EROAD is well positioned to meet both these opportunities," he said.

Mr Newman said the company expected continued solid growth in its New Zealand business, with further adoption of telematics by light commercial fleets to meet health and safety requirements, and customers continuing to upgrade from Ehubo1 (its first-generation in-vehicle hardware device) to Ehubo2. He said signs were promising in Australia that more significant opportunities were on the way, particularly with changes to chain of responsibility laws due to be introduced in FY19.

He said that while EROAD was pleased its North American sales growth appeared to be on track, the company was well aware it can still do better and was progressing with strategic opportunities in North America.



The ELD market will continue to deliver sales growth, Mr Newman said, both from carriers using AOBRDs (automatic onboard recording devices), who have until December 2019 to transition to ELDs, and those looking to overcome challenges they have encountered with faulty connections and poor customer service from other telematics providers. The company was further refining its sales distribution and customer success processes to enable it to support larger customers seeking a compliant ELD solution. It was also strengthening its North American leadership team to support future growth.

“Our successful capital raise, combined with our re-negotiated credit facility with BNZ, means that EROAD is well-placed to fund continued growth and expansion of its business to capitalise on these considerable opportunities,” Mr Newman said.

### **Dividend**

Consistent with its Dividend Policy, EROAD does not intend to pay a final dividend for the year ended 31 March 2018.

### **Financial statements**

Attached to this release is EROAD’s annual report, incorporating its financial statements. The Annual Report will also be available online on EROAD’s website at [www.eroad.com](http://www.eroad.com). The financial statements for the year ended 31 March 2018 and the comparative financial information for the year ended 31 March 2017 have been prepared under the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

### **About EROAD**

EROAD modernises road charging and tax compliance and health and safety compliance for road transport by replacing paper-based systems with easy-to-use electronic systems that also improve fleet management. The company is headquartered in Auckland, New Zealand, and listed on the New Zealand Exchange (NZX). Its US business is based in Portland, Oregon, serving customers with vehicles operating in every US mainland state, growing outward in concentration from the Northwest. In 2009 EROAD introduced the world’s first nationwide electronic road user charging (eRUC) system in New Zealand. More than 50% of heavy transport RUC is now collected electronically, representing a rapid transition to e-commerce on a voluntary, industry-led basis, due to the cost-savings and benefits to customers. EROAD is also a leading provider of health and safety compliance services, including vehicle management and driver behaviour and performance measures.

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### **Attachments**

Annual Report 2018

Full Year Results Presentation FY18



EROAD Limited		
Results for announcement to the market		
Reporting period	For the year ended 31 March 2018	
Previous reporting period	For the year ended 31 March 2017	
	Amount (000s)	Percentage change
Revenue from ordinary activities	NZ\$51,524	57%
Profit from ordinary activities after tax attributable to security holders	NZ\$210	N/A
Net profit attributable to security holders	NZ\$210	N/A
Final dividend	Gross amount per security	Imputed amount per security
No dividend is proposed		
Record date	Not applicable	
Dividend payment date	Not applicable	
Audit	The financial statements attached to this announcement have been audited.	
Comments	Refer to accompanying pages for commentary.	
Net tangible assets per security	31 March 2018	31 March 2017
	\$0.55	\$0.28