



# EROAD

NZX Announcement

28 September 2015

EROAD Limited Market Update

## **EROAD signals lower FY16 results from accelerated US expansion**

### **Lower US sales in the short term and higher costs from more aggressive US expansion**

The board of directors of EROAD has determined that following a decision to accelerate investment in the US to expand more quickly into states beyond Oregon, reorganise its sales teams, and to bring forward the launch of new services for the International Fuel Tax Agreement (IFTA) and Electronic Hours of Service (HOS) markets, EROAD is unlikely to meet its FY16 forecast.

Chairman Michael Bushby said that, as communicated at the company's AGM in August, the board considered these moves to be the right strategic decision to grow long term shareholder value, and now had a clearer view of the impact on sales in Oregon for FY16.

The business has completed a reforecast of the US business to provide clearer guidance for the current year.

Mr Bushby said that market reception to EROAD's products and services in the US remained very positive.

Chief executive Steven Newman said the company was continuing to refine its US sales model, and had accepted slower Oregon WMT sales in the short term to establish sales teams in neighbouring states sooner than anticipated. Nearly half of EROAD's sales staff are now expected to be located outside Oregon by March 2016.

"Each new state has its own regulatory complexities that sales teams need to understand in order to develop their sales approach. Equipping and training sales teams in new states takes time, which has taken some sales resource away from Oregon WMT sales in the short term, but this is the right thing to do for the longer term," he said.

"We estimate our expansion into the three neighbouring states of Idaho, Washington and California provides us with access to an additional 500,000 trucks registered for Oregon WMT, IFTA or HOS," said Mr Newman.

The reforecast is only for the US business. The New Zealand / Australia business is performing in line with forecast to date for the FY16 year.

A summary of the US reforecast, and its implications for the EROAD FY16 result, is as follows:

- As at 30 August 2015, EROAD's Total Contracted Units were 30,372 compared to an expectation of 30,717, a shortfall for the year-to-date of 345 Units or 1%.
- Total Contracted Units for the US, by 31 March 2016, are expected to be between 6,000 and 6,500 compared to a forecast of 12,440 Units.
- Total Contracted Units for EROAD, by 31 March 2016, are expected to be between 39,000 and 40,000, or around 10% behind forecast.



- Costs in the US will be higher than forecast because of a more rapid expansion beyond Oregon, including investment in staff, training, marketing, and premises, as well as investment in general management and nationwide indirect sales capability. Around half the forecast additional US costs of \$1.9m result from changes in the USD exchange rate.
- For 31 March, 2016, with the US reforecast factored into overall results, EROAD reforecasts Revenue of \$26.5 million and NPBT of \$0.5 million compared to forecasts advised to the NZX on 28 May 2015, of Revenue of \$28.6 million and NPBT of \$5.3 million.

### **Acceleration of investment beyond Oregon market**

Mr Newman said that IFTA and HOS services were each significant opportunities, providing the logic for investing and expanding to support these services now, as well as refining the way EROAD sold Oregon WMT services.

Mr Newman said that the company would work hard to bring its new sales structure up to speed to meet sales targets as quickly as possible, but the investment and expansion would have an impact on sales and costs.

Technical regulations for Electronic Logging Devices (ELDs) that must be installed in 4.5 million trucks across the US by October 2017 to meet Hours of Service (HOS) requirements are expected in October 2015. Having accelerated some R&D, EROAD is now well-placed to be among the first approved ELD providers in the US.

"We are already meeting clients in these new states that wish to use our products to meet their HOS obligations," said Mr Newman.

IFTA applies to 2.9 million trucks across North America. EROAD now offers IFTA services in four states and, with continued investment and indirect sales, is expecting to offer IFTA services covering a number of additional US states by March 2016.

Ends

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