

For Immediate Release

29 November 2017

Record sales into the electric utility & communications market

IKE 1H FY18 Results

ikeGPS (IKE) advises the following as relates to 1H FY18 results ending September 2017 (all figures NZD):

- Revenue in the period of \$3.5m (75% higher than prior calendar period (PCP) of \$2.0m)
- Net loss in the period of \$3.9m (35% improvement against PCP loss of \$6.0m)
- Operating cash used in the period of \$2.6m (48% improvement against PCP of \$5.0m)
- Record unit volume sales of the IKE product, the largest contributor to overall IKE revenue and gross margin, into the electric utility and communications market:
 - o 186 IKE systems shipped 1H FY18 (94% higher than PCP of 96 systems).
 - Record 116 IKE systems shipped in Q2.
 - Q3 expected to be stronger again based on orders on-hand.
 - Total orders received YTD are approximately 305 systems.
 - o Subscription framework is in place for IKE4, meaning lower recognised revenue at the time of sale but approximately 50% greater revenue overall as against the predecessor IKE3 product.
 - o Original full year FY18 guidance was for 300 systems and greater than 40% YoY growth. This has been upgraded by approximately \$1m to greater than 360 systems and greater than 70% YoY growth.
- Spike sales, primarily into the Signage market, were steady in Q2 FY18 against Q1 FY18 with 1,251 total units shipped 1H FY18. Full year guidance is for 3,000 units and greater than 50% YoY growth.
- 7,500 Stanley Smart Measure Pro units shipped 1H FY18 into the European and Australian markets, with approximately 1,000 additional units expected to ship November 2017.
- New 'IKE Analyze' product launched and delivered.
 - o Revenue run rate for IKE Analyze has grown to approximately \$1m p. a.
- Cash breakeven target expected to be met in FY18 based on orders received YTD.

Further Detail

IKE4: Material progress with target accounts. Delivery of new IKE Analyze product.

In addition to run rate sales growth in the U.S. market from the inside sales function, several target accounts were developed positively in the period. Recently, IKE has announced major target account wins that will primarily impact 2H FY18 revenue and cash, including:

- A first phase order of 112 systems into one of the largest global communications and fiber companies.
 - o Recognised revenue from this initial deployment will be approximately \$1.3m in FY18 with ongoing recurring revenue of approximately \$400k per annum, plus any associated services revenue.
- A approximately \$0.6m sale into an investor-owned utility in California. The IKE4 platform is now in all investor-owned utilities in the State's California and Washington. The west coast of the U.S. was the initial target for IKE's sales team and this is the second group to scale a deployment to greater than \$0.5m.
- A third phase order of 15 IKE4 systems, for approximately \$180k, from an engineering services company.
 - o This customer has grown to have more than 50 IKE systems deployed, having added 30 IKE4 systems YTD in FY18.
 - o Associated subscription revenue from this customer at this volume of systems is expected to be approximately \$0.45m over the next 36 months.

This progress, together with pilot programs with other target accounts, provides confidence in the potential for further larger scale deployments.

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Additionally, the new 'IKE Analyze' product was introduced with an initial project sold in the period. Enabled by the IKE4 Cloud, IKE now delivers analysis and reporting services on the pole data captured in the field by an IKE4 customer. Specifically, the IKE Analyze offering delivers Pole Loading Analysis and Make Ready Engineering reports, billed on a per-pole basis. For a IKE4 customer, this product provides valuable access to IKE's pole analysis expertise and efficiency, and reduces or eliminates the cost of back-office staff to take IKE4 field data from field-to-finish. For IKE, IKE Analyze extends the depth of the solution offered to customers and provides for the potential to generate two to three times the level of revenue on any specific sale as against an IKE4 product-only deal.

Spike: New resellers added, software integration with key industry partners progressed, core patents awarded.

Sales run rate into the Signage market, Spike's current core market, was steady through the period with 1,251 units shipped against guidance for 3,000 units for the full year or greater than 50% YoY growth. Additionally:

- 15 new AEC and Geospatial market resellers were added in the period, providing sales coverage in 18 U.S. States and seven new countries including Australia, South Korea, and Sweden.
 - o A new reseller typically buys 10-20 units when signing on and a successful partner would expect to sell 100-200+ units in the initial 12-18 months.
 - o These resellers have been recruited in advance of the full launch of AEC-specific and Geospatial-specific integrations for Spike in 2H FY18. As such these groups have not yet begun to sell in any volume.
 - o The AEC and Geospatial markets are expected to ultimately present the opportunity to sell larger volume deals to enterprise customers.
- The focus continued around Spike's SDK development, enabling full integration with incumbent software players. These include with:
 - o Autodesk - the most widely used CAD software in the global AEC market. This integration has been completed and released to market.
 - o Esri - the most widely deployed software in the geospatial market, used by more than 350,000 organisations including the world's largest cities and many national governments. This planned product integration is targeted for release Q4 FY18.
 - o Spex – in the period an underlying insurance customer grew to have approximately 120 Spikes deployed in Texas and Florida for catastrophe loss assessment and damage inspection.
- Spike was sold into pilots or trials to 14 new Department of Transportation customers. Each of these groups ultimately has capacity to deploy hundreds or thousands of units for asset inspection applications.
- Two core Spike patents were awarded covering the European and Chinese markets.

Stanley Smart Measure Pro: 7,500 units shipped to plan.

European markets remained the focus for sales programmes via Stanley Black & Decker, Inc. for the Stanley Smart Measure Pro product. Approximately 7,500 units shipped to plan in 1H FY18 and another 1,000 units are expected to ship in November. A pilot online sales programme continued with Home Depot in the U.S. via homedepot.com, however there is not yet any indication that the product's presence on their online store will translate to a broader roll out to their approximately 2,200 physical stores. IKE will advise the market if new orders are received for 2H FY18.

Gross margin: Increased. Impacted by several non-cash items.

Gross Margin for the period was \$1.5m (36% higher than PCP of \$1.1m). This was impacted by several non-cash, one-time items; the write-down of obsolete IKE3 parts (the predecessor product to IKE4) of \$179k and consumption of higher priced Spike & Stanley Smart Measure Pro parts that were sourced to protect the supply chain of \$181k. Additionally, IKE experienced lower Average Selling Prices on the hardware component in IKE4 enterprise sales due to volume discounting. Associated IKE4 software subscription revenue has been recorded as deferred revenue and will be recognised over the ensuing 12 months.



Working capital: In place to allow delivery to new large IKE4 enterprise customers.

As advised to the market a Placement and Share Purchase Plan was closed in the period that raised approximately \$4.0m, with directors and management subscribing for approximately \$0.75m of new shares within this process. This will fund a working capital requirement expected to grow over the coming 12-18 months as IKE4 is delivered into several large enterprise customers.

Cost reductions and transition to cash breakeven: Guidance maintained.

Operating cash used in the period was \$2.6m (48% less than PCP of \$5.0m). This significant improvement reflects continued prudent control of expenses. Lower operating expenditure levels are expected for the remainder of FY18 relative to FY17, consistent with the well progressed shift from investment into platform engineering to the focus on sales & marketing. These benefits are partially offset by a longer cash collections cycle resulting from terms of trade with new large enterprise customers.

With higher sales of IKE-branded products, including the target account wins detailed above, the forecast transition to cash breakeven in FY18 is maintained.

Board: New director appointment process underway.

May 2017 saw the retirement of Peter Britnell as IKE's longest serving director. Peter made a significant contribution to the establishment and development of the IKE Group and IKE wishes to record its thanks for his service. A new director appointment process is underway.

ENDS

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