

For Immediate Release

30 May 2017

ikeGPS Group Limited FY2017 Financial Results

- FY2017 revenue of \$5.8m (FY2016 \$9.2m) and Net Loss after tax of \$10.7m (FY2016 \$8.8m)
- Weak 1H FY2017, caused by several one-off headwinds, followed by a return to growth in 2H FY2017
- First two months FY2018 trading for IKE4 and Spike is materially ahead of FY2017 run rate

FY2017 Performance (all figures in NZD)

- Revenue and other income of \$5.8m (FY2016 \$9.2m).
 - Sales of IKE4 into the U.S. electric utility and communications market strengthened in 2H FY2017 however unit volumes and revenue decreased against FY2016 due primarily to a weak first half, as previously advised.
 - Sales of mobile products (Spike into the Signage market and the Stanley Smart Measure Pro into the Construction market) increased in aggregate by approximately 2,200 units to 32,600 (FY2016 approximately 30,400 units).
 - Stanley Smart Measure Pro sales grew to approximately 30,500 units, with approximately 9,000 additional units on order.
 - Spike revenues were slightly lower against FY2016 with 2,100 units sold.
- Net loss of \$10.7m (FY2016 \$8.8m).
 - Net loss for the year a function of lower revenue levels and the Company investing into expanding distribution, sales pipeline and product software capability.
- Product innovation highlights.
 - The gross margin target for IKE-branded products (hardware and software) for FY2017 exceeded the 65% target (actual FY2017 69%) due to the delivery of more value-added cloud software across the IKE4 and Spike products. This product capability is the foundation for projected profitable growth longer term.
 - Integration offerings for Spike: new capability allows Spike to be integrated with many CAD software packages, including specific integration formats for the design software used broadly across the Signage industry.
- Cash
 - FY2017 closing cash of \$2.7m.
 - Projected cash breakeven in FY2018 enabled by projected sales growth, higher margins and cost efficiencies implemented through FY2017.

FY2018 Guidance

- A return to growth is projected for FY2018. Having addressed various one-off headwinds through FY2017 and having started FY2018 strongly IKE forecasts:
 - Greater than 40% growth of new IKE4 unit sales against FY2017 in addition to subscription renewals for IKE4 systems deployed through FY2017.
 - Greater than 50% growth of new Spike unit sales against FY2017 with revenue upside potential from subscription renewals from 2H FY2018.
 - Overall Gross margin for IKE-branded products improving by up to 5% margin points versus FY2017.
 - Cash breakeven operation in FY2018, driven by a combination of projected sales growth, increased margins on products, and operating and cost efficiencies.

Wellington, 30 May 2017:

ikeGPS Limited (NZX: IKE) today reported full-year earnings to 31 March 2017.

IKE CEO, Glenn Milnes, commented, "After three prior years of greater than 100% year-on-year growth FY2017 was a challenging period for our business, with a disappointing 1H followed by a return to growth in 2H FY2017. Positively, we feel that we have addressed the one-off headwinds encountered in FY2017 and now have momentum back across our products and markets to underpin a return to strong growth. Trading for the first two months of FY2018 is materially ahead of the pace set in FY2017".

For **IKE4**, during FY2017 IKE experienced extended timeframes to develop Electric Utility & Communications customers in the U.S. market from initial trials to larger sales deployments. These sales opportunities are deferred rather than lost, and as at May 2017 we have more than 15 organisations as targeted IKE4 accounts that we estimate have the potential to grow to greater than \$1m in revenue. Customer feedback on the value and performance of the IKE4 platform has been excellent and the breadth of the overall sales pipeline for IKE4 has grown materially against the same time in the prior year.

Milnes added, "The market opportunity for IKE4 in the U.S. market is estimated at \$700m per annum. Developing the ecosystem around this market is important because if the asset owners, normally the electric utilities, use IKE4 as their data standard then there is the potential for it to become a requirement for other parties using the poles and assets – such as engineering firms, television, cable or communications companies. Positive steps were made in FY2017, albeit at a slower rate than we would like, for example IKE4 has now been deployed in all four investor-owned Utilities in the State of California and by all investor-owned Utilities in the State of Washington. These are material proof points which we expect to be beneficial in IKE4 penetrating the market in these and other States across the U.S. Patient work, parallel product & service innovation and, for scaled adoption, extended pilot trials are often part of a target customer's decision process – reflecting the importance of IKE's products & software to their core business. The corollary is that we have high confidence of ongoing and repeat business once accounts have been won. "

Spike is now being used every day by approximately 4,000 sign businesses, with the Signage market estimated to be a \$300-500m opportunity. U.S. Signage market resellers performed to plan through 1H FY2017 but slowed in 2H FY2017, reflecting a higher degree of seasonality than expected. European Signage market distribution was established for 14 new countries in 2H FY2017 with the launch of Spike into those national markets taking about a quarter longer than anticipated (initiated Q4 FY2017 and Q1 FY2018). In terms of new vertical markets for Spike, new use cases, customers and distributors are being established across the Architecture, Engineering and Construction (AEC) market. This very large AEC market is a focus for FY2018 and investors should expect to see ongoing updates relating to the development of this vertical in terms of distribution and software integration with some of the larger AEC backend platforms. With respect to the U.S. Government market, Spike was formally adopted by one major U.S. intelligence agency in FY2017. Initial Spike pilot sales have also been made into more than 25% of the 52 Department of Transportation's across the U.S. for asset collection applications. The Government market remains a long-term opportunity in terms of scaling volumes and the above proof points are encouraging.

For **Stanley Smart Measure Pro (SMP)** and the Construction and Contractor market, customer feedback remains positive and the product remains a marketing focus for IKE's partner, Stanley Black & Decker, Inc., particularly in Europe where sales volumes grew to 30,500 units in FY2017. IKE has lifted its gross margin on the sale of SMP hardware units following a renewed supply and distribution agreement that covers the period through early 2019. Uptake of the cloud subscription option has however been low, and while in-app marketing programmes have been recently initiated, the revenue opportunity for the cloud component for this product remains unproven. IKE does not have sufficient visibility into Stanley Black & Decker's pipeline and order planning, other than the generally positive view as above, to be able to give specific guidance on SMP volumes this early in FY18. IKE will update the market with product-specific guidance when more certainty is available on the likely volume outturn for the year. A positive subsequent event has been the recent launch of SMP into Bunnings Warehouse in Australia.

Find Out More At:
www.ikegps.com

350 Interlocken Blvd, Suite 250, Broomfield CO 80021, USA
Office: +1 303 222 3218
www.ikegps.com



Product development and recurring revenue models: Both the core IKE4 cloud platform and core Spike cloud platform are in place to manage asset information for customers. This is expected to deliver increasing recurring revenue streams through FY2018 and beyond. As an example, the impact of the cloud software component of the IKE4 product is that revenue per unit sale is expected to be approximately 150% of that of an IKE3, the predecessor product, over a three-year period but with less revenue being recognized in the year of the sale itself.

Corporate and operating expenditure: IKE has the ability manage its growth activities and align costs accordingly. Through 2H FY2017 the business successfully transitioned its cost base from engineering development to building distribution channels and enterprise sales opportunities that are anticipated to create value in FY2018 and beyond. In FY2018 the Company forecasts a material reduction in development engineering against FY2017, largely reflecting the completion of the core cloud platform for both IKE4 and Spike. Management maintains a lean corporate overhead structure and anticipates a slight reduction in corporate expenses in FY2018 against FY2017.

Cash flow and working capital: The FY2018 business plan targets the transition to cash breakeven operation. IKE will continually evaluate its working capital requirements as it grows and transitions to profitability, which is a function of building hardware products alongside selling multi-year subscription software.

“IKE solutions continue to be central to thousands of businesses.” said Glenn Milnes. “We have an opportunity to take a leading position in mobile measurement solutions & software for electric utility and signage customers. Our vision in the electric utility market is to put IKE4 at the centre of every pole transaction, and with our mobile products our vision is to put Spike at the centre of many enterprise mobile workflows where external assets need to be assessed, analysed and managed. IKE is in markets with hundreds of thousands of potential customers, and we’re only just getting started embedding our products into those markets and building our recurring revenue streams. Our customer base is expected to grow strongly in FY2018 and we remain focused on delivering value-added growth.”

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Contact: Glenn Milnes, CEO, +1 720-418-1936, glenn.milnes@ikegps.com

Find Out More At:
www.ikegps.com

350 Interlocken Blvd, Suite 250, Broomfield CO 80021, USA
Office: +1 303 222 3218
www.ikegps.com