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For Immediate Release **17 February 2017**

IKE FY17 Update

Highlights

- Cash break even expected in Q4 FY17 resulting from increased sales, increased margins and expenditure controls.
- IKE4 sales into the U.S. electric utility and communications market have strengthened in Q3 and into Q4 FY17, but as signaled 50% year-on-year unit volume growth for the full year is not expected to be achieved due to the weakness in 1H FY17.
- Stanley Smart Measure Pro sales into the construction market is expected to reach 39,500 units, 52% above original FY17 unit volume guidance and 58% year-on-year unit volume growth.
- Spike revenue and unit volumes, largely from sales into the signage market, are expected to grow between 25-50% year-on-year.
- Recurring revenue models are now in place, meaning all IKE products are today being sold with an add-on subscription framework.
- The gross margin target of 65% across IKE-branded products is expected to be exceeded.

Detail and commentary

- Cash breakeven:
    - IKE expects that cash breakeven in Q4 FY17 will be achieved, in line with guidance, based on increased sales, increased gross margins and expenditure controls.

- Sales of IKE4 into the U.S. electric utility and communications market:
    - Sales momentum of IKE4 improved in Q3 FY17 and 2H FY17 performance is expected to be significantly stronger than 1H FY17.
    - However due to the very soft IKE4 performance in 1H FY17, and as previously advised, 50% year-on-year growth for the full year to March 2017 is not expected to be achieved.
        - IKE4 unit volume sales are expected to be at approximately the same level (300 systems) or below FY16 IKE3 unit volumes, depending on the timing to close various larger pipeline deals over the next 7 weeks.
        - However, when comparing prior year unit volumes and metrics the lifetime revenue and margin from an IKE4 sale is approximately 50% greater than a historical IKE3 sale.
    - IKE believes that the long-term market opportunity for its IKE4 solution is significant, growing and over the long run will deliver consistent revenue growth and profits. However, the time to close larger contracts is lumpy and these have been slower than anticipated in the FY17 period, for example with the initiation of numerous fiber projects deferred across the U.S. that are positioned to deploy a material number of IKE4 solutions.
        - IKE expects that this lumpiness will continue and that it may create both half yearly upside and downside in revenue performance through FY18 and beyond.
    - Positively, example IKE4 wins and customer proof points in 2H FY17 have included:
        - The addition of San Diego Gas & Electric and Los Angeles Department of Water & Power as customers.

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- Consequently, all major investor-owned utilities in the State of California, plus the second largest municipal utility in the United States, are now IKE customers. Growth opportunities remain amongst these utilities and their ecosystem of engineering service providers.
- Two of the three investor-owned utilities in the State of Washington are now IKE4 customers, with an expectation that the third will become a customer in the near term.
  - A Q3 FY17 win has been Washington-based Avista who has deployed IKE4 across 20 regional offices.
- The IKE4 sales opportunity pipeline has continued to be expanded and this remains a focus. For example:
  - IKE is engaged in piloting IKE4 across many of the large U.S. fiber companies and fiber projects such as with AT&T, Charter, Cox, Time Warner, and Altice, in addition to existing deployments across Google Fiber projects.
  - Additional international market expansion activities include IKE4 being piloted with a large national power company in Asia with a need to analyse eight million distribution assets.
  - A recent European Commission Directive is requiring pole owners to adopt joint-use practices in an effort accelerate the deployment of high-speed broadband in EU countries. Joint-use analysis and third-party attachment programmes are a core value proposition of the IKE4 system – and this directive has opened opportunities in several new EU markets.

- Sales of Stanley Smart Measure Pro (SMP) for the Construction market:
  - Approximately 25,000 SMP units shipped in Q3 FY17 and IKE expects that a total 39,500 units will ship for full year FY17, to plan.
    - This would represent approximately 52% overperformance against original FY17 guidance, and approximately 58% year-on-year growth against FY16.
  - The opportunity for IKE is to now monetize these end-users with a US$199 per annum cloud-software upsell through FY18 and beyond.
  - In December 2016, IKE confirmed the extension of its global supply and distribution deal with Stanley Black & Decker Inc. through to 2019.

- Sales of Spike for the Signage market:
  - Spike revenue and unit volumes are tracking to grow between 25-50% year-over- year.
  - At the end of Q3 FY17 approximately 2,000 Spike units had shipped.
  - In January, IKE announced that Spandex, the sign supply giant with a dominant presence in 14 European markets and with more than 33,000 signage customers, is to distribute Spike.
    - Q4 FY17 volumes are expected to be driven by a seasonally busy period for the US signage industry and by the timing with which Spandex roll out Spike across European territories.
  - The launch of the new Spike-for-OtterBox product, as announced at CES January 2017, is on track for March 2017 and is expected to positively impact FY18 sales growth.

- Recurring revenue models:
  - Recurring revenue models are now in place across IKE products, in line with guidance, such that all IKE products are being sold with an add-on subscription framework. This means:

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        - The revenue and margin achieved per product sale over a 2-3 year period has increased materially, by as much as 50%, compared to a sale of an equivalent non-subscription IKE products in FY16.
        - There is lower recognised, or upfront, revenue at the time of the sale itself.
- Gross margins
    - The gross margin on IKE-branded products is expected to exceed guidance of 65% across the FY17 period. This has been driven by the introduction of more software capabilities into IKE products with associated higher price points, and also because of manufacturing cost efficiencies resulting from higher volume production.

IKE CEO, Glenn Milnes, commented, “As previously advised to the market, after several years of more than 100% year-on-year revenue growth the first half of FY17 was a very difficult one for our business. This was because of weaker than anticipated sales of IKE4 into the electric utility & communications market and because we experienced a short-term supply chain issue that delayed shipments of our mobile products. Pleasingly, with run rate sales of IKE4 improving, with the supply chain issue fully resolved, and with further opportunities to grow our markets we expect to be cash breakeven in this quarter. Looking to FY18, we expect to take a healthy cash position into the new financial period and to be able to continue to grow sales across the product set.”

“More generally, from having only a few hundred customers less than three years ago IKE solutions are today used by tens of thousands of businesses, and we are only just getting started in addressing these various markets.” said Milnes. “For many customers, IKE products have become integrated into their business alongside other core tools they use daily to get the job done more quickly, effectively and cheaply. Our target markets consist of hundreds of thousands of potential end-users. Our objective in the electric utility and communications market is to put IKE4 at the centre of every pole transaction, and with our mobile products our objective is to put Spike and the Stanley Smart Measure Pro at the centre of many enterprise workflows where assets need to be assessed, analysed and managed.”

ENDS

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