

# DataDot Technology Limited

ABN 54 091 908 726

## Securities Exchange Announcement

26 November 2014

### Chairman's Review - Annual General Meeting

Good morning ladies and gentlemen

I propose to canvass the following in my address this morning:

- 1 Overview of FY2014
- 2 Perspectives on the First Quarter FY2015; and
- 3 Outlook for FY2015

Before I start however, I will play a video produced by Con Edison, one of our industrial clients in the US, which describes why they have adopted our product as their security product of choice. Con Ed is a US\$12 billion revenue company listed on the New York Stock Exchange supplying energy to New York and surrounding areas.

I believe this bears testament to and provides credibility for our strategy of diversifying into the non-auto industrial space and focussing on the growing US market where theft in this sector is a big problem and therefore, an opportunity for DataDot. Copper theft alone in the US is a US\$1 billion industry.

#### **1. Overview of FY2014**

Revenues for DataDot Group in FY2014 were \$7,210,707 which is 2.6% higher than the previous period. EBITDA was an \$845,825 loss.

This earnings performance reflects the cost of rebuilding the Group post the GFC and de-risking through diversification away from the auto sector. The investment and non-recurring costs of these initiatives are reflected in the loss in the 2014 year.

Revenue growth in FY2014 was impacted as indicated in guidance released on 31 July 2014, by the change in Taiwan manufacturing and the resultant conversion of sales revenue into a royalty income stream. Adjusting for this impact, revenue growth would have been about 5%.

Further revenue growth from initiatives taken during FY2014 is expected to emerge during the FY2015 and subsequent years as discussed in the Outlook following.

During the year, the Company acquired DataDot Security Solutions Inc and further invested in the US by developing the business in the utility, telecommunications and oil and gas

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sectors using our metal theft solution (Industrial Products Solution) as our core offering. We also launched the consumer product CopDots into the retail market in the US.

In conjunction with these opportunities, the Company rationalised its existing businesses in Australia and Taiwan and also in the US (after the DDSS acquisition), thereby reducing the ongoing infrastructure costs of the business.

#### DataTrace

DataTrace performed well in FY2014 with over 21% revenue growth over the prior year from external customers. It is now well poised for further strong growth in FY2015. I will talk more about that later in this address.

Two research programs were started in the second half of FY2014. The first is the development of a more sensitive DataTraceDNA reader for bulk products which will provide access to uncontested segments of the market that we cannot currently access due to economics. A prototype is expected to be available by end of the current calendar year. The second project focuses on an enhancement of our superior detection technology that will allow us to offer solutions to customers on the highest security level and provides a significantly higher number of spectral fingerprints. Both developments are important differentiators to our competitors in the market of brand protection and warranty risk minimisation solutions and therefore will support sustainable growth.

#### North America

Good progress has been made in the US with the Industrial Product Solution launched late calendar 2013. This product has been well received in the target markets of utilities, telecommunications and oil & gas sectors with Excel Energy and Con Ed adopting this product. The pipeline of other target customers with whom we are in dialogue is very encouraging.

Sales of the CopDot pen product through Lowe's Home Improvement warehouse stores were initially encouraging but tapered post the Christmas period. We continue to develop alternative channels to market for this product so as to grow volume. The insurance sector holds promise for the CopDot product with a trial with a large insurer underway in the US. A sales arrangement was substituted for the foreshadowed joint venture in Canada with RSR Solutions Inc. (RSR) by mutual agreement and the first order of pens from RSR has been received and fulfilled by our US factory.

The auto industry in the US has shown strong recovery and this is expected to be reflected in stronger sales during 2015. According to Reuters, 2013 auto sales in the US were 15.6 million units up a huge 50% on GFC affected 2009 sales.

During the year we also further developed an emerging opportunity with a steel company in Mexico for both DataDotDNA and DataTraceDNA.

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### Europe

Sales in Europe have been slower to recover given the lingering impact of the GFC, particularly in Italy. Revenue in this sector was down year on year, however the GFC effect is moderating and we expect volumes from existing clients and new opportunities to increase during the current year. The signing of our distributor for France is a material development and we anticipate this to contribute significantly during the latter part of 2015.

Brazil, which will be supplied out of our UK factory, has been a slower market than anticipated to develop. Our distributor is confident that it still represents a significant opportunity.

### China and Taiwan

Although our distributor is under competitive pressure in Taiwan with the DataDotDNA product, material progress is being made in China with DataTraceDNA. As detailed in the Company's announcement on 31 July 2014, volumes from our beverage customer continue to climb steeply. We have now secured a manufacturer for significant consumer brands companies as a customer for the application of DataTraceDNA to spectacle frames. Auto parts marking using DataTraceDNA is also a major focus for us and discussions with targeted potential customers are in train.

### Australia

Australia is a low theft market and is becoming increasingly so. This has affected sales into the auto sector. Despite this, both Subaru, and more recently HSV have signed three year agreements to apply dots to their motor vehicles. Sales into the non-auto industrial space are encouraging with recent sales to the Local Government and Utility sectors in NSW and Victoria. The National Marine Register was a fresh initiative last year and has received strong support from targeted dealers. The National Equipment Register and the National Bike Register were also launched during the year.

We have invested in the new electronic asset location system called DataDot Live and we are in dialogue with the insurance sector regarding its application to insurance products. Our metal dot manufacturing capability is in pre-production testing. When in production, it will open additional revenue sources to us and will replace currently outsourced metal dots, thereby increasing margin.

### Management

The management team has been adjusted in line with the Company's expectations and requirements going forward, including the appointment of a CEO and COO to the expanding US business. Reporting lines have been redefined to support the key business plan objectives of revenue growth, product development and costs efficiencies.

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## Acquisitions

On 15 October 2013, DataDot Technology USA Inc (DDTUSA) acquired the remaining 50% of DataDot Security Solutions Inc (DDTSS) from DataDot Dealer Services Inc (DDTDS), a non-related product distributor in the USA, becoming the sole shareholder of DDTSS, and making it a wholly-owned subsidiary of DataDot. The acquisition was undertaken to better utilise and control the emerging products of CopDots and the Industrial Solutions in the USA and to rationalise operating costs. The shares were transferred for a nominal consideration of US \$1 plus repayment of shareholder loans to the exiting party. DDTSS was consolidated into the accounts as a subsidiary of DataDot from 15 October 2013 and has contributed revenues of US\$283,826 and a loss of US\$395,551 to 30 June 2014. The business objectives and resources post acquisition have been restructured.

## **2. Perspectives on First Quarter FY2015**

During the 1QFY2015, a number of exciting developments have been made:

### 1. Con Edison (ConEd)

ConEd is one of the largest publically owned utility and natural gas companies in the US. ConEd supplies electricity to 1.4 million customers throughout the 5 boroughs of New York and 3 large counties in lower NY state, Westchester, Orange and Rockland counties. It generates US\$12 billion in annual revenues and has US\$40 billion in assets. ConEd launched the DDTUSA Industrial Products solution officially on 30 July, 2014 commencing initially out of its Bronx facility marking electrical copper assets such as Buss Bars, Brackets, Crabs and Cable. These assets are marked with DataDot product in the warehouse and then sent off to job sites where they are placed inside electrical vaults and manholes. There are several thousand vaults and manholes throughout NYC. There are 3 additional warehouse facilities that we will be rolling the solution out to as well as beginning to explore marking internal assets, laptops, phone systems, tools and equipment. ConEd represents a major opportunity for us but further penetration may be slow given the size of the company, the need to be imbedded in its purchasing processes and the impact of seasons on product rollout.

### 2. Xcel Energy

Xcel Energy is a major US energy company headquartered in Minneapolis, with annual revenues of US\$10.1 billion. It supplies electricity to 3.4 million customers and natural gas to 1.9 million customers throughout eight states in the western part of the US. Xcel Energy launched the DDTUSA Industrial Products solution in July 2014 with the initial implementation in Amarillo, Texas where they are marking grounding or earth wire throughout its electrical substations. Xcel Energy has over 500 substations throughout Texas. We began by marking new sites under construction and will begin retrofitting the existing sites in the near future. Xcel Energy has also expressed interest in marking tools and equipment as it is experiencing similar theft issues. Xcel Energy has 7 other regional areas including New Mexico, Colorado, Minnesota, Michigan, Wisconsin, North and South Dakota. We have been in discussions with them in Colorado and Minnesota. These will be the next regions brought on line and we anticipate that sales of our Industrial Products solution will continue to grow throughout the additional regions over time. Recent press

statements by Xcel Energy indicate that theft rates over the last 6 months are down 24% and further, the arrest rate for large scale theft is improving to 53% – our technology has been given the credit for these results even though it was not deployed for the whole of that period.

### 3. Harley Davidson

Harley Davidson has selected DataDots for its Theft Protection service. The Harley-Davidson DataDot kits began rolling out in mid-October 2014 to 350 of its 700 dealerships with a target completion date being the end of this calendar year. The remaining 350 dealerships will roll out during 2015. The Harley Davidson DataDot theft deterrent kits are sold and applied at the dealership and include an attached warranty

As they offer this product at the dealer level, it can also be applied to second hand bikes. Harley-Davidson dealers sell two and one half times the used bikes compared to new bikes. This offers DataDot an even bigger revenue opportunity.

### 4. DataTrace

As stated earlier, DataTrace is poised for strong growth in FY2015. We see this growth coming in China (which I will speak more about a little later in this address) in alcoholic spirits, branded consumer products, tobacco, automotive spare parts and in the USA where we are in a paid pilot program at a major food company, and have been awarded a contract by one US Government authority and we have started a ‘proof of concept’ trial with another Government authority.

Additional regional focus is being applied to Brazil, Indonesia and Europe. In Indonesia and Brazil, we have appointed and trained regional sales agents and distribution partners for nominated government and industrial customers and are already running promising ‘proof of concept’ trials. In Europe, we recently announced the appointment of our successful Italian distributor as our distributor in France. We are also continuing to work closely with a major European pharmaceutical company on the commercial terms for an extension of our existing 5 year contract.

To support further growth in the business, the DataTrace laboratory facility in Sydney has been expanded and upgraded and a new application development & order fulfilment facility is being established at our factory in Spokane, Washington. A new lab technician starts in Sydney at the beginning of December 2014 and the DataTrace sales force in US will be increased by 1.5 people early 2015.

### 5. CopDots

Although sales through the Lowes Home Improvement stores have been disappointing, we are working with our retail agent to launch the product packaged in a low cost vial format rather than the more expensive pen format in the hardware channel and are now canvassing the interest level amongst the independent distributors.

The trail of DataDotDNA by a major insurer as an adjunct to signing up new policy holders is well advanced and we expect to have feedback on that program by early in the New Year. We are also exploring other channels in the insurance sector.

Interest is being expressed from another major market for a retail product such as CopDots and this is also being explored.

We have also received our second order of pens from our Canadian customer, RSR, referred to earlier.

## 6. China and Taiwan

We updated the market on this region in an announcement made on 31 July 2014. We are pleased that there are ongoing additional developments in that region. In Taiwan, our distributor is addressing competition in the dot business by deploying innovative new product which is being well received by our customers. Further, the largest scooter manufacturer has recently agreed to increase standard fit DataDotDNA to additional models in their range over and above the high end models currently being fitted. We are also about to commence trials of DataTraceDNA for the Taiwanese EPA in spoilt foodstuffs to prevent reuse. A new product being an anti-counterfeit auto label using DataTraceDNA for authentication is also about to be launched to compete in the local auto sticker market. New staff have been hired by our distributor to pursue big opportunities in volume electronics specifically computer chips.

In China, commercial trials of DataTraceDNA have commenced with 3 new customers – in pharma, auto parts and battery power packs. New opportunities are being pursued in aviation parts and additional spectacle frame makers resulting in our distributor putting on new staff there also.

Opportunities in auto parts are also being pursued in Korea with discussions progressing.

## 7. New Sales Resources

The Company recently raised approximately \$2.73 million in additional capital via a placement and SPP to fund business development initiatives, specifically:

- (a) additional sales capability for DataTrace products in USA;
- (b) additional sales capability for industrial DataDotDNA products in the US;
- (c) additional sales capability for DataDotDNA products in Australia, targeting the industrial and marine sectors; and
- (d) further development of DataDot Live for deployment in the insurance sector.

I am pleased to advise that we are well advanced with recruitment of one (1) new specialist salesman in the US for each of DataDotDNA and DataTraceDNA and one (1) specialist salesman has already started in Australia.

8. DataDot Live

I am also pleased with development of the DataDot Live product in Australia and we anticipate that this will be the subject of further announcements regarding its deployment in the insurance sector in Australia in the New Year.

9. Mexico

Contract negotiations with our potential customer in the steel sector in Mexico are well advanced and we hope to announce this contract to the market shortly.

10. Cash Flows

The Company has just received its R&D rebate payment which brings our current cash position is approximately \$4.5 million. Royalties from our South African distributor were prepaid in FY2014. This prepayment expired in October 2014 and future royalties will be paid in cash monthly.

**3. Outlook for FY2015**

The Company is pleased with the traction achieved in FY2014 from investments and growth initiatives taken during that year. These, together with additional initiatives taken during the early part of FY2015, will drive revenue growth emerging in 2015 and beyond.

As previously indicated, the Company has traded profitably during the Q1FY2015 with small but positive EBITDA being recorded for that period. The foreshadowed investment in sales people and products will negatively impact earnings until offsetting new revenue is brought online as expected during the second half of FY2015 and subsequently. The company is budgeted to return to profitability by end FY2015.

Before closing, I wish to thank the Company staff for their dedication over the year and our shareholders for their ongoing support – the company is on the cusp of an exciting future!

Thank you for your attention.

**Bruce Rathie**  
**Executive Chairman**  
**26<sup>th</sup> November 2014**

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