



# DataDot Technology Limited

ABN 54 091 908 726

## Securities Exchange Announcement

25 November 2013

### Chairman's Review - Annual General Meeting

Good morning Ladies and Gentlemen,

I will canvass the following in my address this morning:

- 1 Overview of FY2013
- 2 First Quarter FY2014
- 3 Recent Developments
- 4 Outlook for FY2014

#### **1. Overview of FY2013**

##### *Group*

I am pleased to report to shareholders a much improved financial performance for DataDot Technology Limited in 2013. The initiatives employed in restructuring, cost reduction and strategic refocus have proved successful with a material turnaround in profitability. Revenue of \$7,030,437 was similar to the prior year (\$7,071,396) but earnings before interest, tax, depreciation, amortisation and impairment (EBITDA) were materially higher, coming in as a positive \$366,027 against a loss of \$1,212,299 in 2012 and representing a \$1,578,326 turn around year on year. The net loss after tax (attributable to members) has also been materially reduced by \$1,486,123, from a loss of \$1,647,001 in 2012 to a loss of \$160,878 in 2013. This turnaround in profitability highlights the fundamentally different approach the company has taken towards cost control and the magnitude of these efforts.

### *Europe*

DataDot UK performed strongly, increasing revenue by \$504,918 to \$2,126,587 and recording a positive EBITDA of \$62,271 in 2013 from an EBITDA loss of \$186,492 in the prior year. This was predominantly due to the economic turnaround in Europe, which is slowly building momentum, and in particular to sales in the Italian market where DataDotDNA is applied to most Fiat passenger vehicles that are financed by Fiat. Over 500,000 kits have been sold into the Italian market since that program was initiated, which is a great credit to our Italian distributor.

### *Americas*

DataDot USA also increased revenue in 2013 by \$196,368 over 2012, but as a result of carrying the set-up and start-up costs of our new product initiatives in the US, EBITDA declined to a loss of \$42,548 in 2013 against a positive EBITDA of \$93,639 in 2012.

### *Australasia*

DataDot Australasia incurred a reduction in revenue and some margin loss but still materially reduced its EBITDA loss in 2013 to \$274,676 from a loss of \$542,466 in 2012, with most of the cost saving initiatives having been implemented in Australia during the year.

### *DataTraceDNA*

DataTraceDNA also had a much improved year with EBITDA rising from a \$710,955 loss in 2012 to a positive adjusted EBITDA of \$304,781 in 2013 (adjusted after taking a loan revaluation into account).

### *South Africa*

DataDot South Africa continues to grow strongly in the whole of vehicle marking segment in South Africa, generating royalty income of \$554,115 in 2013 as against \$375,388 in the prior year.

### *Press Commentary*

Shareholders will be aware of the Fairfax press articles back in April this year making allegations about our DataTraceDNA technology and our dealing with a



major European pharmaceutical company. We reiterate the comments made in the ASX release of 15 April 2013 in which we stated that the products supplied to the European Pharmaceutical Company were appropriate for their intended application and categorically denied the allegations made.

We also now have available spectral and chemical analysis from two reputable and independent laboratories confirming that product supplied to our client was not material bought off the shelf from China, rebranded and on-sold as a security product to our client as alleged. This independent confirmation emphatically disproves the central assertion made in the press.

DataTrace DNA has not lost a customer in the period following publication of the Fairfax press articles in April, nor has it received any demands from any customer.

We continue to stand behind the DataTraceDNA technology as a world-class technology.

## **2. First Quarter FY2014**

The first quarter FY2014 revenue is up about 16% when compared to the first quarter of FY2013. Earnings are about the same as the prior corresponding quarter which is a pretty solid performance given we are carrying our investments, both in dollars and management time, in new initiatives which I will focus on later in this address. We are particularly pleased about the strong performance DataTrace DNA has put in during the first quarter and we see this continuing and increasing during the balance of the financial year.

## **Recent Developments**

With respect to our DataDotDNA product, the strategy is to grow into new markets in auto e.g. Brazil and to take the product into the industrial sector of telecommunications, power, transport and utilities - through the launch and promotion of registers such as the National Metal Register, the National Equipment Register and the National Marine Register in various markets, all of which require the sale of DataDotDNA for marking of the assets being registered and support of law enforcement providing a powerful value proposition to users. We are also trialling the consumer market using the CopDot program in the US as our first initiative. We are also looking at taking the CopDot and pen product into our traditional B2B markets.

With respect to DataTraceDNA, the strategy is to continue to pursue multinational industrial and branded companies. The auto spare parts sector where our product is particularly well suited is just one major opportunity we are pursuing given the level of counterfeiting and grey market imports in major economies. We are currently in discussion with a number of major auto manufacturers in Europe, the US and Asia on these initiatives. Another major opportunity is the wine & alcohol sector. DataTraceDNA is already being applied to tens of millions of wine bottles manufactured by a major Chinese Government owned wine company in China. There is also a major opportunity with major wine exporters into China given counterfeiting of foreign brands in China is rife. I will provide you more details on that initiative later in this address.

Since the end of FY2013 and in application of this strategy, several material developments have been made in the business including:

**1** *a capital raising* during September and October involving a \$2m private placement to sophisticated and institutional investors and a share purchase plan offer capped at \$1m to existing shareholders on the same terms as the private placement yielding \$2.579m for the business. We propose to have the shortfall of \$421,000 under the recent Share Purchase Plan placed away to sophisticated investors post this meeting to top up the funds raised under that plan to the \$1million cap.

**2** the purchase and consolidation of the 50% equity our partner DataDot Dealer Services held in *DataDot Security Solutions Inc* based in Charlotte, North Carolina and announced to the ASX on 15<sup>th</sup> October 2013.

**3** *õgo liveõ* or launch of the *National Metals Register* website ([www.nationalmetalsregister.com](http://www.nationalmetalsregister.com)) on 8<sup>th</sup> November 2013 by our commercial partner Verisk Analytics enabling our product DataDot Metallic to be now promoted and sold with an NMR registration

**4** appointment of our *Brazilian distributor* announced to the ASX on 9<sup>th</sup> October 2013.

**5** Joint Venture Letter of Intent signed in October targeting *authentication of Australian wine exported to China* using DataTrace DNA

**6** *National Bike, National Equipment and National Marine Registers* launched and operational in Australia with growing momentum in FY2014



7 Letter of Intent signed with *Roy Speed & Ross* in Canada in furtherance of our register and consumer sales strategy in that market announced to the ASX on 21<sup>st</sup> November 2013

8 Continued *Product Innovation* will materially enhance our competitive position going forward

Let me briefly address each of these developments in a little more detail.

## **1 Capital Raising**

The additional capital raised will allow the company to invest further in the growth opportunities discussed and, in particular, acquire our partner's equity in DDSS and the businesses it operates in the US which we see as holding great potential for growth given its focus in the recovering US economy.

## **2 DataDot Security Solutions Inc & Pen Applicator**

The nearly 600 Lowe's Home Improvement stores currently stocking the CopDot pen are predominately located in the South-East, South-West and North-West of the US. As a requirement for Lowe's stores stocking CopDot pens, law enforcement agencies (LEAs) adjacent to each store must support the program and it has been these expressions of support that have enabled the rapid rollout through the Lowe's network of stores to date. DDSS has developed a strategy to facilitate LEA promotion of community support of the program at store level, which is currently being trialled in 3 major markets, to be supplemented during the upcoming festive season by social media advertising programs with a view to generating sales through Lowe's stores carrying the product.

DDSS is very pleased with the store roll out and support from LEAs to date, however, it is not possible to gauge the likely level of sales through this consumer channel given the newness of the program and trial promotional activity having just commenced. DDSS proposes to also develop other non-retail or B2B channels for the pen product which the company believes also hold great prospects.

### **3 National Metals Register Launch or “Go Live”**

The National Metals Register website was taken live by our commercial partner Verisk Analytics earlier this month allowing our sales staff to now sell a package of DataDot Metallic cans and signage with a registration on the NMR. We have had very positive early response to this product offering from household name companies in the US in the utilities, telecommunications and theme park sectors with some orders expected to commence before the Christmas break.

### **4 Brazil**

Our Brazilian distributor is pursuing a number of business opportunities and we hold high hopes for this market. With the imminent passing of regulation requiring the marking of second hand parts destined for the spare parts market in Brazil, we see short term opportunities emerging possibly before the end of calendar 2013.

Brazil manufactures about 3.5m cars per year with a large spare parts market in addition. This represents a very large opportunity particularly with our largest Italian customer FIAT holding 20 to 25% of the Brazilian auto market but it also has major challenges not the least of which are the high tariff barriers which is likely to require local manufacture when numbers of orders increase.

### **5 Australian Wine Joint Venture**

We have signed a Letter of Intent with Grape Ensembles Co Pty Ltd., a wine maker and exporter and member of the Beston Group of companies, and Jeremy Oliver, noted wine writer and promoter of Australian wine in China, to form a joint venture company to market a DataTraceDNA authentication solution to Australian wineries, specifically targeting bottled wine exports to China.

We believe this presents an attractive opportunity for DataTraceDNA: China is now the fastest growing export market for Australian wine, the fourth largest by volume and the third largest by value. But as this market has grown, so too has the financial incentive for counterfeiters to substitute premium brands and labels with cheap fakes. For Australian wine exporters, effective brand protection at all points in the supply chain is becoming a product imperative.





With our new partners, we are currently presenting a multi-layered security and authentication solution to export wineries and under the terms of the Letter of Intent will incorporate the joint venture company upon receipt of the first order.

## **6 Australian Registers**

The National Equipment Register, the National Bike Register, the National Metals Register and the National Marine register have all been launched in the Australian market and are gaining traction in the market place. Law enforcement has been very supportive of these initiatives as they have access to these registers and find them a powerful tool in the solving of theft and other crime around these assets. As a result, utilities & power, mining companies, equipment companies, telcos and transportation companies are all logical targets for these products and we are starting to see revenue flow from these initiatives. The National Bike Register is part of our support for Subaru, our major DataDotDNA client in Australia. You saw at the start of today's meeting videos on these products which speak powerfully to their value proposition in our target markets.

## **7 Canada**

On Thursday last, we signed and announced that a Letter of Intent (LOI) has been executed with RSR Solutions Inc. (RSR) to establish a 50/50 joint venture company to market DataDot asset identification products and services in Canada.

RSR is a leading manager and marketer of technology solutions for the Canadian retail automotive industry. Through its national vehicle registration and recovery service (globali.com), which is marketed by 500 member auto dealers and used by millions of motorists, RSR has become Canada's recognised leader in vehicle theft prevention, protection and recovery.

Under the terms of the LOI:

the JV company will be granted an exclusive 5 year distribution licence to market a suite of DataDotDNA asset marking products to the Canadian auto, retail consumer and industrial markets;

RSR will establish an on-line registry of marked assets for each of these market segments, which will be accessible to owners of marked property and law enforcement agencies 24/7;



RSR will develop and manage an insurance program for registered marked assets, which will provide financial compensation to insured customers in the event that a marked asset is stolen.

The JV company is expected to be launched in early 2014.

## **8 Continued Innovation**

In the past we have mentioned innovation such as the Thor metal dot which is now in production in our Spokane factory providing product for European infrastructure clients. However, the innovation continues.

We are proceeding with development of a DataTraceDNA authentication device for bulk materials which will reduce limits of detection of the trace such as to make this product even more economic for authentication of bulk products such as paint, concrete, bitumen etc.

We are developing a new product to increase the functionality of our poly and metal DataDotDNA, called "DataDot Liveö". In essence the "Liveö" product will enable real-time electronic identification of the DataDotDNA, with geo location and status information to be deciphered by law enforcement and the owner of the asset using a mobile phone app and crowd sourced location data.

We are also developing ways in which high volume metal dots can be manufactured cheaply so we are not reliant of third party suppliers. These innovations will keep the company not only relevant in a rapidly developing industry but will keep at its forefront.

## **3. Outlook for FY2014**

During the course of 2013, the company invested in growth initiatives a number of which have already been mentioned earlier in this address. We have continued to invest in these initiatives during FY2014. There may also be opportunity during the course of FY2014 to add to our organic growth with small, bolt on acquisitions and the Board will evaluate these on a case by case basis. We also continue with our efforts to make the company more efficient and, to that end, are currently reviewing our 4 manufacturing facilities and their operations.





Given the above, we expect to see revenue growth to continue to emerge during the balance of FY2014 year building thereafter as sales momentum develops. As is the case with all new initiatives, the revenue tends to lag investment and profitability lags revenue as start-up and establishment costs are recouped first before manifesting on the bottom line and we expect this to be evident in the company's earnings in FY2014. We do, however, fully understand that shareholders are keen to identify specifically what various initiatives may mean for the financial performance of the company. Given the newness of these initiatives, the Board is not able to provide specific guidance but will in a better position to do so at the end of FY2014 when more data is available to it.

Another factor to keep in mind is that almost half of revenues come from Europe and the US. Hence any depreciation of the Australian dollar is a welcome boost to parent company revenue and earnings in FY2014.

I would like to thank my fellow directors, management and all employees for their efforts in turning the company around in FY2013 and to assure our shareholders that the Board and management team are committed to building on this positive performance. I am also very grateful for those who invested in the company by way of the recent private placement and share purchase plan. This will allow us to proceed to the next level in the company's development.

**Bruce Rathie**  
**Executive Chairman**  
**25<sup>th</sup> November 2013**

**Contact Information:**  
**DataDot Technology Limited**  
Bruce Rathie, Executive Chairman  
Phone: 02 - 89774900  
e-mail: [brathie@datadotdna.com](mailto:brathie@datadotdna.com)  
web site: [www.datadotdna.com](http://www.datadotdna.com)