



# DataDot Technology Limited

ABN 54 091 908 726

## Securities Exchange Announcement

30<sup>th</sup> January 2014

### Market Update – Growth Strategy Being Implemented

#### **Background**

As enunciated at the AGM in November, the company is pursuing a business development and growth strategy with a particular focus on the US market. This strategy has been aggressively implemented during the course of the Half Year ended 31<sup>st</sup> December 2013 using some of the capital raised during that Half Year.

Implementation has involved, amongst other things, the acquisition of the remaining 50% equity interest in DataDot Security Solutions Inc (DDSS) as announced to the market on 15<sup>th</sup> October 2013. DDSS is a start-up company having been established in early 2013. On date of acquisition it had 8 employees and an existing cost structure to support Lowesqmarketing of CopDots.

DDT now owns all the intellectual property (trade marks, domain name etc) in DDSS and also operates the CopDots business in the US through this entity. Pursuant to a collaborative marketing agreement with Verisk Analytics Inc (Verisk), the owner of the National Metals Register (NMR) in the US, DDSS also markets into the industrial sector in the US the DataDot Metallic dot and other products that are packaged with NMR registration. In Australia, DDT has been marketing the National Marine Register, the National Equipment Register and the National Metal Register to the Australian utility, municipal and industrial sectors.

DataTrace DNA is performing strongly with a number of new clients and applications, one such application being for an integrated brand protection and marketing solution for Australian wine exports, in particular to China.

DDT is also developing additions to its traditional DataDotDNA product and is making enhancements to its DataTraceDNA product.

More generally, we continue seeking to improve DDT's quality of earnings by moving away from a commodity style of transacting business to a contracted solutions-based model.

#### **DDSS Enterprise Solutions Group (USA): National Metals Register (NMR)**

In the short time since Verisk launched the NMR website on 11th November 2013, DDSS has made pleasing progress in marketing the DataDot Metallic products to



potential users of the NMR in the electrical utility, oil & gas and telecommunication sectors. A number of major corporations in these sectors have expressed interest in these products so as to protect their assets from theft. These discussions will be progressed during the balance of this financial year, particularly when weather conditions in the US moderate. Copper theft in the US is estimated to cost approximately US\$1 billion per annum and represents great opportunity for DDSS. The focus of this group is to sell enterprise-wide solutions to these very large companies, securing multi-year contracts for DataDot products and services in conjunction with the National Metals Register asset database.

### **CopDots Program (USA)**

The CopDots program is underpinned by the CopDots innovative pen product, the [www.copdots.com](http://www.copdots.com) registration website and associated intellectual property such as databases and trademarks, together with its support by Law Enforcement Agencies (LEA's) in the US. The strategy for this product is to develop a number of channels to market in the US in addition to the existing consumer channel via Lowe's Home Improvement stores.

The CopDots pen product is now in over 1000 Lowes Home Improvement stores in 18 states in the US. There is a concentration on the East and West coasts, predominantly in the North-West, South-West, South- East and Southern Mid-West of the US, with LEA's providing support for this product.

Lowe's has sold approximately 6,000 pens since launch of the program to the end of the year, with almost 2,000 sold in December. While these numbers are relatively small they are pleasing for a new product of this nature and its apparent accelerating adoption. Further, we have modified our strategy to materially grow the sales volume in each Lowe's store as well as broaden our retail distribution network.

We have advanced our relationship with Lowe's by teaming with a retail vendor agent with strong ties to Lowe's business operations. We are engaging this company to continually visit all the Lowe's stores nationally that carry the product and train the floor staff and managers on the product. We have found that when the individual stores are trained on the product, sales in those stores have been very positively impacted. Lowe's is also pleased we are revamping the current packaging to a stronger selling item and continuing our social media awareness program.

Since the beginning of December last year, we have grown our Facebook following materially and will continue with a broader social media strategy across multiple platforms engaging and growing our consumer followers.

As part of our Lowe's strategy we are working closely with them on improving our inventory "turn" rate and margin with the goal of becoming a fixed "In-line" item throughout the majority of Lowe's stores. To date, we have modified our inventory mix so we can have greater turn of re-orders and also given Lowe's a relatively small cost reduction to improve the margin on the product for them. These changes, including the in-store training, repackaging and social media marketing plan have



been very well received by Lowe's Corporate and should garner in-store and other marketing support from them in the medium term.

Broadening our distribution footprint is also a key part of our strategy for the CopDots product. We are entering into agreements with additional national distribution companies to have the product carried within the hardware and electronic sectors. These sectors alone have over 20,000 retail outlets served by these distribution companies. We are also exploring opportunities within the insurance industry to market the product. These opportunities include:

- attaching a renewable 1 year term warranty to a pen or can product which will pay the theft excess on an insurance policy or a fixed sum in the event of theft of their property marked by the product; and
- sale of the pen to direct insurers for provision to policy holders with any benefit they may wish to provide to the policy holder.

We believe that the three initiatives of

- focusing on growing with Lowe's;
- simultaneously expanding into other B2B retail distribution channels; and
- penetrating the insurance sector as foreshadowed

will have a material positive impact on the growth of the revenues and profit from the CopDots product in the US.

### **Canada**

Progress with the launch of the pen product into the retail consumer market and DataDot Metallic product into the industrial sector in Canada has been very pleasing. The CopDots style pen product will be branded %Trace+ in the Canadian market and our 50% JV partner, RSR Solutions Inc (see ASX announcement of 22<sup>nd</sup> November 2013), has developed the website and packaging for the product. DDT has developed sample product for provision to and evaluation by two large retail chains in two market segments, which is expected to occur shortly. It is hoped to launch the pen product in the Canadian market through these channels by the end of the first quarter this calendar year.

We also expect sales of our DataDotDNA product into the auto space in Canada to grow strongly this calendar year via our US distributor DataDot Dealer Services Inc .

### **Product Development**

Work was commissioned on three developments during the Half Year.

The first is the development of a new, more sensitive DataTrace DNA reader for industrial bulk products, which will reduce the required amount of taggant material required for these applications significantly and therefore will provide access to segments of the market we cannot currently access due to economics. These high volume segments are currently barely exploited by covert authentication solutions and offer a promising growth and differentiating potential for DataTraceDNA.

The second is DataDot Live, an electronic detection application to be deployed in augmenting our traditional DataDotDNA product, initially in the marine space. It is currently being trialled internally.

The third, is the development of in-house manufacturing capability for bulk metal dots to augment our proprietary Thor+customised dot manufacturing capability.

### **Manufacturing Review**

Outside of South Africa where our distributor manufactures under licence, DDT manufactures its product in four locations . Sydney, Taipei, Spokane (USA) and Norwich (UK). We have been reviewing how we can gain greater efficiencies and reduce costs in these manufacturing operations.

DDT has now agreed in principle with its distributor in Taiwan (DataDot Taiwan) to licence manufacturing for the Taiwanese market to DataDot Taiwan with effect from 1 January 2014. This avoids the very inefficient and costly maintenance of a DDT owned and operated manufacturing branch facility in Taiwan. The effect of this will be that DDT will receive a royalty from DataDot Taiwan for use of its patent in Taiwan based on volume manufactured there. DataDot Taiwan will take over the factory and all existing staff. At current volume, royalties based on gross sales will be paid in lieu of and are broadly equivalent to the net margin on sales we currently enjoy. As a result, we expect there to be no material impact on earnings in 2014 although revenue will be reduced due to the different accounting treatment. DDT also expects to reap material savings by avoiding costs of running the facility in Taiwan.

DDT is also looking at moving manufacture of some UK product from Norwich to Spokane in the USA. This is being further evaluated and some alterations could begin during the course of this half year.

### **Half Year Result**

The assurance review of the result for the Half Year to 31<sup>st</sup> December 2013 is yet to be finalised but is expected to be completed and results announced to the market in late February.

On the basis of unaudited numbers, revenue for the Half Year is \$160,000, up about 4.8% on the previous corresponding period. This result is pleasing as it includes some new revenue but there was some offset for price reductions given to two major clients for renewal of long term contracts, amongst other factors.

NPAT for the Half Year is expected to be down \$270,000 when compared to the previous corresponding period due in large part to the consolidation of DDSS for the first time, investments made in the DDSS business since acquisition and other growth initiatives funded before Half Year end.

We are currently reviewing the DDSS cost structure now that DDT has full control of the entity, having regard to our modified CopDots strategy, which, together with other cost reduction initiatives in manufacturing and revenue growth is expected to emerge in the second half year. Investment in support of growth initiatives was incurred before half year end and the benefits from this are expected to emerge during the balance of this and subsequent years.



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