26 October 2023

Market Announcement

For immediate release

Q3 FY23 market update and guidance update

Revenue for the three months ended 30 September (Q3 FY23) was $15.9m which is 12.1% lower than Q3 FY22. Gross margin for the quarter was 32.0% (28.9% Q3 FY22) and EBITDA was a $0.4m profit ($0.1m profit in Q3 FY22). Operating expenses at $4.9m were consistent with the same period last year. There was a modest improvement in the EBITDA result for the quarter due to improved gross margin.

On a YTD basis for the nine months ended 30 September 2023, revenue was 8% lower than for the same period last year reflecting global economic uncertainty impacting customers, including the residual effects from global supply chain issues. Despite lower revenue, gross profit was 3.5% higher reflecting higher gross margin from improved sales mix with a greater proportion of IoT revenue.

Metric (NZ$m)	YTD Q3 FY23	YTD Q3 FY22	Variance
Revenue	**46.0**	**50.0**	**(4.0)**
IoT Revenue	24.9	25.3	(0.4)
Motors & Fans Revenue	21.1	24.7	(3.6)
Gross Margin %	31.0%	27.6%	3.4pp
EBITDA	(0.3)	(0.5)	0.2
Profit / (Loss)	(3.5)	(2.5)	(1.0)

Cash at bank at 30 September 2023 was $3.7m. Good progress has been made reducing the investment in trade receivables and inventory and the resulting cash has been applied to reducing trade payables to $13.7m (from $25.1m at 31 December 2022).

When AOF announced its interim result for H1 FY23 on 24 August 2023, the Company advised that meaningful improvement in trading conditions seemed unlikely until Q4 FY23 with some risk that the improvement in market conditions may be delayed until FY24. AOF's latest forecasts show Q4 FY23 revenue of $19.0m which is a significant lift over that recorded in previous quarters, but below what was included in August guidance.

FY23 revenue is now expected to be around $65.0m and for EBITDA to be in the range of $1.0m to $1.5m compared to $1.6m for FY22. AOF will update its projections and guidance as it progresses further through Q4 FY23 and customers confirm their demand.

The lower EBITDA forecast will see AOF at risk of breaching one of its financial year end banking covenants, relating to interest coverage ratio. AOF's facility also has a working capital covenant which the Company expects to remain in compliance with. A formal waiver of the breach is being sought from the bank. The breach is partly the result of higher-than-usual interest costs as AOF carried a high, post-COVID, level of working capital from late last year, which has been reducing over FY23.

AOF expects to finish the year with a solid cash position and minimal use of its bank finance facility. The Company continues to exercise tight cost control and adopting a measured approach to managing the investment required for new product development and adjacent market growth.

Good progress can be reported on the strategic initiative of adjacent market growth. AOF has completed a proof-of-concept trial with a major food service chain and is now testing the solution in pilot stores in Q4 FY23.

This is an exciting opportunity for FY24 and extends AOF's journey into developing its SaaS business with recurring revenue. AOF is also in advanced discussions with a supermarket chain in Latin America.

AOF remains confident it can internally fund and deliver improved performance in FY24.

**EBITDA (i.e., Earnings before interest, taxation, depreciation, amortisation, and impairment) is a non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance analysis. AoFrio considers it a valuable financial indicator because it avoids the distortions caused by differences in amortisation and impairment policies*

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