

## Fast tracked highway to growth

EROAD (ASX:ERD) is an increasingly global player in the Telematics Fleet Management hardware/software space with a comprehensive enterprise modular offering. The proprietary product (Ehub02) is a hardware device which attaches to a fleet vehicle with built-in software that collects, calculates and displays data for fleet owners using the cloud and other third-party software. The product also integrates with most leading transport/logistics software products. The products help users improve driver behaviour, improve fuel efficiency, reduce compliance costs and improve overall fleet productivity. Historically focused in New Zealand (70% of customers in FY21) the group has been growing solidly in the competitive North American market. North American entry is set to be fast tracked via the proposed acquisition of Cortex, a specialist telematics provider to the “in-cab”, refrigerated transport and construction sectors. Cortex has ~75% of units installed in North America and as a result opens ERD to new enterprise clients, cost synergies and a new generation technology platform. To fund this acquisition ERD recently completed a NZ\$84.5m equity raise, leaving the group with a pro-forma net cash position of NZ\$14.2m (assuming the transaction had taken place in March).

### Business model

ERD is a provider of enterprise modular telematics products into New Zealand, Australia and North America, with a sale consisting of hardware and ongoing software or SaaS charges per vehicle. Once the hardware is installed into a vehicle the client pays a monthly SaaS fee depending on the modules selected. Over FY21 the average monthly SaaS fee was NZ\$58.30. Modules continue to be added to the portfolio with recent additions “Clarity Dashcam” and “Day Logbook”. Acquisitions such as the recently announced Cortex offer the ability to sell new functionality/modules to the existing client base.

### Cortex acquisition expected to fast track growth by 2-years

ERD announced its intention to acquire vertical Telematics specialist Cortex (“In-Cab” and refrigerated transport in particular) in June 2021 for an upfront consideration of \$157.7m (\$96m scrip and \$61m cash) and \$30.6m in contingent consideration if certain milestones are achieved. Management has stated that Cortex would accelerate ERD’s growth metrics by 2-years, adding ~\$50m in AMRR, offering increased solutions, a next generation technology platform, new flagship enterprise accounts and cost synergies. Cortex is particularly strong in North America where ~75% of FY21 units are employed. Cortex is well known to ERD with both companies based in Auckland, increasing the likelihood of a cultural fit.

### Domestic listed peers will be hardware/software based

There are no other large telematic companies listed on the ASX, while many major offshore products tend to sit within conglomerates such as Verizon or specialised private players. We would look at business models that involve an initial hardware sale and then ongoing SaaS fees as peer comparisons. Catapult (Sports vest) and IKE GPS (utility measurement tool & analysis) are two good examples.

#### Historical earnings and ratios

Year end	Revenue (NZ\$m)	EBITDA rep. (NZ\$m)	NPAT Rep. (NZ\$m)	Total Comp Profit/Loss	EPS Rep. (c)	Total Comp EPS (c)	EV/Sales (x)	EV/EBITDA (x)
03/18a	43.8	10.5	(3.5)	(3.7)	(0.009)	(0.010)	8.6	35.9
03/19a	61.4	15.6	(4.9)	(6.0)	(0.073)	(0.014)	6.9	27.2
03/20a	81.2	27.1	1.0	(0.3)	0.015	(0.004)	5.4	16.2
03/21a	91.6	30.7	2.0	1.5	0.027	0.020	4.7	13.9

Source: Company data

## Telematics software/hardware

10<sup>th</sup> September 2021

### Share details

ASX Code	ERD
Share price	A\$5.79
Market Capitalisation	A\$564.9M
Shares on issue	97.0M
Pro forma Net cash at 31/03/2021	NZ\$14.2M
Free float	75.19%

### Share performance (12 months)



### Upside Case

- Integrate Cortex to extract sale & cost synergies
- Participate in sector consolidation
- North America and Australian market share

### Downside Case

- Subsidise new hardware unit upgrades
- Sector consolidation results in clients moving to new owners' technology platforms
- Peer multiple declines impacting valuation

### Catalysts/upcoming events

- 1HFY22 interim results (Late November 2021)
- Cortex integration updates (various)

### Comparable companies (Aust/NZ)

Catapult (ASX:CAT), IKE GPS (ASX:IKE)

### Top 5 shareholders

Steven Newman	14.5%
Australian Ethical	6.0%
Mitsubishi Financial	6.0%
First Sentier Investors	6.0%
Allianz Global Investors	6.0%

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# FINANCIAL SERVICES GUIDE

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