

14 December 2017

## **LightwaveRF plc (AIM: LWRF)**

### **Preliminary Results for the Year Ended 30 September 2017**

LightwaveRF plc ("LightwaveRF" or the "Company"), the leading smart home solutions provider, is pleased to present its final audited results for the year ended 30 September 2017.

#### **WHAT WE DO**

LightwaveRF plc ("LightwaveRF" or the "Company") pioneered smart home automation with the introduction of the market's first Internet enabled devices in 2008. Today the Company markets a complete smart home system for lighting, heating and power.

LightwaveRF offers a cloud platform and an extensive range of retrofitted LightwaveRF designed and manufactured sockets, dimmers, relays, thermostats, heating, energy, sensing, monitoring and control devices. These devices are operated by conventional manual control, handheld remote, smartphone and tablet based apps. The LightwaveRF system can also be operated using Google Assistant and Amazon Alexa voice control, is Apple HomeKit compatible and provides users with dashboards to manage their smart home.

LightwaveRF is dedicated to making everyone's lives easier and more fulfilled through world leading smart home technology.

#### **FINANCIALS**

- Revenue of £3.03 million (2016: £1.44 million);
- Gross profit £1.08 million (2016: £0.47 million);
- Gross margin 35.5% (2016: 32.5%);
- Loss before and after taxation £0.85 million (2016: £0.84 million);
- Investment in research and development £0.88 million (2016 £0.61 million);
- £2.22 million of funds raised during the financial year (2016: £0.21 million);
- Post year end fundraising of £4.9 million net of expenses, strengthening the pro forma unaudited net assets to £6.13 million;
- Our distributor order book exceeded £700,000 at current exchange rates as of 30 November 2017 month end.

#### **HIGHLIGHTS**

##### **Technology and Products**

- Completed development of Lightwave Generation 2 technology which is also Apple HomeKit certified; first devices now launched;
- Significant enhancements to cloud capabilities and integration with Google Assistant voice control for the Google Home device and for Amazon Alexa.

## **Marketing**

- Rebranded to “Lightwave”;
- Further brand recognition through press coverage, social media activity and website traffic.

## **Sales and Distribution**

- Established a distribution agreement with Exertis for supplying Apple online and in Apple retail stores in UK;
- Increasing direct consumer sales.

## **For further information:**

### **LightwaveRF plc**

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## Chairman's statement

I am pleased to be able to report on considerable progress made by your company during the last year.

### Overview

During 2017, revenue more than doubled. We further extended and developed our UK distribution capability, expanded our direct to market sales and successfully established a technology and distribution relationship with Apple. Post year end we also completed our largest fundraising to date, which saw us add two major institutional investors to the shareholder list.

We have built on the progress of the previous year with more market awareness, distribution led sales and through ensuring Lightwave products and technology continue to develop. In addition, we have developed our direct sales capability, supported by a dedicated customer services function. The smart home market is now becoming more clearly defined, which is helping Lightwave better communicate its proposition and capability.

Offering access to the Lightwave platform either directly or through Amazon, Apple and Google as well as the growth of voice control, opens up many opportunities for the business. The broad challenge as ever will be to ensure we prioritise our strategic goals so that we bridge the gap between short term achievements and the long-term ambition to build a scaled business in the smart home sector.

We are continuing to strengthen our management and technology capability. As well as welcoming new chief executive, Andrew Pearson, to the board in March, we have broadened our teams' skill sets with the addition of new staff. This is all directed to putting solid building blocks in place for the much larger business we aim to create. I would like to take the opportunity to thank our staff, our suppliers and subcontractors for the effort they have applied during the year to achieve a further step change for the business.

### Financials

Revenue for the 2017 financial year was £3.03 million, more than double last year (2016: £1.44 million). Gross margins further improved to 35.5% (2016: 32.5%) benefiting from the growth of direct sales. Administrative expenses were up to £2.12 million (2016: £1.49 million) as we spent more on marketing, research and development. Capitalised development expenditure was £0.69 million (2016: £0.51 million) in accordance with IAS38, reflecting the commitment to the development of our Generation 2 technology and devices. The loss before and after tax was £0.85 million (2016: £0.84 million).

Our balance sheet has now been considerably strengthened through our post financial year end fundraising, giving a strong and stable foundation upon which to develop our business. The pro-forma group statement of equity after this fundraising is as follows:

	2017 As reported £m	Net funding proceeds £m	Pro forma £m
Total shareholders' equity	1.23	4.90	6.13

**Outlook**

Completing a two-year long process of technology development which has met the exacting criteria of Apple and other major companies has been a major achievement for a small company. We now have the funds in place to further strengthen our management capability, marketing and sales as well as continuing to ensure our technology remains at the forefront of the smart home revolution.

We very much look forward to upping the pace of our progress through 2018.

Barry Gamble  
**Chairman**

## **Chief Executive's Report**

### **Introduction**

2017 has seen strong progress for Lightwave, with advances in, technology, products, marketing, sales and distribution.

### **Technology and Products**

We design and develop hardware devices and software. Our range of almost 100 smart home devices now includes the recently launched Generation 2 which is also a part of the Apple HomeKit offering. Manufacturing is outsourced to Asia and mainland Europe. Platform hosting is with cloud based operators. We have continued to grow our technology team and intend to bring in more talent as we invest in the further product development necessary to scale the Company.

As well as completing the development of the Generation 2 technology, launched just a few weeks ago, we also completed significant enhancements to our cloud-based platform. This included integration with Google Assistant voice control for the Google Home device. Consumer uptake of our Amazon Alexa integration has continued with over 8,000 Lightwave customers now using our Amazon Alexa "Skill" for voice control.

We have filed a series of patent applications to provide protection to our technology and plan further filings of new developments.

### **Marketing**

Our marketing uses consumer oriented messages such as "**Your Home. Smarter**". We recently launched a new website under the brand "Lightwave". In addition to product description and guides, the website now offers full online ordering. We are now using various digital marketing techniques to generate direct sales demand, build market awareness and develop the Lightwave brand. This is supported by media relations programmes to secure coverage in both specialist and generalist outlets.

### **Sales and Distribution**

We sell both our Generation 1 and 2 devices primarily through distribution partners. We have recently added Exertis as a distributor to enable us to supply Apple, who are retailing our Generation 2 devices both online and in UK and UAE stores. We will continue to develop our distribution strategy to ensure we market our devices effectively and generate increasing demand.

A growing proportion of our sales are being made directly to consumers. As well as providing another route to market this has significant benefit for us to fully understand the customer experience and to be able to directly tap in to their feedback.

### **Principal risks and uncertainties**

The Company is exposed to a variety of risks in the conduct of its normal business operations. Whilst it is not possible to either completely record or to quantify every material risk to which the Group might be exposed, those risks that the directors believe are most significant to the Group's business and could have a material impact on future performance, causing it to differ materially from expected or historic achieved results, are as follows:

#### *Customer concentration and relationships*

By increasing the number of distributors, the Company seeks to mitigate this risk. The increase in direct consumer sales also reduces reliance on distributors.

### *Technological risk*

The directors recognise that the technology in the Internet of Things field is evolving rapidly which could pose competitive and other risks to the Group. The directors continue to evaluate competitors and changes in the industry to mitigate this risk where possible. The directors also recognise that the Group faces cyber threat-based risks. We actively monitor and assess these risks and undertake a continuous investment programme to seek to prevent adverse events and to mitigate any unforeseen events.

### **2017 Results**

The revenues for the year more than doubled to £3.03 million (2016: £1.44 million) through further stocking by our distributors and direct consumer sales. Gross profit also more than doubled to £1.08 million (2016: £0.47 million) in line with the increase in revenue. Gross margin rose to 35.5% (2016: 32.5%) with direct consumer sales starting to make a material contribution. We recognise the scope to improve margins as we scale operations. Administrative expenses increased to £2.12 million (2016: £1.49 million) as the Group invested further in sales, marketing, research and development. Capitalised development costs under IAS38 increased to £0.69 million (2016: £0.51 million) driven mostly by the investment in our Generation 2 technology. As anticipated, the amortisation of intangible assets increased substantially to £0.3 million (2016: £0.1 million) in line with our policy of amortising as projects reach completion.

Research and development tax credits of £0.25 million (2016: £0.21 million) were recognised as other income before stated pre and post tax losses of £0.85 million (2016: £0.84 million). As we achieve financial progress through our increased revenue and gross profit, we plan to invest more in technology and marketing for the medium to longer term. Our distributor order book exceeded £700,000 at current exchange rates as of 30 November 2017 month end. As the smart home market becomes faster moving, we are seeing shorter lead times for orders and direct consumer sales have no order component.

Cash absorbed from operations increased to £0.89 million (2016: £0.63 million) with inventories up in support of our direct consumer sales activity. Cash invested, mostly in the development of our technology increased to £0.72 million (2016 £0.52 million). Cash balances at 30 September 2017 were £220,000 (2016: £2,000) even as we approached the conclusion of the programme to launch Generation 2 into Apple HomeKit.

The year end balance sheet saw shareholders' equity much improved to £1.22 million (2016: deficit £0.17 million) after the December 2016 fundraising of £2.2 million met the cash outflow from operating losses and the continued investment in technology. Long and short term loans and borrowings were substantially reduced to £0.59 million (2016: £0.99 million).

### **Key Performance Indicators**

The Group monitors revenue, gross margin, operating cash and also uses the following key indicators to measure the performance of the business in terms of progress against key strategic objectives;

	<b>2017</b>	<b>2016</b>
Global installations	46,000	40,000
Connected devices	400,000	300,000
Monthly temperature and energy data points -UK customers	63 million	52 million
Investment in research and development	£million	£million
• Expensed	0.19	0.10

- Capitalised

0.69	0.51
0.88	0.61

## Strategy

We continue to believe there is an opportunity for a UK Company that offers a wide and deep range of integrated smart home solutions to achieve significant scale. The competitive environment remains broadly the same as it has done for some time, in that gadgets, single device and single market segment solutions prevail, while we offer a distinctive, stylish and affordable smart home experience. During 2018 we will focus on the following key steps:

- **Undertaking a rolling launch** of a comprehensive range of new Generation 2 devices, from early 2018;
- **Enhancing our recently redesigned app** to give our customers increasing capabilities for the coordination and control of their smart home;
- **Broadening our cloud platform** capabilities with further integration and interoperability features for non-Lightwave devices and software;
- **Continue building our marketing function** and increase investment to build our brand, utilising product and customer focused approaches;
- **Expand our direct sales function**, introducing a field based home visit sales team;
- **Add further distributors** that complement and extend our distribution capability;
- **Launching an international device range**, following an indication from Apple that they are actively considering offering our Generation 2 sockets and switches to their online and retail customer base in 25 European countries.

## Outlook

2017 has been a pivotal year for the Group. Having launched Generation 2 devices into the market we are now moving to pursue our goal of creating a scaled Company able to compete with the major brands in the smart home market.

In 2018 we will move to strengthen our management team in marketing, sales and technology, enhancing the talented group which has achieved considerable progress to date. We recognise the ability to retain and attract suitably qualified and experienced staff will be critical to our success and growth.

Consumer awareness and understanding of the benefits of smart home technology continues to rise, and our market opportunity is increasingly large. Our relationship with Apple is a significant asset that supports our growth in the UK and which should also allow us to enter international markets efficiently. We look forward to building a great company in the rapidly growing smart home market.

Andrew Pearson  
Chief executive officer

**Consolidated statement of comprehensive income for the year ended 30 September  
2017**

	<b>Notes</b>	<b>2017</b>	<b>2016</b>
		<b>£</b>	<b>£</b>
<b>REVENUE</b>		3,032,268	1,443,091
Cost of sales		(1,954,942)	(973,737)
<b>GROSS PROFIT</b>		<u>1,077,326</u>	<u>469,354</u>
Other Income		248,000	211,372
Administrative expenses		(2,121,559)	(1,489,106)
<b>OPERATING LOSS</b>		<u>(796,233)</u>	<u>(808,380)</u>
Finance expense		(49,079)	(33,074)
<b>LOSS BEFORE TAXATION</b>		<u>(845,312)</u>	<u>(841,454)</u>
Taxation		-	-
<b>LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE PARENT</b>		<u>(845,312)</u>	<u>(841,454)</u>
Other comprehensive income		-	-
<b>LOSS AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE PARENT</b>		<u>(845,312)</u>	<u>(841,454)</u>
Loss per share - basic	2	<u>2.39p</u>	<u>4.37p</u>
Loss per share - diluted	2	<u>2.39p</u>	<u>4.37p</u>

**Group statement of financial position as at 30 September 2017**

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	1,210,071	820,094
Property, plant and equipment	25,766	17,094
	<u>1,235,837</u>	<u>837,188</u>
<b>Current assets</b>		
Inventories	388,012	102,527
Trade and other receivables	468,697	319,026
Cash and cash equivalents	221,933	2,116
Corporate tax recoverable	248,000	189,000
	<u>1,326,642</u>	<u>612,669</u>
<b>Total assets</b>	<u>2,562,479</u>	<u>1,449,857</u>
<b>Equity &amp; liabilities</b>		
<b>Shareholders equity</b>		
Share capital	1,938,452	1,028,737
Share premium	5,462,804	4,153,002
Reverse acquisition reserve	(100,616)	(100,616)
Share based payment reserve	70,811	51,893
Profit and loss reserve	(6,149,899)	(5,304,587)
	<u>1,221,552</u>	<u>(171,571)</u>
<b>Total shareholders equity</b>	<u>1,221,552</u>	<u>(171,571)</u>
<b>Current liabilities</b>		
Trade and other payables	752,623	628,460
Loans and borrowings	588,304	787,279
Total current liabilities	<u>1,340,927</u>	<u>1,415,739</u>
<b>Non-current liabilities</b>		
Loans and borrowings	-	205,689
Total non-current liabilities	<u>-</u>	<u>205,689</u>
<b>Total equity &amp; liabilities</b>	<u>2,562,479</u>	<u>1,449,857</u>

**Group statement of cash flows for the year ended 30 September 2017**

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
<b>Cash flow from operating activities</b>		
Loss for the year	(845,312)	(841,454)
<b>Adjusted for:</b>		
Depreciation and amortisation	323,121	123,078
Finance expense	49,079	33,074
Share based payments	18,918	28,817
Other income	(248,000)	(211,372)
Foreign exchange (profit)/ loss on convertible loan	(11,781)	90,911
Increase in inventories	(285,485)	(102,527)
(Increase)/decrease in trade and other receivables	(149,671)	320,457
Increase/(decrease) in trade and other payables	124,163	(172,787)
	<hr/>	<hr/>
	(1,024,968)	(731,803)
Research and development tax credits received	189,000	138,644
Finance costs paid	(49,079)	(33,074)
	<hr/>	<hr/>
<b>Cash absorbed by operations</b>	<b>(885,047)</b>	<b>(626,233)</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(28,533)	(4,378)
Deferred development expenditure	(693,237)	(514,490)
	<hr/>	<hr/>
	(721,770)	(518,868)
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	2,361,172	217,248
Costs associated with issue of shares	(141,655)	(10,864)
Invoice discounting (repaid)/drawdown	(45,450)	53,791
Repayment of convertible loan note	(69,859)	(15,394)
Repayment of other loan	(277,574)	(141,392)
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	1,826,634	103,389
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>219,817</b>	<b>(1,041,712)</b>
<b>Cash and cash equivalents at 1 October 2016</b>	<b>2,116</b>	<b>1,043,828</b>
<b>Cash and cash equivalents at 30 September 2017</b>	<hr/> <b>221,933</b> <hr/>	<hr/> <b>2,116</b> <hr/>

**Group statement of changes in equity for the year ended 30 September 2017**

	<b>Issued Share Capital £</b>	<b>Share Premium £</b>	<b>Reverse Acquisition Reserve £</b>	<b>Share Based Payment Reserve £</b>	<b>Retained Earnings/ (Losses) £</b>	<b>Total Equity £</b>
<b>As at 1 October 2016</b>	1,028,737	4,153,002	(100,616)	51,893	(5,304,587)	(171,571)
Loss for the year	-	-	-	-	(845,312)	(845,312)
Share based payments	-	-	-	18,918	-	18,918
Shares issued	909,715	1,455,541	-	-	-	2,365,256
Share issue costs	-	(145,739)	-	-	-	(145,739)
<b>As at 30 September 2017</b>	<b>1,938,452</b>	<b>5,462,804</b>	<b>(100,616)</b>	<b>70,811</b>	<b>(6,149,899)</b>	<b>1,221,552</b>

	<b>Issued Share Capital £</b>	<b>Share Premium £</b>	<b>Reverse Acquisition Reserve £</b>	<b>Share Based Payment Reserve £</b>	<b>Retained Earnings/ (Losses) £</b>	<b>Total Equity £</b>
<b>As at 1 October 2015</b>	943,542	4,031,813	(100,616)	23,076	(4,463,133)	434,682
Loss for the year	-	-	-	-	(841,454)	(841,454)
Share based payments	-	-	-	28,817	-	28,817
Shares issued	85,195	132,051	-	-	-	217,246
Share issue costs	-	(10,862)	-	-	-	(10,862)
<b>As at 30 September 2016</b>	<b>1,028,737</b>	<b>4,153,002</b>	<b>(100,616)</b>	<b>51,893</b>	<b>(5,304,587)</b>	<b>(171,571)</b>

## 1. Basis of preparation of the financial statements

The principal accounting policies adopted in the preparation of the Financial Statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These Financial Statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB), as adopted by the European Union ("adopted IFRSs"). The Financial Statements have also been prepared in accordance with those parts of the Companies Act 2006 applicable to companies preparing Financial Statements in accordance with IFRS.

The consolidated financial statements have been prepared on a historical cost basis.

## 2. LOSS PER SHARE

The basic loss per share is calculated by dividing the loss for the financial year attributable to shareholders by the weighted average number of shares in issue. The remaining securities in issue are not dilutive as at 30 September 2017.

	2017	2016
<b>Numerator</b>		
Loss used for calculation of basic and diluted earnings per share	£845,312	£841,454
<b>Denominator</b>		
Weighted average number of ordinary shares used for the calculation of basic and diluted EPS	35,343,621	19,272,323
	<b>pence</b>	<b>pence</b>
Loss per share- basic	<b>2.4</b>	<b>4.4</b>
Loss per share- diluted	<b>2.4</b>	<b>4.4</b>

At 30 September 2017, there were 2,310,000 (2016: 1,010,000) of potentially issuable shares which are anti-dilutive; such shares may become dilutive in future periods.

## 3. POST BALANCE SHEET EVENTS

Since 30 September 2017, the Company has issued shares and raised funds (net of expenses) through subscriptions, placings and an open offer as follows:

Shares issued No.	Issue Price £	Amount raised
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			£
1 November 2017 -subscription and placing	12,607,501	0.16	2,017,200
22 November 2017-subscription, placing and open offer	9,470,198	0.16	1,515,231
13 December 2017-placing	<u>10,725,917</u>	0.16	<u>1,716,147</u>
	32,803,616		5,248,579
Less expenses			<u>(344,429)</u>
<b>Net funds raised</b>			<u>4,904,150</u>

Pro forma statement of net assets after these transactions is as follows:

As at 30 September 2017 shares in issue and net assets	38,769,031	1,221,562
As at 13 December 2017 revised shares in issue and net assets	<u>71,572,647</u>	<u>6,125,712</u>

#### 4. ANNUAL REPORT

A copy of this announcement and the Annual Report from which it is extracted, will be available on the Company's website [www.lightwaveRF.com](http://www.lightwaveRF.com). The Annual Report will be posted to shareholders shortly.