Plover Bay Technologies Limited (1523 HK)

FY2020 Annual Results

February 2021

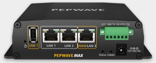
DEDICATED TO ENABLING UNBREAKABLE CONNECTIVITY

Enterprise-friendly Networking

- Broad range of wired and 5G Ready SD-WAN routers
- High reliability to price
- Well-suited for a wide range of deployment


Balance 310X


UBR


MAX BR1

SpeedFusion Technology

- Combines multiple connections from any source to create an optimized, secure and unbreakable connectivity
- Saves cost on fixed deployments, enables mobile and remote branches with high reliability

SPEEDFUSION

Specialized technologies

- 5G Ready SD-WAN routers and equipment with
- Armed with SpeedFusion for unbreakable connectivity
- Enables mission critical applications anywhere
- Built to withstand harsh, mobile conditions

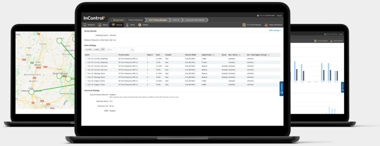

Balance SDX


MAX HD4

5G/LTE antenna

Cloud services and Warranty subscriptions

- Real-time zero-touch network management
- Cloud delivered unbreakable connectivity
- Single subscription for router, cloud services and warranty

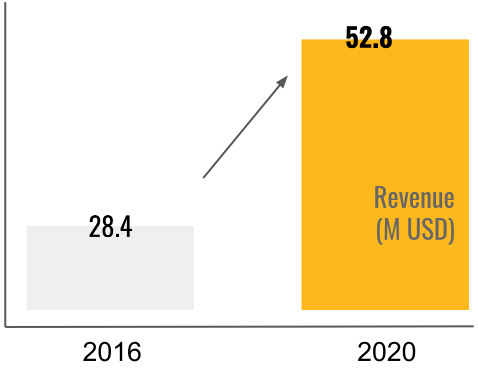


InControl^2

2016-2020: RESULTS OF SOLID EXECUTION CAPABILITY

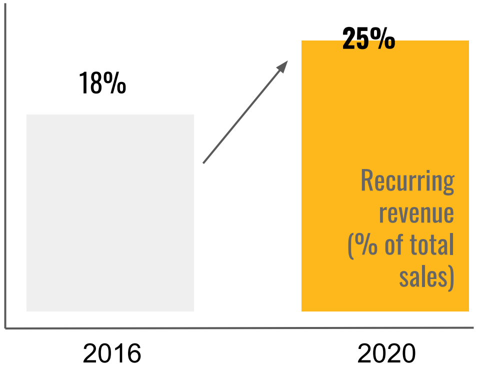
2016 - 2020
Revenue CAGR:
17%

- Growth driven by expanding line-up of wired and wireless SD-WAN routers
- Growing base of installed base feed into expanding recurring revenue pipeline



Recurring
revenue mix:
25%

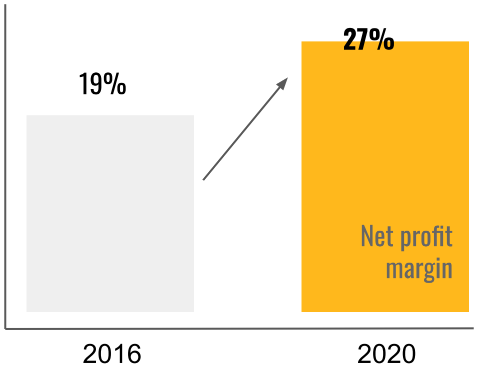
- Fast growing sources of recurring revenues (InControl2 subscriptions + SpeedFusion Cloud)
- Grew InControl2 registered devices from 75k to 269k (2016-2020)



2016-2020: RESULTS OF SOLID EXECUTION CAPABILITY

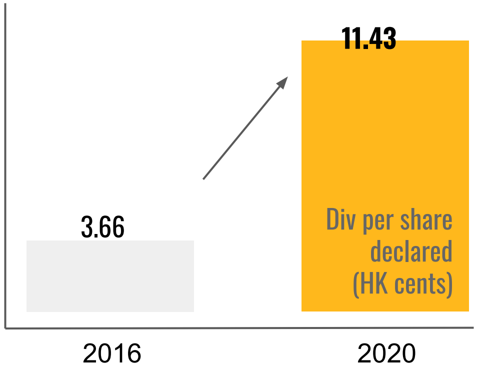
Net profit margin:
27%

- Persistent process automation and internal systems improvements, resulting in unrivalled net profit margin among industry peers
- Successfully expanded R&D team out of HK, widening talent pool at lower cost

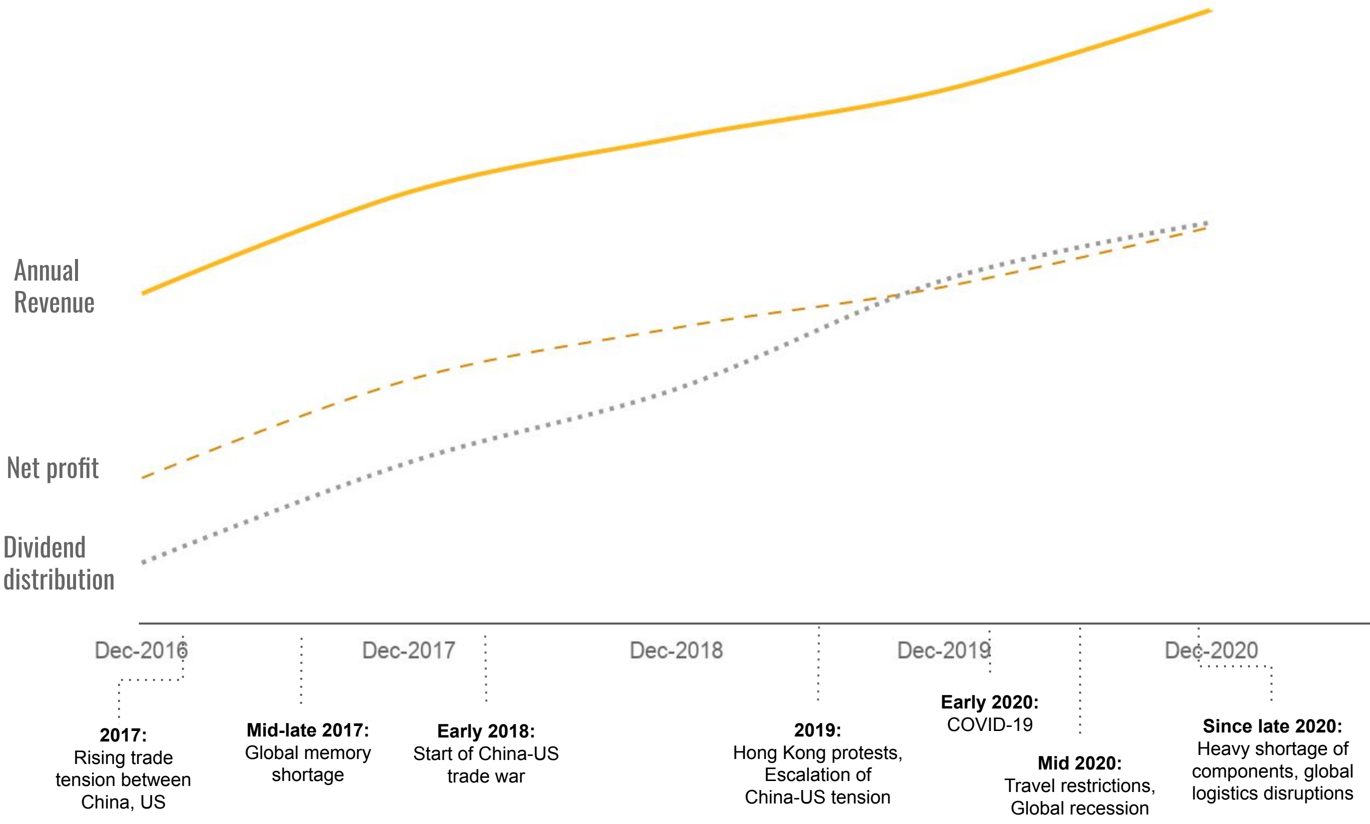


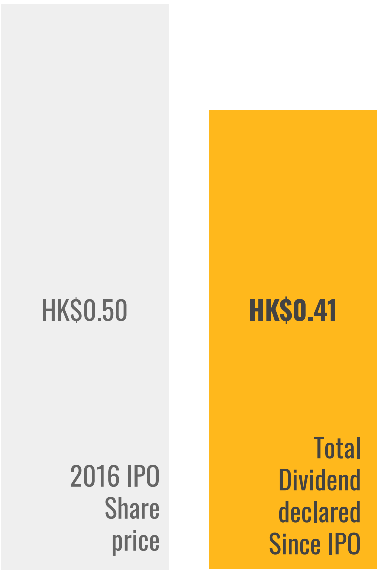
Strong cash flows and dividend payout

- Strong cash flows enabled by continued revenue growth and consistently improving operations
- Cash flows reinvested into engineer talents with minimal capital expenditure
- Payout ratio exceeded 90% every year since IPO



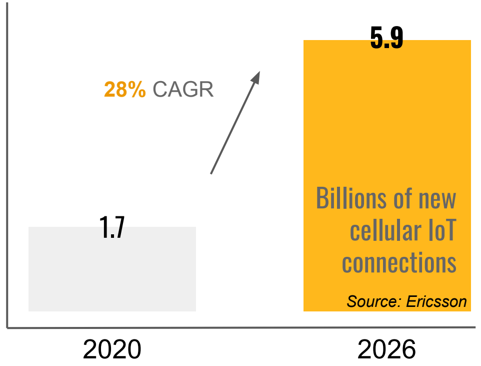
STEADY GROWTH THROUGH TURBULENT TIMES





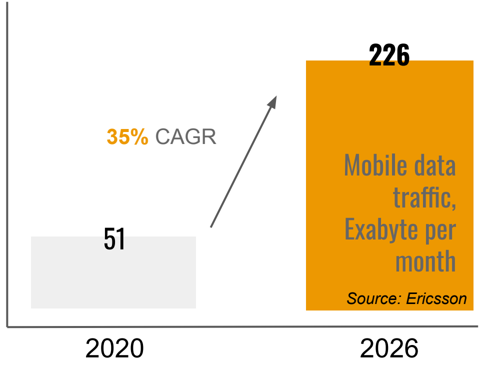
Robust dividend returns

SECULAR TRENDS DRIVING WIRELESS CONNECTIVITY



More connected devices

- 5G adoption gaining traction in 2021
- New applications enabled by 5G's lower latency
- 5G capability supports many more devices in the network vs 4G



Growing data traffic at lower bandwidth cost

- More devices, more traffic
- Each application consumers more data
- Mobile data bandwidth cost approaching parity to fixed line

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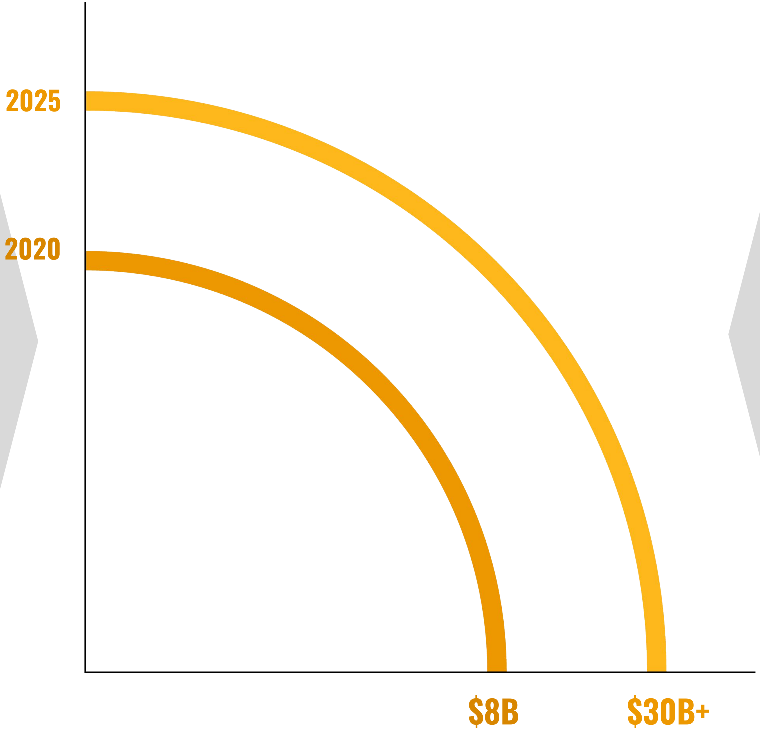
EXPANDING ADDRESSABLE MARKET

Expanding product range

2020:
- Enterprise WAN & WLAN
- Industrial Gateway

2021-2025:
- Enterprise WAN & WLAN with 5G
- Industrial Gateway
- Smart Connectivity

Total addressable market



Underlying secular trends

Secular trends driving market expansion

- More connected devices
- Higher data consumption at lower bandwidth cost

2021+: MOVING FROM SD-WAN TO SMART CONNECTIVITY

SPEEDFUSION

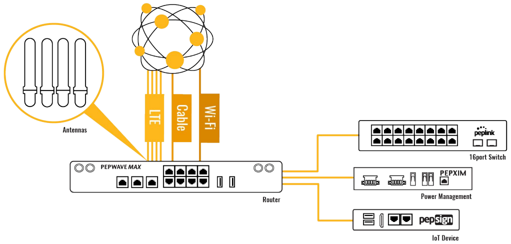
SpeedFusion Technology

Wireless SD-WAN Routers

5G SD-WAN Routers

SPEEDFUSION Cloud

SpeedFusion Cloud



All in one: Device, Cloud, Data

2006 - 2020:

Laying a solid foundation for future growth

2021+:

Moving towards "**Smart Connectivity**"

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WHAT IS SMART CONNECTIVITY

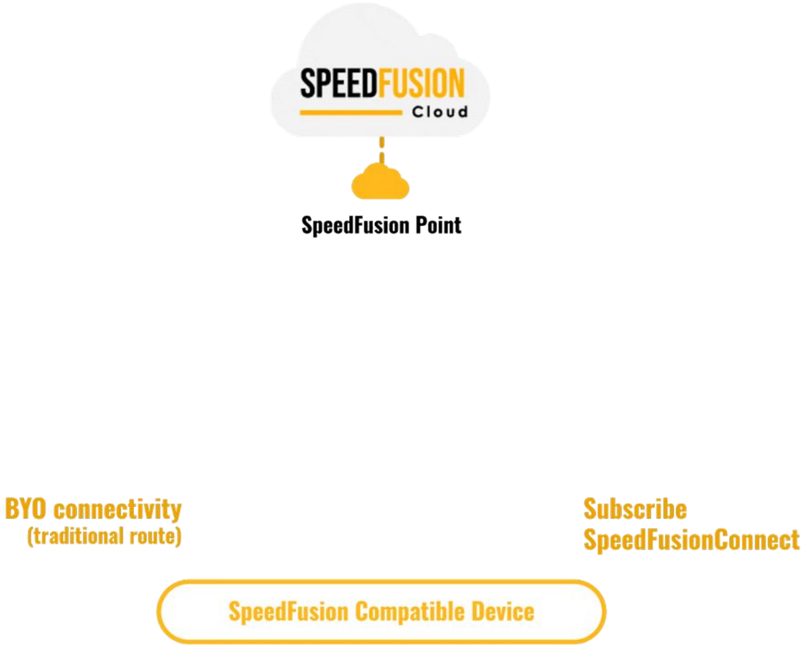
Introducing.. SpeedFusionConnect

- **Always connected**
  - Bring your own SIM
  - We’ve got your back with instant data, around the world

- **Predictable Pricing Never Throttled**
  - Pay for what you use, not some large bucket
  - Don’t fall into the “unlimited” trap

- **The power of SpeedFusion**
  - Combine network coverage
  - Bulletproof Conferencing and VoIP

- **Could not be easier**
  - Power it up and get connected out of the box
  - Globally compatible with any carrier with one bill



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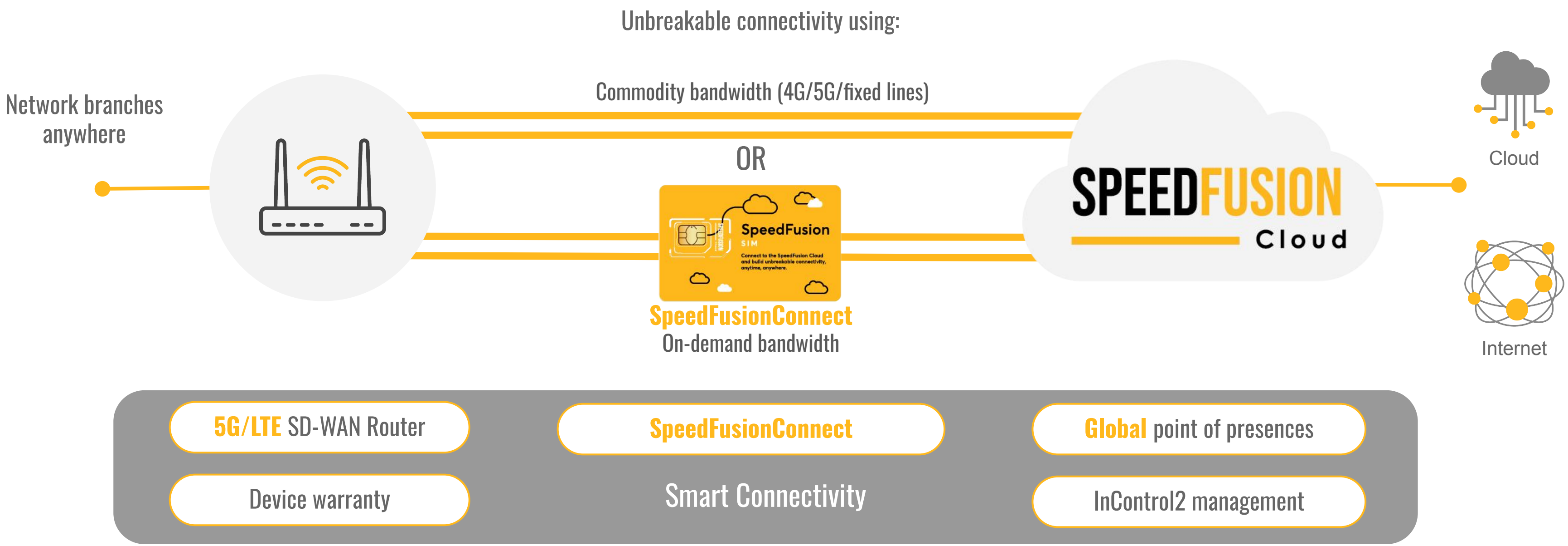
INTEGRATED SOLUTION FOR ALL CONNECTIVITY NEEDS



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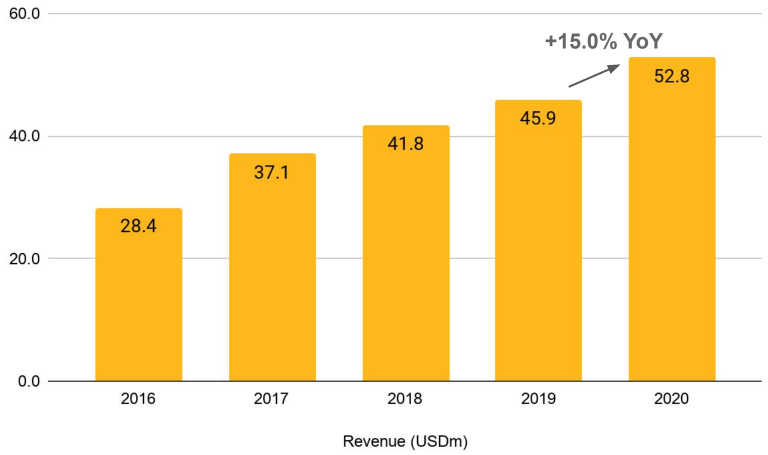
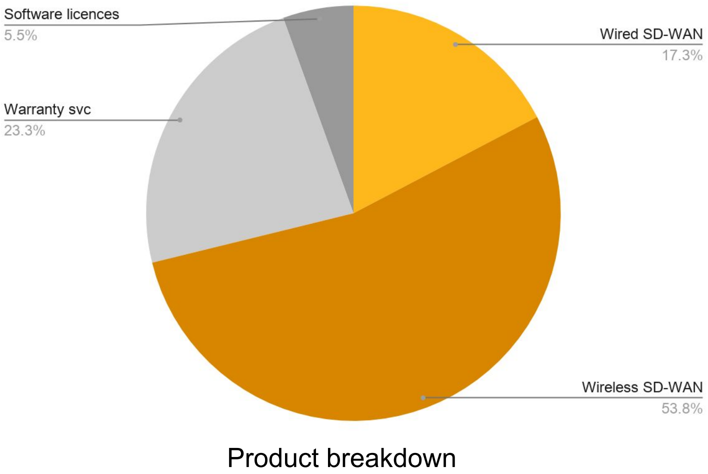
FINANCIAL HIGHLIGHTS

Financial year ended 31 December	2020 (US$'000)	2019 (US$'000)	Change
Revenue	52,818	45,910	+15.0%
Gross profit	30,800	28,774	+7.0%
Operating expense, Other income & Finance cost	(14,758)	(14,780)	-0.1%
Profit before tax	16,042	13,994	+14.6%
Reported net profit	14,230	12,089	+17.7%
Gross profit margin	58.3%	62.7%	-4.4 pt
Net profit margin	26.9%	26.3%	+0.6 pt
Diluted EPS (US cents)	1.33	1.14	+16.7%
Dividend per share (HK cents)	13.6	11.1	+22.5%

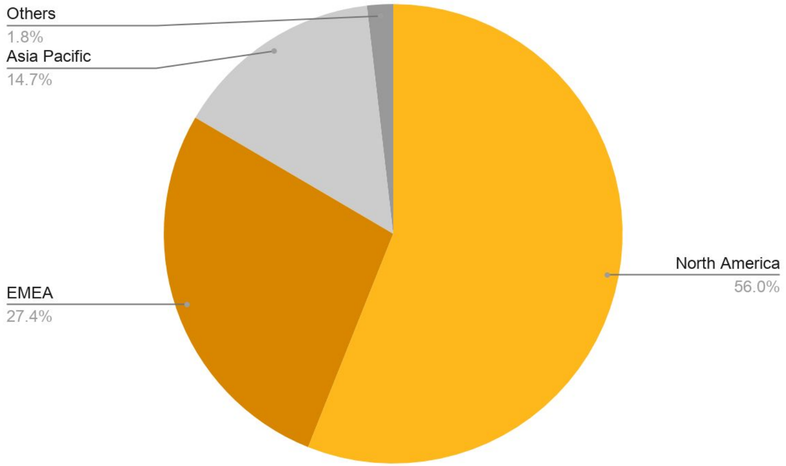
REVENUE BREAKDOWN



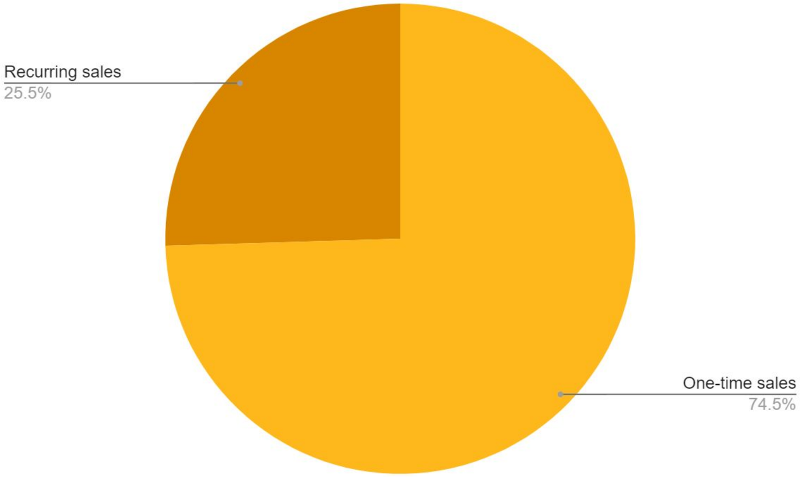


- Strong sales in volume-based SD-WAN routers, which is in line with strategy to accelerate user base growth
- Software licences, which includes add-on software licences and recurring cloud subscriptions, grew 38% YoY driven by growth of registered devices in installed base
- Warranty services grew 9% YoY, largely in line with historic growth trend of SD-WAN routers

REVENUE BREAKDOWN (con't)



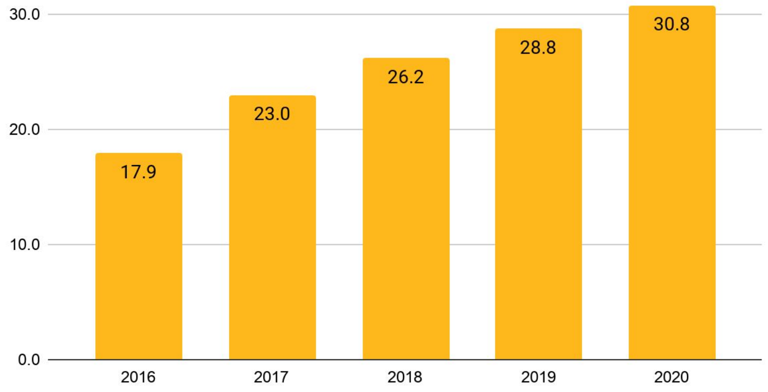
Geographical breakdown



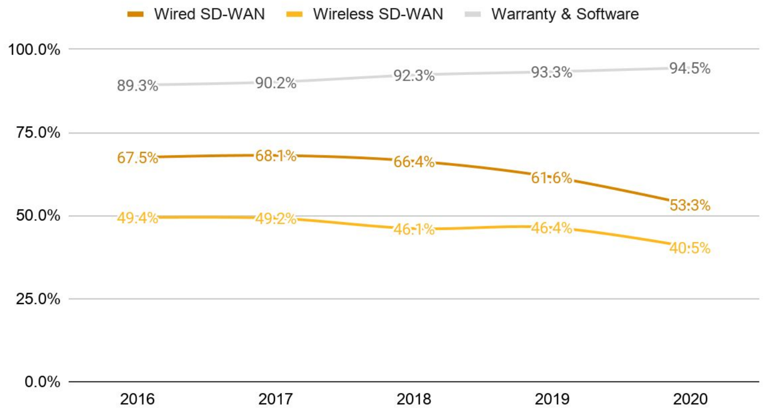
Nature of sales breakdown

- EMEA grew 34% YoY, Asia Pacific grew 18% while North America market grew 7%.
- One-time sales (includes sales of routers and add-on software features) grew 16%
- Recurring sales (includes warranty and software subscriptions) grew 12%
- InControl2 registered devices rose to 269k at end of 2020

GROSS MARGIN BREAKDOWN



Gross profit (USDm)



Gross margin breakdown

- Gross margin decreased to 58.3% (2019: 62.7%), impacted by:
  - Strategy to accelerate user growth leading to strong sales of basic SD-WAN routers, typically with lower gross margin compared to company average
  - Inventory write-down of US$693,000 mainly for components over 3 years and finished products over 2 years
- Product gross margins did not fluctuate materially during the year

OPERATING EXPENSES ANALYSIS

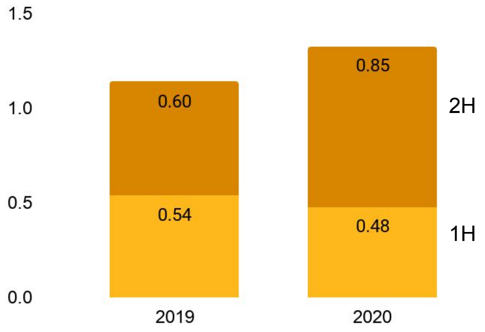
Year ended 31 December 2020	2020 US$'000	2019 US$'000	2020 % of sales	2019 % of sales
Selling & distribution expenses	2,475	2,411	4.7%	5.3%
Admin expenses	5,535	5,537	10.5%	12.1%
R&D expenses	7,425	7,221	14.1%	15.7%
Total operating expenses	**15,435**	**15,169**	**29.3%**	**33.0%**
Staff cost (including share options exp.)	8,215	8,135	15.6%	17.7%
Share option expenses	215	510	0.4%	1.1%
Government grants	1,421	-	2.7%	-

- During the year, we received government grants of US$1,421,000 in total from the HKSAR Government's employment assistance program, and from the Lithuania Republic's R&D subsidy.
- Excluding this amount, operating expenses would be about $16,856,000 (31.9% of sales)
- Total staff increased to 167 (2019: 159)

NET PROFIT AND DIVIDEND

Year ended 31 December 2020	2020 US$'000	2019 US$'000	Change %
Net profit:			
Profit before tax	16,042	13,994	+14.6%
Income tax expense	(1,812)	(1,905)	-4.8%
Net profit	14,230	12,089	+17.7%
Earnings per share (US cents)			
Basic EPS	1.34	1.17	+14.5%
Diluted EPS	1.33	1.14	+16.7%

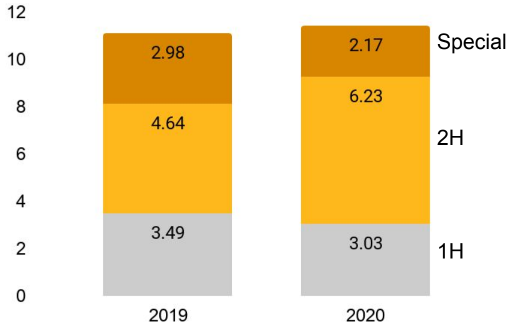
Diluted EPS (US cents)



Year ended 31 December 2020	2020 HK cents	2019 HK cents
Second Interim dividend	6.23	4.64
Special dividend	2.17	2.98
Interim dividend	3.03	3.49
Total	11.43	11.11

** : expected dividend payment date is 29 March 2021*

Dividend per share (HK cents)



BALANCE SHEET AND CASH FLOW HIGHLIGHTS

BALANCE SHEET SUMMARY

At the end of 31 December	2020	2019
	US$'000	US$'000
Trade and other receivables	6,997	8,245
Inventory	12,509	7,387
Trade and other payables	4,453	2,615
Contract liabilities	10,881	8,890
Bank borrowings	3,378	393
Cash and cash equivalents	31,151	28,926
Return on average equity	40.7%	36.2%

CASH FLOW STATEMENT SUMMARY

Year ended 31 December	2020	2019
	US$'000	US$'000
Cash flows from operating activities	15,838	15,951
Cash flows from investing activities	(2,789)	(777)
Cash flows from financing activities	(10,866)	(13,094)
Net change to cash	2,183	2,080

- Inventory increased as we actively increased stock of wireless modules and other electronic components in anticipation of component shortage
- Bank borrowing increased approximately $3 million as a credit facility was drawn down towards end of 2020 for general working capital

INDUSTRY PEERS VALUATION

Company	Ticker	Business segment	Market Cap (USD)	Price (USD)	5 yr Sales growth	5 yr EPS growth	P/S	P/E
Plover Bay	1523 HK	Enterprise / Industrial	174M	0.160	19.3%	24.3%	3.1	12.2
Sierra Wireless	SWIR	Industrial / Enterprise	626M	17.37	5.4%	-29.5%	1.3	N/A
DIGI Int'l	DGII	Industrial / Enterprise	691M	23.27	6.5%	-5.3%	2.4	89.0
Cambium	CMBM	Service provider / Enterprise	1.18B	43.37	11.3%	68.8%	4.2	65.1
Inseego	INSG	Service provider / Consumer	1.54B	15.61	3.5%	13.1%	5.8	N/A
Netgear	NTGR	Enterprise / Consumer	1.26B	41.75	-0.7%	5.8%	1.0	22.7
Average							**3.0**	**47.3**

Data as of 24 Feb 2021
USD/HKD = 7.75

RECENT M&A VALUATIONS

Target company	Announced date	Business segment	Acquirer	Enterprise value (USD)	Revenue (USD)	Implied EV / sales
Cradlepoint	Sep 2020	Enterprise SD-WAN	Ericsson	1.1B	137M (2019)	8.0x
Silver Peak Networks	Jul 2020	Enterprise SD-WAN	HP Enterprise	925M	Over 100M	~9x
CloudGenix	Mar 2020	Enterprise SD-WAN	Palo Alto Networks	420M	Undisclosed	N/A
VeloCloud	Nov 2017	Enterprise SD-WAN	VMWare	449M	Undisclosed	N/A
Viptela	May 2017	Enterprise SD-WAN	Cisco	610M	Undisclosed	N/A

Sources: Press releases

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