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ASX Announcement

# Kaddy to accelerate revenue growth and market penetration with new pricing model

## Highlights

- **DW8's Kaddy B2B beverage Marketplace & Fulfilment platform** introduces a new SaaS ("Software as a Service") membership subscription program with embedded savings and benefits across both Marketplace and Fulfilment divisions
- The new membership subscription program allows **Kaddy Marketplace** to reduce its headline commission rate from 5% to as low as **1.25%**, making the proposition far more attractive to Australia's largest B2B beverage producers, distributors and wholesalers and is expected to accelerate growth rates across all key metrics
- Kaddy expects the blended fees generated from Marketplace trading itself to average down under 5%, but this will be offset over time by a material increase in GMV and new revenue streams such as SaaS subscriptions and corporate display advertising
- The new more flexible Marketplace pricing model will help:
  - Generate a deeper level of engagement with existing buyers and suppliers
  - Rapidly expand the available product range, especially mainstream products
  - Increase the average basket size and drive higher transaction volumes
  - Grow the overlap of suppliers using both Marketplace and Fulfilment services
  - Accelerate growth across key metrics
  - Enhance an already significant competitive moat
- **Kaddy's** new Fulfilment rate card becomes effective from 1 July and is expected to lift revenues across this division by circa 10% from Q1 FY2023 onwards
- **'Project One'** savings and synergies previously reported of \$3m are expected to increase to **\$4m** p.a. after further synergies are released across both the Marketplace and Fulfilment divisions
- Savings equating to an estimated **\$1m per quarter** are expected to be delivered from Q1 FY2023
- Additional cost savings, synergies and efficiencies to be achieved across the Fulfilment division to become visible in Q1 FY2023 (September quarter), with further details provided in the next Quarterly report
- Kaddy Fulfilment division (ex corporate overheads) expected to generate a profit in FY2023

**DW8 Limited (ASX: DW8 or the "Company")**, operates **Kaddy**, a unique and innovative technology platform which provides beverage suppliers an end-to-end supply chain solution that allows them to connect with buyers, simplify operations, streamline payments and fulfill both trade and consumer orders.

The Company is pleased to disclose its new pricing model and rate card and to provide an update on the progress of **'Project One'** (savings and synergies) that are expected to both increase revenues and reduce operating costs.

The new pricing model changes, which take effect from 1 July 2022 are expected to make the integrated Marketplace & Fulfilment platform substantially more attractive to both existing and new suppliers, and will accelerate growth rates across all key metrics including suppliers, product SKU's, buyers, average basket size, frequency of purchase and sales GMV.

**Kaddy Membership Subscription Program**

The first major change to the pricing model is the introduction of a tiered Kaddy membership subscription program that ranges in cost between \$50 and \$250 per month, via a SaaS subscription payment. There is also a 'Freemium' membership option that allows any supplier to start selling on the Marketplace within minutes without any long-term commitment.

Order processing fees on sales generated via the Marketplace will vary depending on which membership level a supplier opts into, with the 'Freemium' level member remaining at the existing rate of 5% and as low as 1.25% for 'Enterprise' members.

Over time, the range of benefits offered at each Kaddy Membership Program level will be extended, and include benefits for suppliers using its Fulfilment services.

**Order Processing & Payment Accelerator Fees**

The second major change to the pricing model is the splitting of the existing Marketplace commission into two parts: an Order Processing Fee and Payment Accelerator Fee.

Under the current Marketplace pricing model, accelerated payment is included within the commission charged and all suppliers are paid within 5 days of delivery. This debtor factoring service is provided by a third party and the cost to provide this was included within the existing commission structure.

While accelerated payments appeal to smaller suppliers, the feedback Kaddy has received from larger and more active suppliers is that they would prefer more flexibility and be able to choose whether they are paid within 5, 14 or 33 days. The Company has recognised that the current 'one size fits all approach' was causing a substantial amount of friction, in turn restricting Marketplace top line sales growth.

Taking onboard this feedback, the Company has made the Payment Accelerator Fee optional and for those using the service, has introduced different rates depending on how quickly they wish to be paid. This allows the Company to reduce the Order Processing Fees with no reduction in its profit margin and provide a more flexible pricing model structure that will accelerate key metric growth.

	Freemium	Starter	Premium	Enterprise
	\$0.00 /month	\$50.00 /month	\$125.00 /month	\$250.00 /month
<b>Supplier fees</b>				
Order processing fee	3.75%	2.75%	2.00%	1.25%
Payment accelerator (5 day)	1.25%	1.25%	1.25%	1.25%
Payment accelerator (14 day)	-	-	-	0.95%
Total fees (5 day terms)	5.00%	4.00%	3.25%	2.50%
Total fees (14 day terms)	-	-	-	2.20%
Total fees (33 day terms)	3.75%	2.75%	2.00%	1.25%

\*Starter, Premium and Enterprise based on 12 month agreement

**Corporate Display Advertising Fees**

The Company will also be introducing a range of advertising and promotional tools to help suppliers launch new products, build their brands and expand into new markets. The introduction of this new revenue stream over the course of FY2023 is expected to help offset the decrease in average blended margin achieved via Marketplace trading fees, by providing an avenue for brand development, advertising and marketing budgets of existing customers to be spent on the platform.

### **New Rate Card**

The Company is pleased to announce that **Kaddy Fulfilment's** new rate card comes into effect from 1 July 2022. It is expected to lift total revenues generated in the Fulfilment division by circa 10% from Q1 FY2023 onwards. This is in addition to the Fuel Levy (currently 8%) that was introduced in April 2022, to offset the significant increase in transport costs that the Company has absorbed over the last two years.

While this year's price increase is higher than normal, it takes into account the fact that the Parton Wine Distribution (now part of Kaddy Fulfilment) only increased their rates once in the last two years as an effort to support its customers through the long periods of lockdown due to Covid-19.

### **According to Kaddy's Head of Commercial, Rich Coombes:**

*"The larger suppliers and distributors in the industry operate on very slim margins. Despite all of the efficiencies and benefits that our integrated Kaddy Marketplace and Fulfilment platform brings, the feedback we have been getting is that a Marketplace commission rate of 5% is simply not commercially viable for the big end of town who want to process large volumes of orders through our platform.*

*To offset this, some suppliers have been increasing their product prices listed on Kaddy Marketplace to cover the commission which impacts our competitiveness and in turn has hampered our GMV growth over the last 3-6 months. Unlike smaller operators, the large producers and distributors have strong balance sheets and aren't as reliant on accelerated payments so they can afford to wait ~30 days to get paid.*

*We expect the new pricing model will help us onboard the largest suppliers in the industry and expand the product range currently available, adding the highly commercial products that many of our buyers are looking for. Typically these mainstream products are available via more than one wholesaler, so the reduced Order Processing Fees and competitive tension to retain market share should help us offer buyers very competitive pricing, driving our marketplace GMV growth.*

*Ultimately the new pricing model strategy will increase the number of suppliers and products, in turn, helping attract more buyers, drive higher transaction volumes and increase our average basket size, which is currently circa \$600-650 per order.*

*At the same time, we are aware of the inflationary impacts our suppliers are facing in terms of input costs, their global supply chains and interest rates rise. Our new tiered membership model will offer greater choice and flexibility to our customers and thereby offer some respite."*

### **Expected Benefits**

The Kaddy Membership Program, and new pricing model has been undergoing testing for several months. Feedback from existing suppliers so far has been extremely encouraging, allowing the program to be officially launched immediately.

The introduction of the program, which offers benefits and savings across the whole platform is expected to help increase the overlap of suppliers using both Marketplace and Fulfilment services.

This cross pollination of services will be enhanced by the soon to be completed migration of the Parton Wine Distribution (now part of Kaddy Fulfilment) existing supplier base onto the Kaddy CONNECT platform, allowing Kaddy Marketplace orders to be automatically picked, packed and fulfilled.

The reduction in the headline Order Processing Fee to just 1.25% is anticipated to tip many of these larger producers, distributors and wholesalers currently sitting in Kaddy's potential supplier pipeline over the line. We also expect the reduced Order Processing Fee will help generate a deeper level of engagement with existing suppliers and encourage their customers and own sales representatives to put more orders through Kaddy Marketplace to take advantage of the inherent benefits such as reduced administration, guaranteed payments and easy reordering.

Finally, the introduction of a range of advertising and promotional tools will provide a channel for the 1,200 brands the company currently works with to launch new products, build their brands and expand into new markets developing stickier supplier relationships and a new high margin revenue stream.

**Project One Savings**

The Company is pleased to advise that a further \$1m p.a. or \$250k per quarter of operational cost-savings and synergies has been released via Project One. This in addition to the \$3m p.a. of savings and synergies previously announced (see [ASX announcement](#) 10 March 2022).

Total cost-savings and synergies to be achieved from Project One now amount to **\$4m p.a.**, significantly reducing the Product Manufacturing and Operating Costs and Staff Costs of the Company from the levels reported in Q2 and Q3 FY2022. We expect further cost savings, synergies and efficiencies achieved across the Fulfilment division to be confirmed in the next quarterly activities report.

While most of the cost-saving initiatives will have been implemented by the end of June, the full effect of the savings will become visible in the Q1 FY2023 (September quarter) 4C report.

Importantly, Project One also releases new revenue generation opportunities and deeper levels of supplier engagement while preparing Australia's leading B2B beverage marketplace for the next phase of growth.

**Trading Environment & Outlook**

As flagged in our March Q3 FY2022 quarterly report, Kaddy Fulfilment division faced a number of operating challenges which have now been largely rectified. These include staffing shortages due to Covid in the area of delivery drivers and warehouse pickers, and was compounded as a result of new customer account wins, hampering our ability to meet the increase in demand.

As we move into FY2023 we expect Kaddy Fulfilment division (ex corporate overheads) to move from loss making and become profitable. This marks a significant turnaround in the division's business performance following on from the successful acquisition of Parton Wine Distribution, completion of Project One (post merger integration to release savings and synergies), implementation of the fuel levy and the release of a new rate card.

Moving forward our plan is to allow the Kaddy Fulfilment division to grow organically, reinvesting the majority of profits that the division generates into scaling the Kaddy Marketplace division. A core part of this will involve the roll out of strategies designed to increase the overlap of existing Kaddy Fulfilment customers using Kaddy Marketplace, which currently is small and presents DW8 with a large opportunity to vertically integrate suppliers.

While the Kaddy Marketplace division is still in the early stage investment phase, we expect initiatives such as the new pricing model and introduction of new revenue streams will accelerate its market penetration and reduce the time required for this division to reach breakeven. We are also very focused on delivering the substantial savings and synergies currently underway and to show these benefits from Q1 FY2023.

**END**

This ASX announcement was approved and authorised for release by the Board of Directors.

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## DW8 Limited (ASX: DW8)

DW8 is an Australian publicly listed technology company that operates **Kaddy**, a unique and innovative platform which provides beverage suppliers an end-to-end supply chain solution that allows them to connect with buyers, simplify operations, streamline payments and fulfill both trade and consumer orders.

Our platform consists of the following divisions:

**Kaddy Marketplace** is a one-stop shop for wholesale beverages discovery, ordering, invoicing and payments. Buyers have access to a broader range of products, a streamlined ordering and invoicing process, and flexible payment options. Suppliers can also connect with a diverse range of venues and retailers, creating opportunities to simplify back-office functions, increase sales opportunities, distribution and reach while improving cash flow.

**Kaddy Fulfilment** offers the beverages industry a suite of specialised fulfilment solutions, including warehousing, inventory management and nationwide delivery services. With a dedicated fleet servicing major capitals across Australia, it provides suppliers with a fast, efficient and reliable delivery solution.

**Kaddy Community** is a social networking platform designed to provide like-minded beverage industry professionals access to a forum to share their news, reviews, views, insights and latest announcements.

Kaddy plans to solidify its presence in Australasia before expanding the platform into other key markets such as the UK, Europe, USA, Canada, Hong Kong and Singapore.

Kaddy generates revenue via:

- Order processing fees (% of the order value)
- Accelerated payment fees (% of the order value)
- Fulfilment fees (storage, picking, packing, handling & freight)
- Membership fees (SaaS subscriptions)
- Corporate display advertising fees (advertising, promotions & product placement)

### Forward-Looking Statements

*This document may include forward-looking statements. Forward-looking statements include, but are not limited to, statements concerning DW8 Limited's planned operations and other statements that are not historical facts. When used in this document, the words such as "could", "plan", "estimate", "expect", "intend", "may", "potential", "should", and similar expressions are forward-looking statements. Although DW8 Limited believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements.*