

A year of growth and international expansion

iLOQ Annual Report 2018 CEO's review
with Heikki Hiltunen

The financial year 2018 was significant for iLOQ in many ways. In addition to breaking records in terms of the company's revenue and manufacturing numbers, growth was significant in all areas of business. iLOQ's growth outpaced the growth of the digital locking solutions market, which in itself keeps gaining ground on the traditional mechanical locking market with a growth of approximately 10%. iLOQ's rate of growth is fast, and in 2018 we recorded a growth of 25%, also increasing our share of this expanding market.

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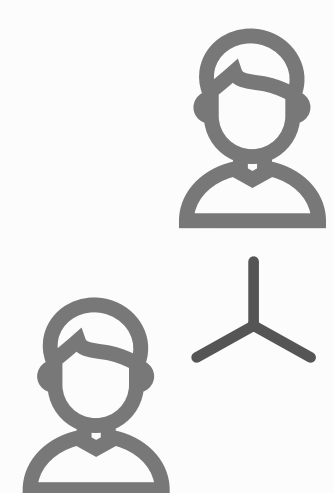
Internationalization has been an important growth theme for iLOQ. The past year saw several new sales offices open in Europe, in both France and Spain. Several more are in the planning phases. Finland remained our biggest market in 2018, but the share of business coming from outside our strong home market keeps on growing. Last year well over 60% of growth came from outside of Finland, and we project that this number could reach 80% as early as next year.

The fastest international growth for iLOQ was recorded in Germany and Sweden, both reaching all their set targets. Norway continues to look promising while work continues also in the Netherlands. The new offices are also already bringing in new business as we speak.

To be able to continue meeting growing demand, we also secured a contract with a new manufacturer for components in Malaysia. A second source will help us secure availability and maintain our competitiveness as volumes continue to grow. On January 17th, 2019 iLOQ delivered its one millionth lock cylinder to the market. Also, we are rapidly approaching the milestone of 2 million delivered keys.

Building a bigger and stronger presence

Growth in 2018 was not just limited to business performance. The headcount at iLOQ almost doubled with a total of 44 new people being hired. Emphasis has been placed on strengthening critical functions that support the development of our business. This includes the sales and marketing organizations as well as financial and HR departments, which play an important role as we continue to grow.



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In terms of building our marketing organization and developing our brand, 2018 was a particularly active year. Key recruitments were made to boost our marketing communications knowhow and capacity in-house, and as an integral part of iLOQ's 15th anniversary celebrations we launched our new brand identity. The new visual identity and “making life accessible” -customer promise has been well received by our internal audience as well as customers at home and abroad.

The brand development project headed by our CMO, Joni Lampinen, helped define where we stand today as a company and the direction in which we see ourselves going. Our brand reflects our values and communicates our dedication to putting people first. As we continue to grow, we will continue to focus on what makes us unique and competitive. We are leading innovators in self-powered digital and mobile access management, providing solutions designed to make life easier.

To reach growing audiences and new markets and segments, we will continue to develop and build our digital business platform and social media presence in years to come. We don't only want to build brand awareness and reputation, but also continue to be active in raising hot topics and leading the conversation about the future of digital access management and the opportunities it presents to people. Digitalization is not only the core for our products and our marketing approach, but it will also continue to play a bigger role in customer service and partner training.

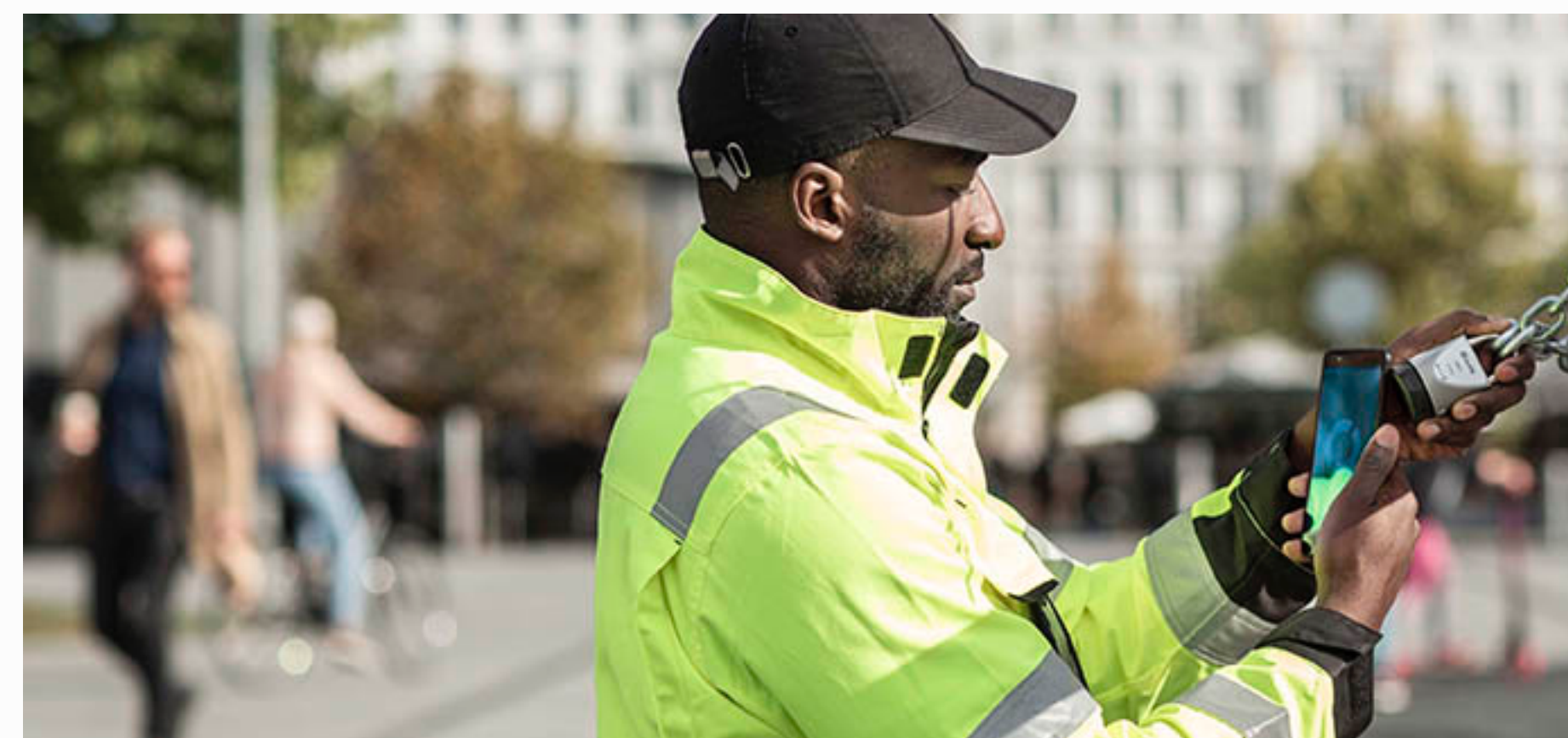
The right products for the market

While skilled and committed employees and a strong brand may go a long way, the real key to our success still lies in our products. The quality of our products has continued to improve and develop, and customer satisfaction is up. Digital access management is becoming a topic that is gaining more and more attention as the mechanical locking market continues to feel the squeeze. The market share of mechanical locking solutions has decreased steadily. The future is digital, and we are determined to continue leading the way.

The iLOQ S10 continues to be a strong cornerstone for our business. Focusing our efforts into one core product for the residential market with models that ensure universal usability has proven to be a winning formula. Instead of spreading ourselves thin, we have concentrated our knowhow into a solution that brought in the bulk of our business in the past year. The ten years we have spent at the forefront of developing cloud-based solutions for digital access management is paying dividends. All the while our R&D and testing functions are hard at work in Oulu, developing new solutions and functionalities.

The introduction of the iLOQ S50 mobile access management solution was an important milestone for 2018. It shows our capability to bring all-new innovations to market, and it has captured the attention of our competitors, the market and the media alike. This new addition to our portfolio opens up a new customer segment, the utility industry, for whom the benefits of the iLOQ S50 are undeniable. With the first projects under way in Finland and in Europe, the response from our utility sector customers has been overwhelmingly positive. Going forward we expect the iLOQ S50 solution to pick up quickly in sales and become a second strong stream of revenue.

We have modified our sales organization to allow us to cater to the new customer segment that the iLOQ S50 has created. Even though the solution has had interest in the private residential sector as smart home technology continues to become more desirable, we are currently concentrating our efforts into project sales for utility providers such as data centers, telecom operators, energy companies and larger property services companies. Smart homes are however an interesting proposition that we will continue to look into moving forward.



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The future looks increasingly digital

Looking ahead into next year, we want to continue on our path of growth. We will continue to invest in building our brand and developing our business. The residential sector is likely to remain our most lucrative business across Europe. The greatest growth is expected to come from outside of Finland, mostly from Central Europe. Sales of the new iLOQ S50 product are expected to pick up, boosting the share of business coming from the utility and industrial sector.

Digitalization and urbanization will likely continue to be the most predominant global mega-trends driving the access management and locking industries. Ensuring and communicating the safety of cloud-based software-driven solutions will be important moving forward. In a world of misinformation and scare tactics, customer and consumer confidence will play an increasingly important role.

We will continue with strict product testing and external audits while actively promoting open, fact-based discussion on the topic of cyber security and the superior safety of digital access management over traditional mechanical locking. As product leader in our chosen field, we want to continue leading the way into a future free of mechanical locking. This obviously also means that we will continue to develop new technologies, features, products and service models to best serve our changing world and business landscape.



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