SPACETALK

Q3 FY23 Update

Continued focus on business reset to enable sustainable future growth.

April 2023

Spacetalk Ltd. (ASX:SPA)

spacetalk.co

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All dollar values are in Australian dollars (A$) unless otherwise stated. Definitions:

- FY = full financial year ended 30 June
- Q32023 = Third quarter 2023 financial year ended – period ending 31st March 2023

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3 Business priorities

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Hello

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Building for the Future

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Q3 - Cash position improved with neutral free cash flow and continuation of the business reset to achieve sustainable future growth.

Important milestones achieved as well as key leadership team appointed:

- **Q3 FY23 Highlights:**
- Critical steps actioned to reduce annualised cost and complexity.
- Improved cash position of +$1.1 million with neutral free cash flow.
- Annual recurring revenue (ARR) +4% quarter on quarter, to $7.8 million (+24% versus PCP).
- Recurring revenue now represents over 60% of total revenue.
- Revenue -30% versus the prior corresponding quarter (PCP) to $3.0 million, primarily impacted by timing of budget watch replacement.
- Strong cash balance of $5.3 million to support growth plan.
- Preview of Spacetalk's refreshed strategy to be provided no later than Wednesday, 10th May 2023, with significant progress already underway.

- **Key leadership team appointed to support future strategy.**
- Simon Crowther as Chief Executive Officer (CEO) and Managing Director
- Craig Boshier as Chief Operating Officer (COO)
- Chris Neary as Chief Marketing Officer & Head of Digital (CMO)
- Tonderai Maenzanise as Interim Chief Financial Officer (CFO)
- Steven Fenton as Vice President Sales; and
- Susan Graney as Chief Financial Officer (CFO) from 1 May 2023

Critical steps have also been actioned to reduce annualised cost and complexity

Future growth will be anchored to a strategic plan to be released to ASX no later than Wednesday 10th May 2023.

Already underway/work-in-progress

- Paramount focus on profitability in ANZ, continue to manage costs effectively
- Global operational review well underway with action to temporarily suspend European and US operations in progress
- Improving internal systems and process to drive efficiency and better decision making
- Re-instate positive organisational culture.

Preview of refreshed Spacetalk strategy

- Increase focus on subscription revenue, evolve towards a software-led, hardware-enabled business
- Significantly re-negotiate and improve retail margin performance in Australia & New Zealand
- Less reliance on discounting and increased emphasis on value-add features and promotions
- Successful launch of new Adventurer 2 watch (targeting mid-May 2023)
- Launch of new budget watch in FY24
- Increased focus on building schools' business
- Activate seniors' segment.

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Financial highlights

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Q3 Free Cash Flow

$0m

Excludes one off non- recurring restructuring costs

Q2 2023: $0.4m

Cash in bank

$5.3m

+26% vs 2Q

Q2 2023: $4.2m

ARR

$7.8m

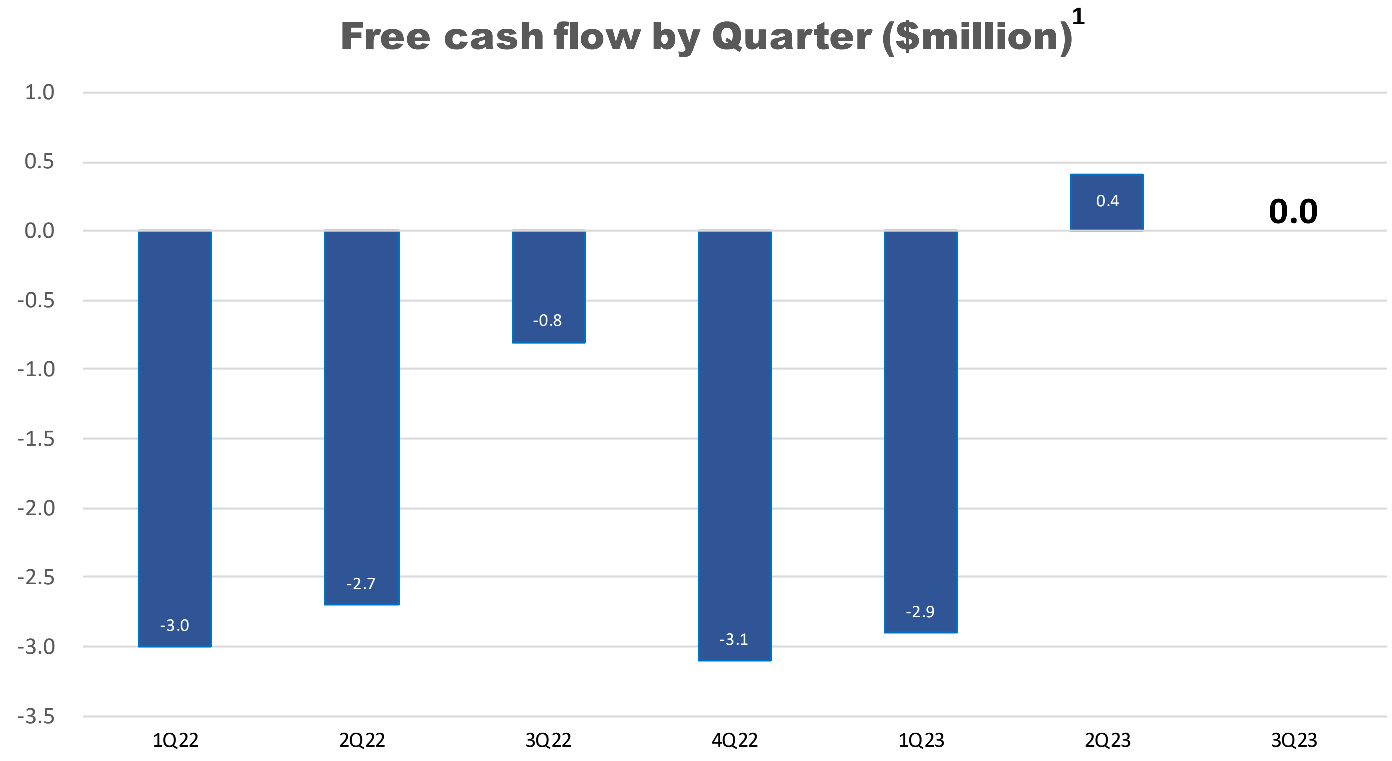
+47% wearables PCP

-10% Schools PCP

Q2 2023: $7.5m

Unaudited results

Cash generation momentum sustained



- Positive Q3 cash position, with neutral free cash flow of $0 million, normalised for $0.6 million of non-recurring, one-off restructuring costs
- Cash generation improvement versus prior corresponding period (PCP) reflects focus on working capital and opex reduction, despite lower revenue and gross margin
- Strong cash balance of $5.3 million at 31st March 2023 to support refreshed strategy.

1. Cash flow represents changes in cash and cash equivalents excluding financing activities +$1.5m, nonrecurring restructuring costs of -$0.6m and exchange gains of $0.2m.

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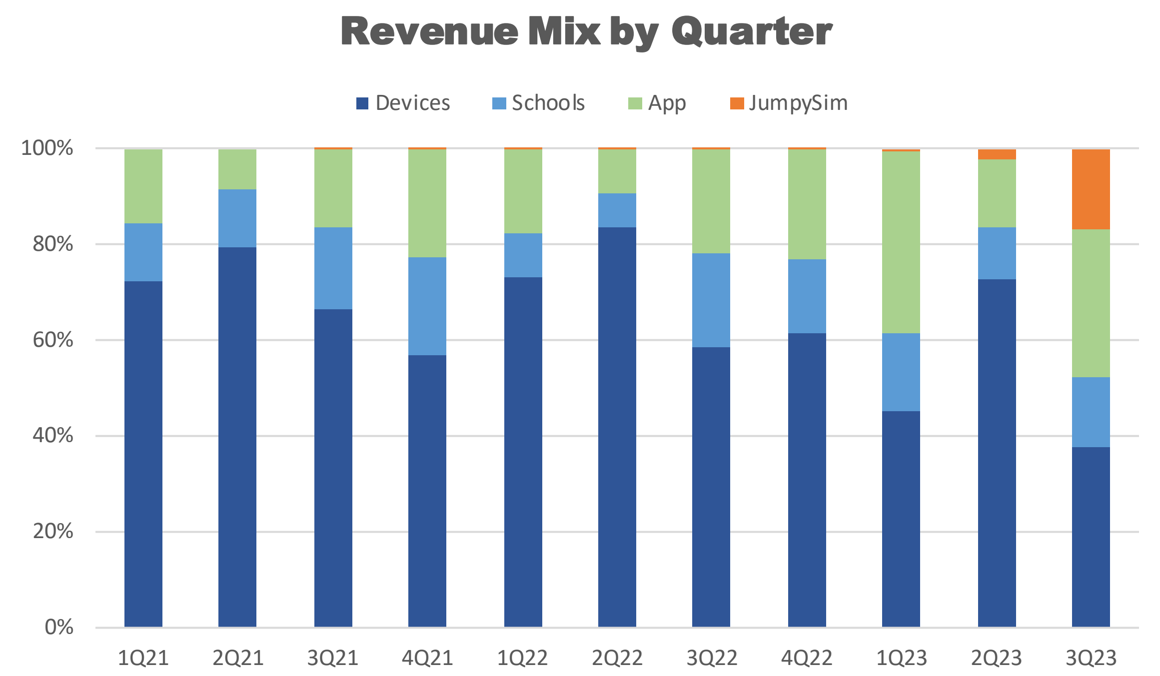
Favourable mix - shift to recurring revenue



- Growth in App and JumpySIM revenue is a favourable mix-shift, notwithstanding lower Q3 revenue overall
  - Collectively contributing 48% of Q3 revenue (versus 22% PCP)
  - Higher margin revenue versus devices
  - Ongoing mix-shift to assist in driving higher future profitability overall.
- Total Recurring revenue now >60% of total revenue at $7.8 million for Q3/2023.

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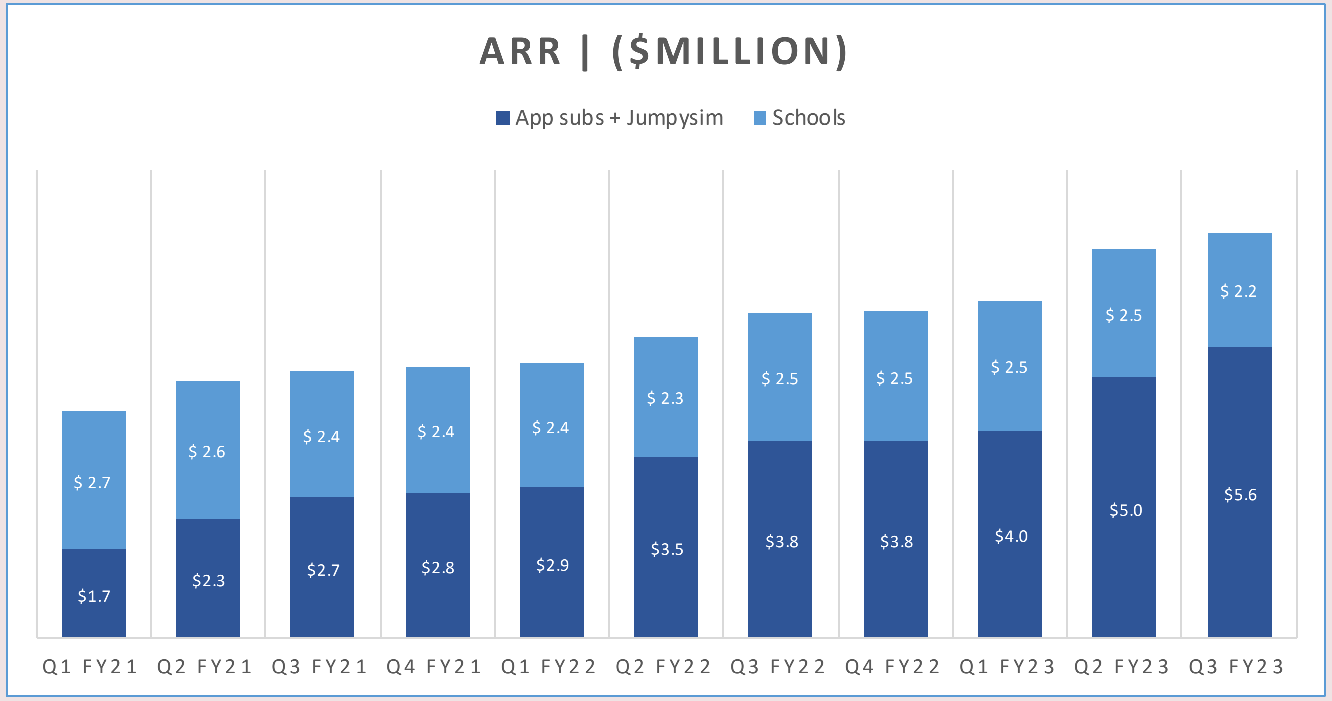
Annual recurring revenue (ARR) growth in line with strategy focus



- ARR +24% versus PCP, reflecting impact of JumpySIM revenue growth
- JumpySIM now represents >20% of ARR (versus 0% PCP)
- Increase in ARR reflects sharpened focus on generating higher-yielding software revenue (ARR margin superior to devices margin)
- Renewed focus on building recurring schools revenue
- Recurring revenue now >60% of total revenue.

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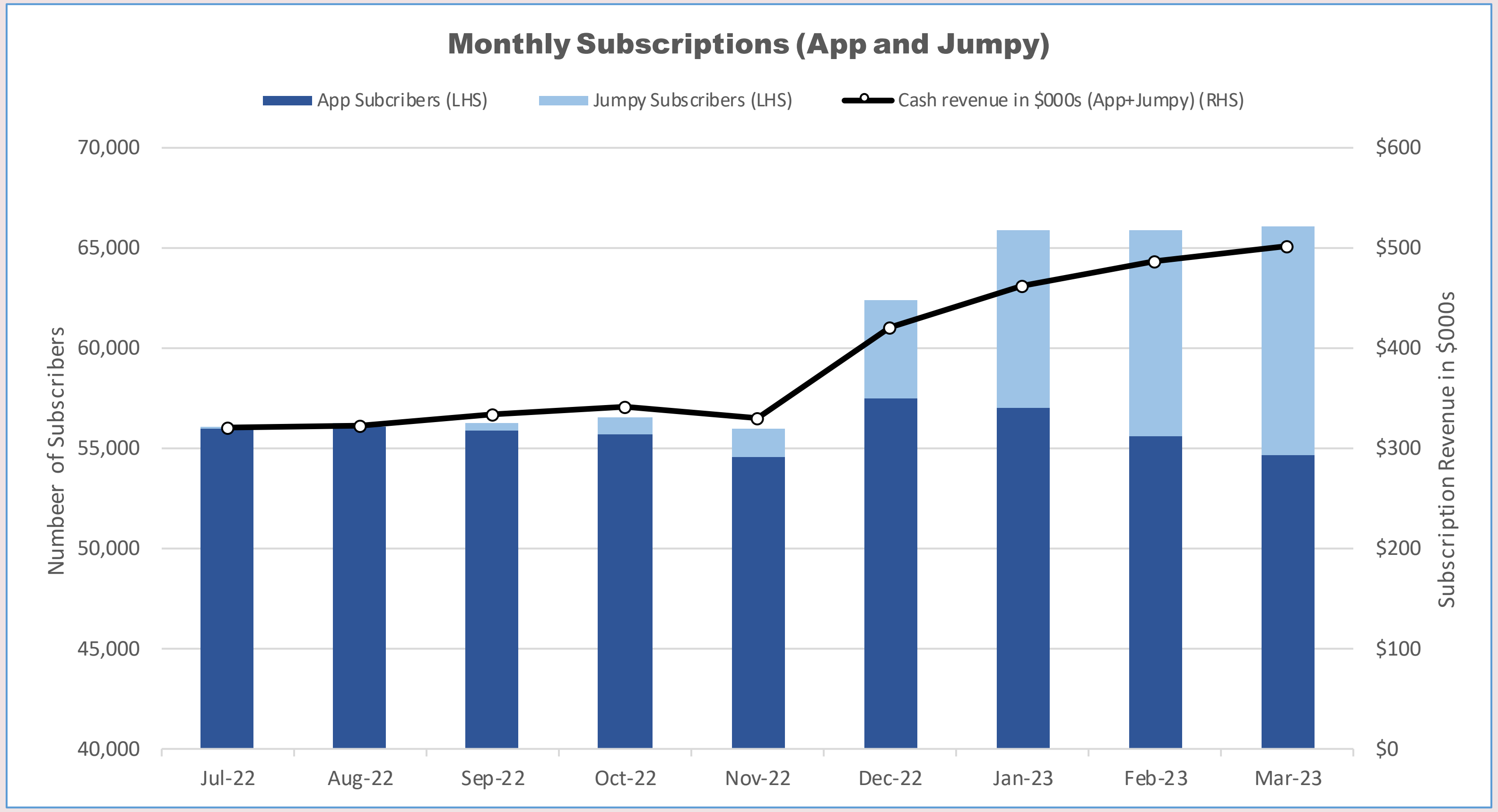
JumpySIM and App subscriber growth since launch



Revenue is cash received from subscribers, not accounting revenue.

- Total subscriptions (App and JumpySIM) +18% since JumpySIM launch in July 2022
- Over 11,000 JumpySIM subscriptions added since launch
- Migration from App to JumpySIM, upsell opportunities realised
- Strong JumpySIM cash generation, producing negative working capital
- Average revenue per user (ARPU) higher for JumpySIM, compared to App.

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Business priorities

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Q4 focus

01 Successful launch of new Adventurer 2 watch (targeting mid-May)

02 Continued sell out of Adventurer 1 inventory

03 Reset retail margins & secure new channels

04 Strategy update with Investors
No later than Wednesday 10th May 2023

05 Ongoing reduction of costs and complexity

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Risks

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Material Business Risks to Strategy and Financial Performance

The Group proactively identifies and manages material risks that may impact the success of the Group's (also referred to as "Company") strategy and future financial performance. The principles and approaches for the Group's risk management are a core part of the Group's governance framework.

The Group's risk management approach involves the ongoing assessment, monitoring and reporting of risks, which could impede the Group's progress in delivering the Group's strategic priorities. The Group is faced with some inherent risks, despite the existence of a risk management framework, some of which are not directly within the Group's control.

The key risks faced by the Company are set out below, in addition to other risks that may rise from time to time.

Risk Type	Risk
Cyber Security	The Company stores data in its own systems and networks and with a variety of third-party service providers. Corruption, theft, or loss of the data because of misuse, exploitation or hacking of any of these systems or networks could lead to corruption, theft or loss of the data which could have a material adverse effect on the Company's business, financial condition, and results. Further, if the Company's systems, networks or technology are subject to any type of 'cyber' crime, its technology may be perceived as unsecure, which may lead to a decrease in the number of customers.
Product Development	The Company's products are the subject of continuous development and need to be substantially developed further in order to gain and maintain competitive and technological advantage, and to improve the products' functionality, usability and scalability. There are no guarantees thatthe Company will be able to undertake such development successfully. Failure to successfully undertake such research and development, anticipate technical problems, or estimate research and development costs or timeframes accurately will adversely affect the Company's results and viability.
Technology	The Company's market involves rapidly evolving products and technological change. The Company cannot guarantee that it will be able to engage in research and development at the requisite levels. The Company cannot assure investors that it will successfully identify new technological opportunities and continue to have the needed financial resources to develop new products in a timely or cost-effective manner. At the same time, products, services and technologies developed by others may render the Company's products and services obsolete or non-competitive.
Product quality and availability, and supply chain	The Company is dependent on third party suppliers and electronic manufacturing service providers to produce its wearable products. The Company's electronic manufacturing services providers are located in Southeast Asia and are subject to supply chain and geostrategic disruptions. Any disruption to third party supply chains or the supply of its products could have a material impact on the availability of the Company's products for distribution. If the Company is not able to manage these risks, it may not be able to meet existing order demand. This may in turn have a negative impact on the Company's ability to attract new distributors if the Company suffers any reputational damage due to supply issues. The combination of these factors could adversely impact the Company's operating and financial performance.
Funding Risk	The Company has a fully drawn debt facility that matures in March 2025, with the first tranche payable in July 2024. If the Company is unable to repay or refinance its debt facility upon its expiry, the Company's ability to operate its business and its financial performance will be materially impacted. Furthermore, the Company is likely to require additional capital in order to support and implement its growth plans. The Company's ability to obtain additional capital, if and when required, will depend on its business plans, investor demand, the capital markets and other factors. If the company is unable to obtain additional capital when required or is unable to obtain additional capital on satisfactory terms, its ability to continue to support its business growth or to respond to business opportunities, challenges or unforeseen circumstances could be adversely affected.

Material Business Risks to Strategy and Financial Performance

Risk Type	Risk
Climate Risk	There are a number of climate-related factors that may affect the operations and proposed activities of the Company. The climate change risks particularly attributable to the Company include: (a) the emergence of new or expanded regulations associated with the transitioning to a lower-carbon economy and market changes related to climate change mitigation. The Company may be impacted by changes to local or international compliance regulations related to climate change mitigation efforts, or by specific taxation or penalties for carbon emissions or environmental damage. These examples sit amongst an array of possible restraints on industry that may further impact the Company and its profitability. While the Company will endeavour to manage these risks and limit any consequential impacts, there can be no guarantee that the Company will not be impacted by these occurrences; and (b) climate change may cause certain physical and environmental risks that cannot be predicted by the Company, including events such as increased severity of weather patterns and incidence of extreme weather events and longer-term physical risks such as shifting climate patterns. All these risks associated with climate change may significantly change the industry in which the Company operates.
Systems Disruption and Outages	The Company is dependent on the effective performance, reliability and availability of its technology platforms, software, third party data centres and communication systems. Therefore, there is a risk that the infrastructure and technology solutions supplied by the Company may not be functional, faulty, or not meet customers' expectations. This may lead to requirements for the Company to repair or improve its products after sale, which may diminish operating margins or lead to losses. The Company may also face claims from customers if the service does not meet standards contractually agreed upon.
Government regulation	The Company is subject to federal and state laws and regulations that govern its business activities in the jurisdictions in which it operates. Government regulation and oversight of the digital economy is constantly evolving and may change in a manner that is unfavourable to the Company. While the Company is increasingly focusing attention on the development of internal compliance procedures, these may not be sufficiently sophisticated enough to ensure compliance with all relevant laws and regulations across all the jurisdictions it operates. Failure to comply with government regulations may affect the Company's ability to generate revenues from the sale of goods and services internationally, which could have a material adverse effect on the Company's business, financial condition and results of operations.
Regulatory	The Company is subject to continuing regulation, including quality regulations applicable to the manufacture and operation of its products. The Company has policies and procedures in place which are designed to ensure continuing compliance with applicable regulations for its existing products in the jurisdictions in which it operates. There can be no guarantee that the regulatory environment in which the Company operates may not change in the future which may impact on the Company's existing approvals and products.
Economic	General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's activities as well as on its ability to fund those activities. The Company's accounts and most of its operating costs are denominated in AUD. However, several of its supplier costs are denominated in USD, in particular the costs of its wearable devices. The Company also maintains operations in North America, the United Kingdom, continental Europe and New Zealand and generates revenues and incurs expenses in local currencies.

Material Business Risks to Strategy and Financial Performance

Risk Type	Risk
Reliance on key personnel	The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees cease their employment.
Loss of key customers	The Company has established a small number of key customer relationships in connection with the sale of its products. The loss of one or more key customers, or a diminution in their custom, may materially and adversely impact the Company’s revenue and profitability.
Security	As with all technology companies, the Company is reliant on the security of its products and associated technologies. Breaches of security could impact user satisfaction and confidence in its products, and some breaches, including cyber-attacks, could render the services and related products unavailable through a disrupted denial of service or other disruption. Unavailability of the Company’s services could impact the Company’s financial performance. Further, it could hinder the Company’s ability to retain existing customers.
Competition	The industry in which the Company operates is subject to competition. Current or future competitors may produce new, better, or cheaper products and solutions. The Company’s competitors include both small and medium enterprises and large, established corporations or multinationals. Those may decide to enter the Company’s target markets and be able to fund aggressive marketing strategies. They may also have stronger financial capabilities than the Company which may negatively affect the operating and financial performance of the business.
Price	The price of the Company’s products may be too high compared to other products, in particular within emerging markets. Where there is a high price pressure, this may lead to difficulties in the market acceptance for the Company’s products, as customers may switch to cheaper products, which may require the Company to decrease its prices. As a result, there could be lower operating margins.
Intellectual property	A substantial part of the Company's commercial success will depend on its ability to establish and protect the Company’s intellectual property to maintain trade secret protection and operate without infringing the proprietary rights of third parties. The underlying technology on which the commercial value of the Company’s intellectual property assets is dependent on the availability, scope and effectiveness of any relevant legal protections. These legal mechanisms, however, do not guarantee that the intellectual property will be protected or that the Company's competitive position will be maintained. No assurance can be given that employees or third parties will not breach confidentiality agreements, infringe or misappropriate the Company's intellectual property or commercially sensitive information, or that competitors will not be able to produce non-infringing competitive products. Competition in retaining and sustaining protection of technologies and the complex nature of technologies can lead to expensive and lengthy disputes for which there can be no guaranteed outcome. There can be no assurance that any intellectual property which the Company (or entities it deals with) may have an interest in now or in the future will afford the Company commercially significant protection of technologies, or that any of the projects that may arise from technologies will have commercial applications. Additionally, securing rights to (or developing) technologies complementing the Company’s existing intellectual property will also play an important part in the commercial success of the Company. There is no guarantee that such rights can be secured, or that such technologies can be developed.

This announcement has been authorised by the Spacetalk Board

Spacetalk Ltd. (ASX:SPA) is a global technology provider of secure communication solutions for families to stay connected and protected.

Spacetalk's range of all-in-one smartphone GPS watches for children (Spacetalk KIDS and Spacetalk ADVENTURER) and seniors (Spacetalk LIFE) are purpose built with tailored features, design qualities and best practice data encryption, security and privacy technologies, for families to stay confidently connected. Fun, fashionable, secure and technologically advanced, Spacetalk devices deliver confidence for the child and senior wearer, enhanced controls for the guardian, and engaging functionalities for the whole family to stay connected.

The Spacetalk App is designed to provide a family environment for fun, engaging and secure media consumption beyond its device control functionalities for the guardian. Every linked contact – parents, grandparents, extended family members and friends – regardless of whether they are Android or iOS users, can interact with linked Spacetalk devices and each other through the Spacetalk App.

Spacetalk was founded in 2001 and listed on the ASX in 2003 as MGM Wireless Limited, which developed the world's first SMS student absence notification platform for schools and went on to become Australia's most successful school messaging company. On 12 November 2020 the Company changed its name to Spacetalk Ltd.

Investor Centre: https://investors.spacetalk.co

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Thank You

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