



ASX Announcement

27 July 2023

XPON Q4 FY23 activity report and Appendix 4C¹

XPON Technologies Group Ltd (ASX:XPON) (XPON or the **Company**), a marketing technology and cloud business providing mission-critical software and solutions to corporate and mid-tier enterprises in Australia, New Zealand, the United Kingdom, and Europe, is pleased to release both its FY23 preliminary financial highlights (unaudited) and quarterly activity report / Appendix 4C quarterly cash flow statement for the three-month period ended 30 June 2023.

Key Highlights

- **Delivered continued growth in financial results during FY23** with revenue, gross profit and gross profit margin of **\$15.1m, \$10.4m and 69%**, respectively
- **Implemented more streamlined organisational structure** to drive towards profitability and realign the cost base to market conditions - estimated annualised cost savings of at least **\$3m**
- **28** new customers landed and **44²** existing customers expanded during the year
- **Normalised net operating cash flow³** improved by \$0.3m from Q3 FY23 to a loss of **\$0.8m** in Q4 FY23
- Sufficient cash balance of **\$4.4m** as at 30 June 2023 to maintain strategy and drive growth
- On-track for achievement of **targeted cash flow break-even in FY24** with meaningful contribution from App modernisation revenue expected to remain in the mix

Key Annual Financial Metrics - FY23 vs FY22¹

	FY23	+/- FY22
Revenue	\$15.1m	+13%
Gross profit	\$10.4m	+22%
Gross margin	69%	+4 pts

¹ Unaudited

² 30 unique customers expanded during the year

³ Excluding one-off restructuring costs incurred in Q4 FY23 of \$0.6m

Founder, Managing Director and Group CEO Matt Forman noted, “XPON continued to deliver growth in our financial results. Our full year revenue climbed 13% to \$15.1m, gross profit rose 22% to \$10.4m and gross margin increased by 4% ppts to 69%. We landed 28 new customers and expanded 44 existing customers, with 5 new customers landed and 7 existing customers expanded in Q4 FY23.”

“While these results were pleasing, it was a tough market through the latter half of FY23. This led us to restructure the business to realign the cost base to market conditions and drive towards profitability. The changes incurred one-off costs of \$0.7⁴m, however the result is a more streamlined business, focused on higher margin customers, driving scalable revenue and achieving annualised cost savings of at least \$3m.”

“The combination of UK market challenges and business restructuring impacted our Q4 FY23 results. Despite this, pleasingly, the Australian pipeline remains strong, and while lead times have lengthened, our attention is focussed on rebuilding momentum into FY24.”

“Normalised⁵ net operating cash flow losses in Q4 FY23 continued to improve, with a reported \$0.8m loss, an improvement of \$0.3m on the previous quarter. Our 30 June 2023 cash position stood at \$4.4m, which we believe is sufficient to support our target of achieving cash flow break-even in FY24.”

Key Financial Metrics - Q4 FY23 vs Q4 FY22

	Q4 FY23	+/- Q4 FY22
Revenue	\$2.4m	-35%
Gross profit	\$1.6m	-36%
Gross margin	66%	0 ppts

From an operating perspective there were a number of positive highlights, including:

- More streamlined organisational structure to drive towards profitability and realign the cost base to market conditions with estimated annualised cost savings of at least \$3m and \$0.7m¹ in one-off restructuring costs
- Landed 5 new customers and expanded 7 existing customers
- Maintained customer satisfaction with Net Promoter Score (NPS) of 88
- Recorded strong team engagement with Employee Satisfaction score of 90.2 for the year
- Commencement of Lisa Young as XPON CFO on 15 May 2023, who took over from Leanne Wolski
- Appointed Commercial Director, UK (commencing in August 2023)
- New Machine Learning (ML) models added to Wondaris, including “propensity to buy”

⁴ \$0.7m in one-off restructuring costs on a P&L basis (\$0.6m cash impact in Q4 FY23)

⁵ Excluding one-off restructuring costs incurred in Q4 FY23 of \$0.6m

Business Metrics

The recent review resulted in phasing-out low margin Australian small business customers and applying a more stringent criteria for recurring and non-recurring revenue categorisation. XPON will no longer include “App modernisation” revenue in the calculation of the ARR metric.

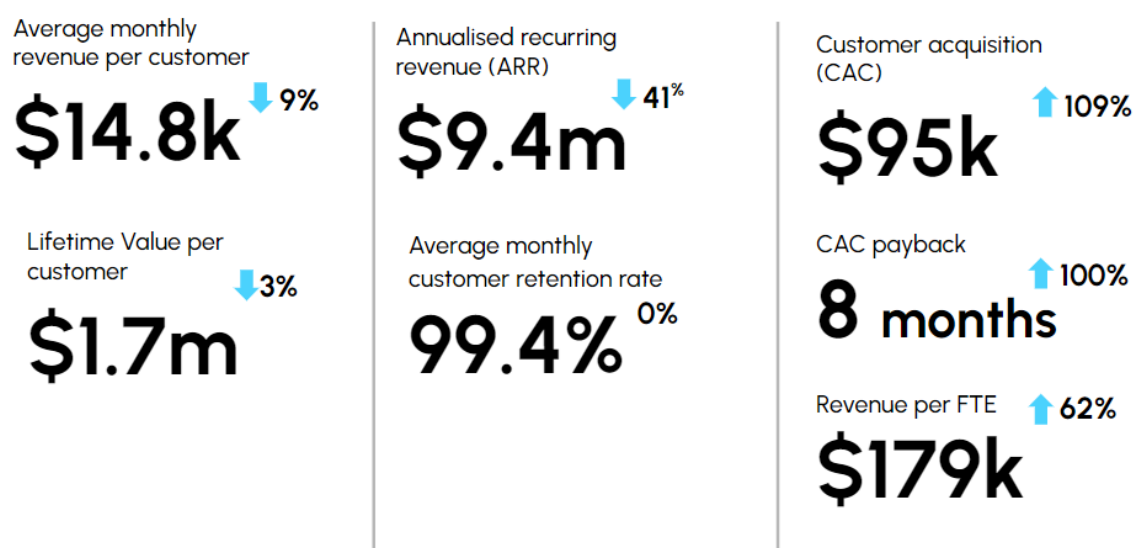
App modernisation will continue to be a driver of our Customer Experience (CX) offering and in FY23 it contributed \$5m to revenue.

When included in XPON’s calculation of ARR, it equated to approximately \$9m (as at 31 March 2023) of future annualised recurring revenue.

It is expected to generate ongoing non-recurring revenue and remain a meaningful contributor to the achievement of XPON’s FY24 cash flow break-even target.

In line with these changes, business metrics will now be calculated in reference solely to recurring revenue customers, with the exception of customer acquisition costs (CAC), CAC payback and Revenue per FTE (which will be calculated including all customers and revenue respectively).

Q4 FY23 vs Q4 FY22⁶:



During the quarter business metric highlights included:

- **Average revenue per customer (ARPC)** declined by 9% on the previous corresponding quarter to \$14.8k due to reduced usage fees and the normal fluctuation in realisation of revenue
- **Average Monthly Customer Retention Rate** was consistent at 99.4% during the quarter
- **Lifetime value per customer** declined in line with the softer ARPC
- **Revenue per FTE** rose 62% reflecting the reduction in team members, following the restructure
- **Customer Acquisition Costs (CAC)** increased by 109% to \$95k on the previous corresponding quarter due to reduced customer numbers and historical increased spend on sales and marketing activities
- **CAC payback** increased by 4 months to 8 months in line with the increase in the CAC, but still within our target range of under 12 months

⁶ Prior corresponding period metric movements are presented on a like for like basis (ie SME customers removed from PY comparative) and metrics are under adjusted revenue classification criteria

Cash Flow

XPON reported net cash flows from operating activities for Q4 FY23 of (\$1.4m). This included \$0.6m in one-off cash costs, relating to the operational review and associated restructuring of the business during the quarter. Excluding one-off costs, net cash flows from operating activities were (\$0.8m), an improvement of \$0.3m on the previous quarter and \$1.8m on the previous corresponding period (pcp).

Receipts from customers were \$3.4m for Q4 FY23, down 16% on Q3 FY23, and up 15% on the pcp.

Payments to suppliers, employees and others were \$4.8m for Q4 FY23, including \$0.6m in one-off costs. Before one-off costs, payments were down 19% on the previous quarter.

The Company's cash balance at 30 June 2023 was \$4.4m, down \$1.5m on the previous quarter. On a normalised basis, six quarters of funding remains available.

Outlook and Priorities in FY24

XPON remains committed to delivering on its cash flow break-even target in FY24 and to building a sustainable platform for long-term growth. The Company continues to focus on the following priorities:

- On target to achieve cash flow break-even in FY24 - recurring revenue and non-recurring project services revenue to drive outcome
- Focused cost management to maintain alignment with market conditions and drive towards profitability
- Continue to optimise the Company's product/services mix to enhance gross margin
- Continued focus on customer acquisition in key customer segments to drive high margin recurring revenue
- Ongoing investment in AI and ML enhancements and integrations to extend the Wondaris ecosystem
- Maintain high monthly customer retention rate and service quality (measured by NPS)
- Maintain strong corporate culture and high employee satisfaction
- Leverage Google channel partnership to further validate and grow new customer segments.

**This announcement is approved by the Board of Directors of XPON Technologies Group Limited
ACN 635 810 258**

-ENDS-

For further information, please contact:

investors@xpon.ai

For media inquiries, please contact:

marketing@xpon.ai

Glossary

Annualised Recurring Revenue (ARR):	represents monthly contracted recurring revenue multiplied by 12. An annualised measure of the revenue that XPON expects to earn from its customers on a repeatable basis. This metric shows the impact of new customer contracts less any churn from customers leaving or downgrading their contracts.
Average Revenue Per Customer (ARPC):	calculated as annual revenue for recurring customers for the last 12 months divided by the number of customers at that time (and divided by 12 to get a monthly view).
Customer Acquisition Costs (CAC):	calculated by total customer acquisition costs spent on acquiring customers over the last 12 month period divided by the number of customers acquired during the period. It includes 80% of the salary costs of all sales & marketing team members and 100% of sales commissions, advertising costs, costs for customer marketing activities and resources.
CAC Payback:	the average number of months that it takes for XPON to receive back its customer acquisition costs.
Lifetime Value (LTV):	LTV per customer is the gross profit expected on average from a recurring customer over their lifetime. This is calculated by taking the average customer lifetime (1 minus the monthly retention rate to get monthly churn, then 1 divided by churn) multiplied by ARPC, multiplied by the gross margin percentage for the last quarter. Total LTV represents the total gross profit XPON expects to receive from its current recurring customer base by taking the average LTV per customer and multiplying it by the number of recurring customers.
Monthly customer retention rate	the percentage of customers that are retained on a monthly basis and are not lost due to customer churn over the last 12 months (and divided by 12 to get a monthly view).
Non-recurring revenue	revenue realised from the sale of one-off project services, onboarding and implementation fees.
Recurring revenue	revenue realised from the sale of software licences, managed service subscriptions and usage fees.
Year-on-Year (YoY) ARR Growth Rate (%):	shows the change in XPON's ARR over a rolling 12-month time frame. This metric demonstrates the impact of the acquisition of new customers, the retention of customers and the expansion of existing customer contracts less any churn from customer's leaving or downgrading their contracts over a 12-month time frame.
Revenue per FTE	represents total revenue over the last 12 months divided by the FTE count at the end of the period

Appendix 1: Use of Funds

Pursuant to Listing Rule 4.7C.2, the Company confirms that, in the 20 months since listing on the ASX, it has incurred expenditures largely in line with the Use of Proceeds set out in its Prospectus, as detailed below. The Company is well-funded to achieve its strategic objectives and planned activities.

Use of Funds	Prospectus			Actual to date	Comments
	Year 1	Year 2	TOTAL		
Expenses of the Offer	\$1,801,587	-	\$1,801,587	\$2,181,162	XPON acquired a multi (7yrs) prospectus liabilities insurance policy instead of annual as it is more cost effective for the company
Sales & Marketing	\$2,038,500	\$5,075,000	\$7,113,500	\$2,466,059	Marketing investment and customer acquisition costs including new team members
Expansion of product development and delivery capacity	\$495,000	\$1,065,000	\$1,560,000	\$847,786	Additional team members to expand product development and delivery capacity
Capital expenditure	\$150,000	\$300,000	\$450,000	\$398,057	Tools (laptops etc) for new employees and new ERP (FinancialForce)
General working capital	\$660,000	\$914,913	\$1,574,913	\$1,234,771	Streamline payment terms for contractors to be consistent with the Group and general OPEX costs including new team members
TOTAL	\$5,145,087	\$7,354,913	\$12,500,000	\$7,127,835	

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

XPON TECHNOLOGIES GROUP LIMITED

ABN

37635810258

Quarter ended ("current quarter")

30/06/2023

Consolidated statement of cash flows		Current Quarter \$A'000	Year to date (12 months) \$A'000
1.0	Cash flows from operating activities		
1.1	Receipts from customers	3,383	16,848
1.2	Payments for		
	(a) research and development	(260)	(1,224)
	(b) product manufacturing and operating costs	(831)	(4,627)
	(c) advertising and marketing	(149)	(1,216)
	(d) leased assets	-	(58)
	(e) staff costs	(3,409)	(11,886)
	(f) administration and corporate costs	(310)	(1,769)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	5	19
1.5	Interest and other costs of finance paid	(2)	(3)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	133	217
1.8	Other (provide details if material)	-	-
1.9	Net cash from / (used in) operating activities	(1,440)	(3,699)
2.0	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(8)	(77)
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-

2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(8)	(77)

3.0	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(3)	(14)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.1	Net cash from / (used in) financing activities	(3)	(14)

4.0	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	5,914	8,237
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,440)	(3,699)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(8)	(77)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(3)	(14)
4.5	Effect of movement in exchange rates on cash held	(47)	(31)
4.6	Cash and cash equivalents at end of period	4,416	4,416

Reconciliation of cash and cash equivalents		Current Quarter	Previous quarter
5.0	at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	\$A'000	\$A'000
5.1	Bank balances	4,416	5,914
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	4,416	5,914

6.0	Payments to related parties of the entity and their associates	Current Quarter
		\$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	16
6.2	Aggregate amount of payments to related parties and their associates included in item 2	NA

Note: Payments in 6.1 relates to employee associate of CEO and motor vehicle leasing and operating costs for the CEO.

Financing facilities		Total facility amount at quarter end	Amount drawn at quarter end
		\$A'000	\$A'000
7.0	<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1	Loan facilities	92	92
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	92	92
7.5	Unused financing facilities available at quarter end		-
Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.			
7.6	National Westminster Bank plc The Group has a loan with National Westminster Bank plc at an interest rate of 2.5% for a term of 6 years. The bank debt is unsecured as part of the BBLs created by the UK Government in response to Covid-19.		

8.0	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,440)
8.2	Cash and cash equivalents at quarter end (item 4.6)	4,416
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	4,416
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	3 (see note A.1 below)
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>		
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
	8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer: N/A	
	8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	Answer: N/A	
	8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer: N/A	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>		

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 27 July 2023

Authorised by: The Board of Directors
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.

2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".

5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

A.1 Additional information over and above the minimum required:

The quarter includes the payment of \$621k of one-off restructuring costs following XPONs' previously announced operational review. Given this, on a normalised basis, the Q4 FY23 net cash used in operating activities would have been \$819k and accordingly 6 quarters of funding would have been available on that basis.