



ASX Announcement

1 February 2024

Amended Q1 FY24 Activity Report and Appendix 4C

XPON Technologies Group Ltd (ASX: XPN) advises that the Q1 FY24 Activity Report released on the ASX Market Announcements Platform on 25 October 2023 (together with the Appendix 4C) incorrectly stated on page 5 that “payments to related parties and their associates during the quarter totalled \$17k”. The correct amount paid to “related parties and their associates” during the quarter was \$135k, as detailed in item 6.1 in the Appendix 4C.

An amended Q1 FY24 Activity Report showing the correct related party payment amount is attached, together with the Appendix 4C which is unchanged.

This announcement has been approved and authorised for release by the Chairman of XPON Technologies Group Limited ACN 635 810 258

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About XPON

XPON Technologies Group Ltd (ASX: XPN) (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.



ASX Announcement

25 October 2023

AMENDED XPON Q1 FY24 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, has today released its quarterly activity report / Appendix 4C quarterly cash flow statement for the three-month period ended 30 September 2023.

Key Points

- The core Marketing Technology (MarTech) division has a solid and growing base of blue-chip customers with a strong pipeline
- Martech division remains resilient despite tightening customer marketing budgets, resulting in flat YoY quarterly growth
- Challenges in the non-core App Modernisation (App Mod) division are being addressed, with proposed divestment resulting in improved cash position and annualised cost savings of c\$1.3m
- Cost optimisation initiatives, resulting in a further \$1.5m in annualised cost savings implemented in October 2023
- Cash balance of \$2.8m as at 30 September 2023
- Cashflow break-even targeted for FY25 in light of current environment

Commenting on the quarterly results, Founder, Managing Director and Group CEO, Matt Forman said: "While trading conditions have delayed our cashflow break-even target to FY25, our core MarTech business revenue is resilient, with the MarTech pipeline up 55% year on year, and with a clear focus on this core business it will drive profitable growth."

"Trading conditions remained challenging in the first quarter of FY24. In response to market conditions, effective this week, XPON has initiated a further round of cost optimisation initiatives, which will see an additional \$1.5 million of annualised costs removed from the business."

"In order to prioritise focus on our MarTech business, the Company has made the decision to divest the AppMod division and is in discussions with potential buyers more aligned to a services business model."

¹ Unaudited

Strategic focus on core MarTech business

XPON has two business divisions:

- 1. Marketing Technology (MarTech):** Sells Google’s software (Google Marketing Platform, Google Cloud) together with XPON’s proprietary Wondaris software. XPON offers a recurring managed service subscription to clients to ensure they maximise value from these products.
- 2. Application Modernisation (App Mod):** Builds and deploys modern applications and customer experiences for clients. XPON develops these applications for its clients and offers a managed service subscription to maintain, enhance and upgrade them, with the objective to transition clients to XPON product licences.

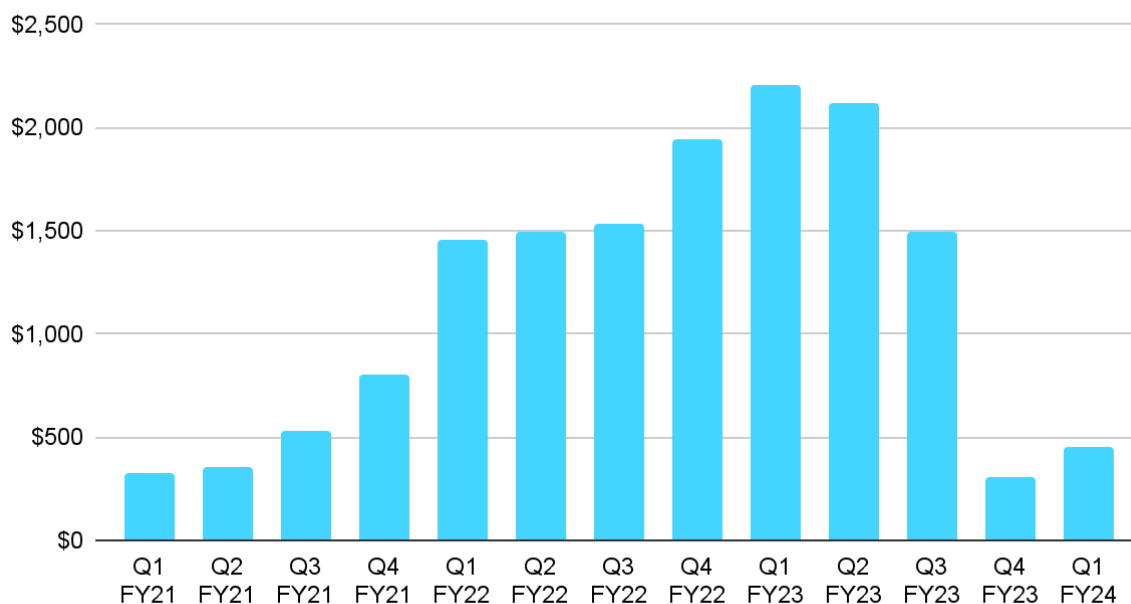
From IPO to Q1 FY23, App Mod growth was solid and quarterly services revenue grew from \$1.5m to \$2.2m.

Softer economic conditions in the UK led to key recurring contracts being paused in Q3 FY23 and were scheduled to resume in Q1 FY24. Whilst discussions indicate that these contracts will resume at a future date, this has not yet materialised.

The transition of App Mod customers to XPON product licences have also not materialised, with 1 client transitioned to date, and no clear path to further product licences.

The App Mod division generated revenue of \$0.4m during Q1 FY24 against \$0.6m of costs. This reduction in revenue and cash burn is not sustainable.

App Mod Revenue by quarter

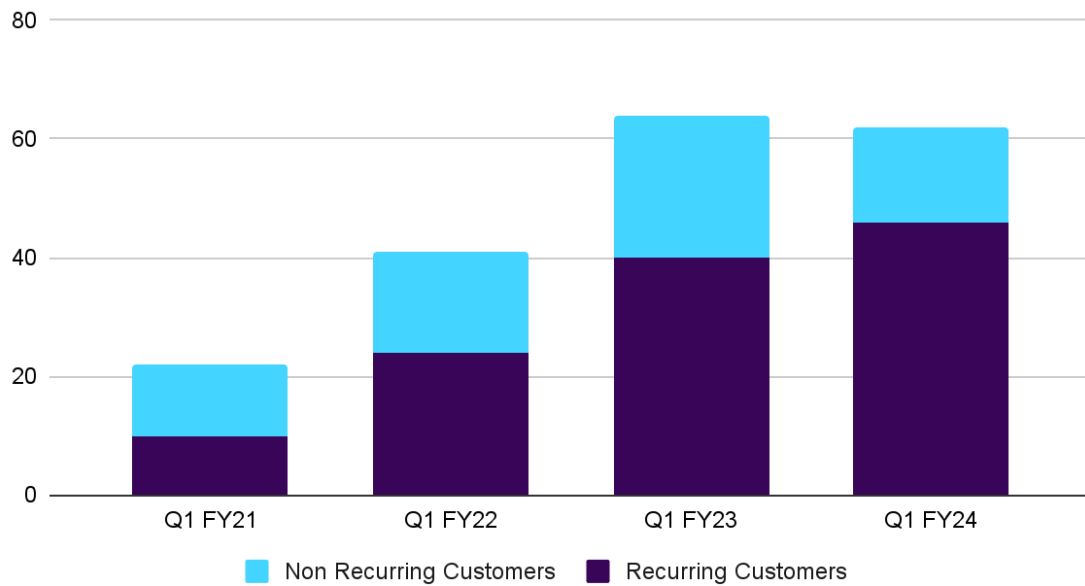


The MarTech business is core to XPON’s growth strategy. Over the last 3 years, the number of recurring customers has grown from 10 to 46, representing a CAGR of 66%. The business has a

diverse range of blue-chip customers, churn remains low, and the outlook for increased revenue per customer remains positive.

In addition, 16 customers have been landed over the last 12 months, with the potential to convert and expand to recurring customers.

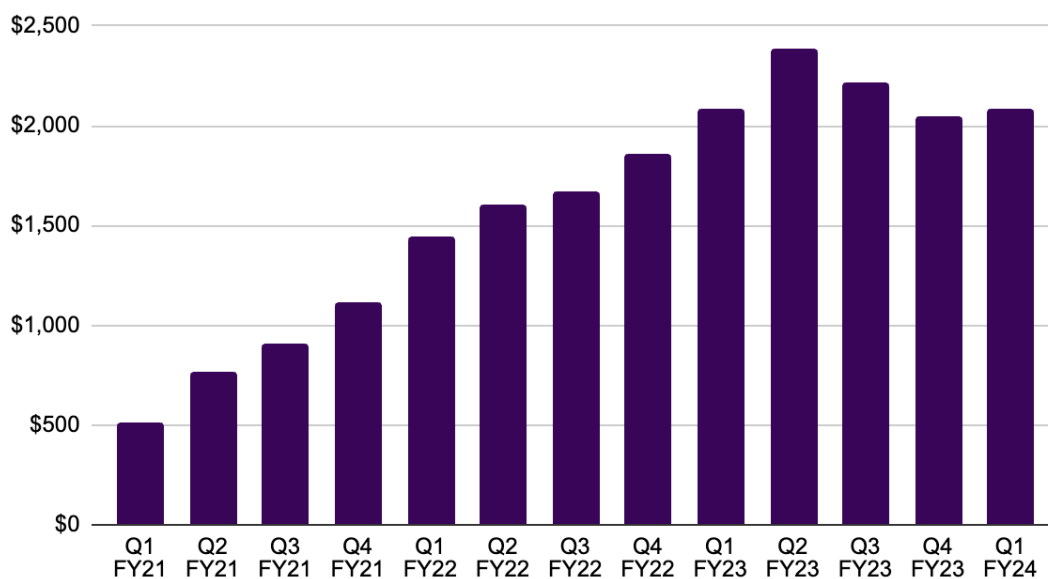
MarTech Customers



Note:
Non-recurring: customers that have landed and have not yet expanded into a recurring revenue contract

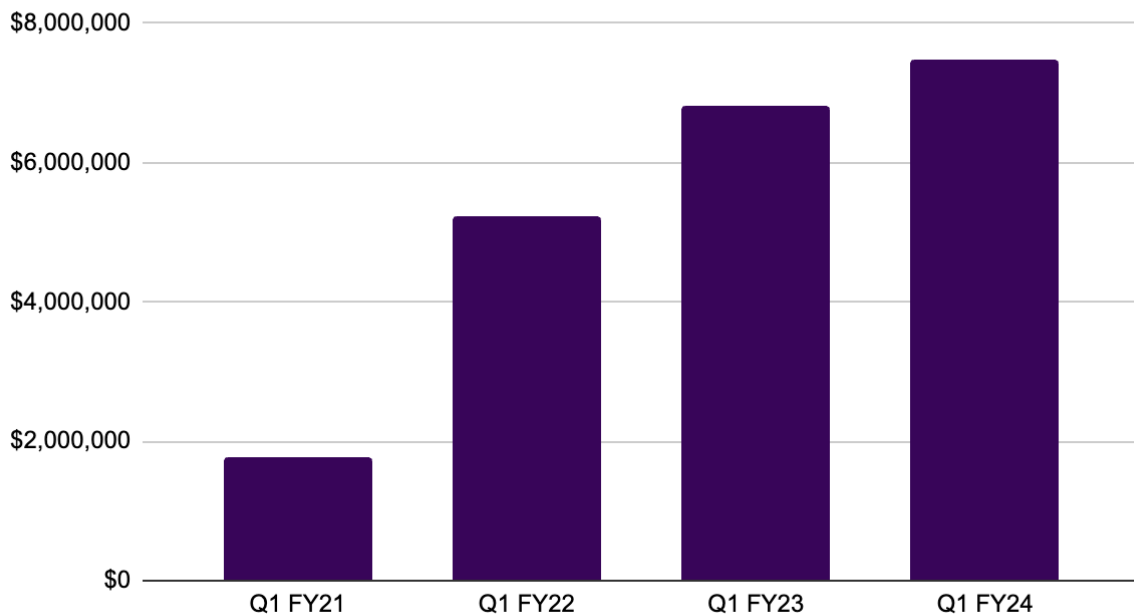
MarTech is a resilient business and despite tighter customer marketing budgets (reduced ad spend by 10% YoY) revenue for the quarter was \$2.1 million, representing flat year on year growth, Over the last 3 years, the MarTech business has generated CAGR revenue growth of 38%.

MarTech Revenue by quarter



Annual Recurring Revenue at 30 September for this business was \$7.8 million, representing a CAGR of 64% over the last 3 years. Softer Q1 FY24 ARR impacted by customer marketing budgets constraints.

Martech ARR



Pleasingly, the MarTech pipeline remains healthy with year on year growth of 55%, by value. Strong leads, including sizable pipeline opportunities in both Australia and the United Kingdom have been generated from organic marketing programs and our Google relationship. Leveraging the AU/NZ Google Partner of the Year award, the MarTech division was launched in the UK in Q4 FY23, with Google relationship expansion in the region.

Key Financial Metrics - Q1 FY24 vs Q1 FY23

	Q1 FY24	+/- Q1 FY23
MarTech revenue	\$2.1m	-
App Mod revenue	\$0.4m	-80%
Total revenue	\$2.5m	-41%
Gross profit	\$1.7m	-42%
Gross margin	68%	-1 pts

- Total revenue declined by 41% to \$2.5 million, primarily affected by decline in App Mod revenue and a slowdown in customer marketing spend.
- MarTech revenue was flat on the pcp, whilst App Mod experienced an 80% revenue decline.
- Gross margin remained strong, assisted by the streamlined organisational structure and cost cutting initiatives, implemented in Q4 FY23.

Cash Flow

XPON reported net cash flows from operating activities for Q1 FY24 of (\$1.6 million). Receipts from customers were \$3.6 million for Q1 FY24, up 6% on Q4 FY23, and down 7% on the pcp.

Payments to suppliers, employees and others were \$5.2 million for Q1 FY24 up 5% on the previous quarter.

The Company's cash balance at 30 June 2023 was \$2.8 million, down \$1.7 million on the previous quarter. Based on the September quarter operating cashflow, 1.7 quarters of funding remain available. It is important to note that receipts of \$547k expected in the September quarter were received in the first week of October, which would have resulted in 3.1 quarters of funding on a proforma basis if received on time.

As detailed in item 6.1 of the Appendix 4C, payments to related parties and their associates during the quarter totalled \$135k comprising people and culture services and motor vehicle costs.

Outlook and Priorities

In light of current market conditions, XPON's cash flow break-even is targeted for FY25. The Company has clear priorities for the balance of the financial year:

- Align the cost base with current trading conditions, saving \$1.5m annually
- Pursuing App Mod divestment to reduce cash burn by an additional c\$1.3m annually, excluding any proceeds from the divestment
- Retain and grow revenue from existing MarTech customers
- Focus on growing and converting the pipeline of new MarTech customers
- Continue to leverage the Google relationship for pipeline generation in both AU and UK
- Continued AI innovation with Wondaris modules to accelerate sales cycles and value realisation for customers
- Ensure XPON maintains a strong corporate culture and highly motivated team, by maintaining strong employee engagement score of 90

The announcement has been approved for release by the Board of Directors of XPON Technologies Group Limited ACN 635 810 258

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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 23 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.

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	\$2,605,663	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	\$544,512	Tools (laptops etc) for new employees and new ERP (FinancialForce)
General working capital	\$660,000	\$914,913	\$1,574,913	\$1,454,064	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	\$7,633,187	

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")

30/09/2023

Consolidated statement of cash flows		Current Quarter	Year to date (12 months)
		\$A'000	\$A'000
1.0	Cash flows from operating activities		
1.1	Receipts from customers	3,597	3,597
1.2	Payments for		
	(a) research and development	(173)	(173)
	(b) product manufacturing and operating costs	(2,401)	(2,401)
	(c) advertising and marketing	(58)	(58)
	(d) leased assets	-	-
	(e) staff costs	(2,254)	(2,254)
	(f) administration and corporate costs	(332)	(332)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	4	4
1.5	Interest and other costs of finance paid	(3)	(3)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
1.9	Net cash from / (used in) operating activities	(1,621)	(1,621)

2.0	Cash flows from investing activities		
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2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(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	(5)	(5)

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	(5)	(5)

4.0	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,415	4,415
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,621)	(1,621)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(5)	(5)
4.5	Effect of movement in exchange rates on cash held	(32)	(32)
4.6	Cash and cash equivalents at end of period	2,757	2,757

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	2,757	4,415
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)	2,757	4,415

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	135
6.2	Aggregate amount of payments to related parties and their associates included in item 2	NA

Note: Payments in 6.1 relates to Director fees and salaries, 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
7.0	<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	\$A'000	\$A'000
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		-
7.6	<p>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.</p> <p>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.</p>		

8.0	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,621)
8.2	Cash and cash equivalents at quarter end (item 4.6)	2,757
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	2,757
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.7
	<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: Delays in receipt of customer payments (\$547k) has resulted in lower than expected cash balance. Customer payments that were due by 30/9/23 were received in the first week of October. If the funds were received on time, net operating cashflow would have been negative \$1,073k and the calculated quarters of funding would have been 3.1 quarters.

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: The Company closely monitors its cash flow forecast to ensure it will have sufficient cash to continue its operations to meet its objectives. The Company is undertaking additional cost optimisation initiatives (as specified in 8.6.3) which are expected to result in annualised cost savings of \$1.5m and further costs will be reduced should need arise. In addition, the Company is pursuing the divestment of an existing asset and exploring various other funding alternatives.

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: Yes - as detailed in 8.6.2, based on the existing business operations, cost optimisation initiatives, proposed asset divestment and exploration of various other funding alternatives, the Company expects to meet its short and medium-term business objectives.

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.

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: 25 October 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.