

ASX Announcement

10 January 2018

CXZ to acquire Security Shift Group

Melbourne Australia: Connexion Media Limited (ASX: CXZ) ("CXZ"), is pleased to advise that it has entered into an exclusive binding Term Sheet to acquire 100% ownership in the Security Shift Group of companies ("SSG").

SSG is an IT services company that provides:

- IT operations services
- Cyber security services
- Cloud services (Infrastructure as a Service and Software as a Service on an SSG owned platform, Microsoft Cloud Services Provider)
- IT Governance, Risk & Compliance services
- End to end solution design, build & development, deployment and operations services

SSG, its Directors, Executives and personnel have significant experience in designing, building and managing large scale, complex web facing systems – including designing and operating high profile, national critical infrastructure assets, examples of which include:

- The Numbering Registry on behalf of the Australian Communications and Media Authority
- The Renewable Energy Certificate Registry on behalf of the Australian Government's Clean Energy Regulator
- Various national level Domain Name Registry systems for countries such as Australia, United Arab Emirates, Qatar and Oman

In addition to critical infrastructure, SSG also has significant experience and capability delivering:

- Secure, scalable and high performing Internet facing systems
- Information Security Governance, Risk and Compliance solutions targeting, amongst other standards, the Australian Government Information Security Manual and ISO27001
- Cyber Security technical control implementation and operation
- Custom software build and delivery projects

SSG has a current run rate EBIT of \$972,300 per annum, approximately \$400,000 cash on hand and will be acquired with no debts. Through its sales transaction pipeline, SSG is anticipated to increase annual EBIT to \$1,600,000 within the next 12 months. CXZ has offered a combination of upfront consideration and earn out consideration on a multiple of achieved EBIT basis. Net asset value on successful completion, including earn out, is \$5,000,000.

On completion of the acquisition, SSG shareholders, Mr Chris Wright and Mr Mark Culhane will continue with the Company and will assist in delivering on the existing technology platforms already in place. Mr Wright will join the CXZ Board as a director and Mr Culhane will be employed in the role as Chief Information Officer.

The acquisition for Connexion Media Limited achieves the following strategic objectives:

- Balancing the revenue portfolio with the General Motors contract
- Refurbishing the Executive team with skills in delivery of large scale technology projects
- Acquiring two cloud platforms designed to Defence Signal Directorate PROTECTED level requirements, replacing reliance on external cloud computing services for major projects

Consideration

The consideration for the acquisition will comprise the following:

- An upfront investment by CXZ of \$1.8 million in new shares in SSG.
- The payment of \$1,194,800 via the issue of new shares in CXZ to the shareholders of SSG (“Vendors”) at \$0.01 per share to acquire all the outstanding shares on issue in SSG.
- The payment of up to \$2,005,000 via the issue of new shares in CXZ to the Vendors at the 90- day Volume Weighted Average Price, subject to the following earn out conditions: earn out conditions apply to sales pipeline conversion and scrip is allocated on a predetermined EBIT multiple 3.08.

No placement of CXZ shares to investors will be required to fund the acquisition. The Board has determined to secure a modest revolving line of credit facility to provide the Company with flexibility in the near term. The Company is pleased to announce that it has executed term sheet for a senior secured revolving credit facility with Lucerne Investment Partners (“Lucerne”) on the following terms:

- Facility Limit: \$500,000 (inclusive of interest)
- Maturity: 12 months from date of execution
- Interest: 9.5% per annum compounded monthly, with a default rate of 19.5%.
- Establishment Fee: 2.5% of Facility Limit with election to capitalise into total limit
- Security: Secured by a PPSA Security Interest taken in all the Borrowers present and after acquired property.
- Board Position: CXZ to appoint a representative of Lucerne as a director of the Company within 30 days of initial drawdown.

In summary, it is expected that the Company will fully fund its acquisition of SSG through internal cash reserves, vendor scrip, debt finance and future earnings.

Conditions Precedent

Completion of the acquisition is subject to the satisfaction or waiver of the following material conditions precedent (**Conditions Precedent**):

- (a) CXZ obtaining all shareholder approvals required under the Listing Rules or any other approvals and procedures required by the ASX in relation to the Transaction;
- (b) CXZ and SSG shareholders executing a definitive sale and purchase agreement, including standard representation and warranties for an agreement of that nature (**Definitive Agreement**);
- (c) compliance in all material respects by each Party of its covenants and the representations and warranties provided for in the Definitive Agreement being true and correct as at Completion;
- (d) no material adverse events occurring to SSG or its subsidiaries;
- (e) SSG and CXZ working together to obtain any necessary approvals for a change of control pursuant to any existing contracts; and
- (f) CXZ completing due diligence to its satisfaction of all legal, financial and technical aspects of SSG and the contracts, and the industry within which it operates.
- (g) CXZ and each of the Vendors negotiating an employment / engagement agreement on terms acceptable to each party that is to be executed on Closing.
- (h) CXZ and SSG entering into a subscription agreement with respect to the Share Subscription (**Subscription Agreement**);

- (i) CXZ, SSG and the Vendors entering into a deed of termination with respect to the termination and repayment of the Vendor Loans on Completion and following the partial conversion set out in paragraph (k) below (**Deed of Termination**);
- (j) CXZ completing either an equity or debt raising to enable CXZ to fund the Subscription Consideration on terms and conditions determined by CXZ in its absolute discretion; and
- (k) the Vendors and SSG converting an amount of \$332,850.91 being interest on the Vendor Loans at a deemed conversion price of \$38.89 into 8,559 SSG shares prior to Completion.

If all of the Conditions Precedent are not satisfied, or waived, on or before 5:00pm (AEST) on 31 March 2018 (or such later date as the Parties may agree in writing), then either Party may terminate by notice in writing to the other Parties and the Parties will be released from their obligations under the Agreement other than in respect of any breaches that occurred prior to termination).

The Company looks forward to concluding the existing Entitlement Issue on 19 January 2018 and finalising all the above conditions precedent no later than 31 March 2018.

David Connolly, Executive Director of CXZ said, "CXZ has undergone a remarkable twelve months of transformation. The Board was able to reduce company cash burn to sustainable levels, extinguish substantial debts and support the team to achieve revenues that saw them awarded the Deloitte Fast 500 10th Fastest growing company in APAC. With the inclusion of SSG we now have put together a financially sustainable and proven team. We have had patient and supportive shareholders which the Board thanks, we are happy to be fully focussed with an elite team on execution and strong shareholder returns"

Ends

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About Connexion Media

Connexion Media specialises in developing and commercialising smart car software apps and services for internet-connected vehicles and mobile devices. The Company is headquartered in Melbourne, Australia and currently has offices in Cambridge and Detroit.

Connexion has two core products in commercialisation, CXZ Telematics and miRoamer. CXZ Telematics is a highly sophisticated smart car solution that allows car fleet managers to manage an entire fleet of vehicles from a mobile phone or computer and deliver cost efficiencies through reduced maintenance costs. CXZ Telematics is able to track a range of real time and historical data including vehicle locations, distance travelled, fuel consumption, battery life, engine performance and absolute and average speeds travelled. It is also able to monitor driver behaviour and instantly send notifications and alarms to vehicle owners and fleet managers.

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