CONNEXION

ASX Announcement
21 January 2022

Quarterly Update

For the Quarter Ended 31 December 2021

- **Ongoing enhancements made to both OnTRAC and CXZTRAC platforms**
- **Continued pleasing adoption of CXZTRAC amongst GM Dealers**
- **Continued progress made on Company strategic objectives**
- **Growing investment made in both Team and Product**
- **All reported figures below are unaudited and in USD, unless otherwise stated**
- **Q2 Revenue of $919k**
- **Q2 Gross Profit of $605k**
- **Q2 Profit Before Tax of $107k**
- **Q2 cash receipts delivered an Operating Inflow of $349k.**

Melbourne, Australia: Connexion Telematics Ltd ("Connexion" or the "Company") is pleased to provide an update on its activities for the quarter ended 31 December 2021 (Q2 FY22).

Summary

The Company continued to provide its Software as a Service (SaaS) solutions, OnTRAC and CXZTRAC, for General Motors' ("GM") Courtesy Transportation Program and Cadillac's Courtesy Transportation Alternative, hereafter referred to collectively as "CTP".

Consistent with the forward-looking commentary in the prior Quarterly Update, the second quarter of FY22 is best summarised as a continuation of the key trends outlined in prior quarters.

These trends include continued:

1. Revenue deterioration from lower global vehicle inventories
2. Revenue growth from CXZTRAC subscriptions
3. Revenue growth from feature-enhancement delivery
4. Expenditure growth from reinvestment into our Team and Products

Taking the above into account, Connexion delivered improved profitability throughout Q2 FY22, with a Net Profit Before Tax of $107k, versus a Net Profit Before Tax of $84k for the prior quarter.

Driving this was a Gross Profit in Q2 FY22 of $605k, being a 13% increase on the prior quarter's Gross Profit of $535k. In prior reports we articulated why we view Gross Profit as the single best financial metric by which to judge our progress. To now record the second highest quarterly Gross Profit in the Company's history is testament to the Team's sound execution. This quarter's result was only surpassed by a $784k Gross Profit in Q2 FY20, which included significant one-off items.

Vehicle Inventory

Within the past two Quarterly Updates we have given as much insight as possible as to the extreme impact that the global semiconductor shortage has had on dealer inventory, including courtesy fleets, whilst remaining contractually compliant. Today we see no change in this negative trend, or to our prior expectation of a gradual recovery off an extremely low base at some point in 2022.

Our initial guidance to Shareholders in May 2021 that *"the Company does not expect a material change to its earnings"* due to the chip shortage has proven correct. Due to our offsetting OnTRAC and CXZTRAC products, the size and timing of any subsequent inventory recovery is not a topic that we mull over on a daily basis. Instead, we are preparing for both the anticipated opportunity and challenge of retaining the CXZTRAC subscriptions activated during OnTRAC's inventory downturn, as inventory levels recover.

The intensity of the dealer inventory contraction has implications beyond the near term, with many dealers likely to continue operating with both reduced inventory and staffing levels, even once vehicle supply resumes. In our view, the only way to execute this tactic successfully is to leverage technology. We have observed this across other industries, following periods of crisis.

Electric Vehicles

When considering the mix of dealer inventory, some Shareholders have requested insight on the impact of electric vehicle ("EV") adoption on our business.

From the perspective of a large automotive software company with both large market share and a large share of dealers' software spend (such as the two dominant DMS providers – CDK and R&R), EVs may potentially herald more threat than opportunity, though even this isn't necessarily so.

From the perspective of a small automotive software company like Connexion, with low market share and a very low share of dealers' software spend, we believe that EVs likely present more opportunity than threat.

The number of franchised dealers operating in the US has been falling for years, and this is only continuing with greater corporate consolidation. EVs are accelerating this trend, as some of the smaller and/or less progressive dealers refuse to commit to the substantial capital expenditure required to handle EVs. For example, over 300 Cadillac dealers have recently agreed to return their franchises, preferring to be paid out than make the requisite investment.

From Connexion's perspective, the threat is that the long-term trend is likely to consist of fewer dealerships, and less inventory. The overriding opportunity is that these remaining dealers are increasingly software-hungry. Dealers are progressively relying on software to drive operational efficiency, improve customer experience, and reduce risk. Connexion's platform delivers on all three fronts today, has a strong foothold in a market (automotive software) that is growing, and its share of dealers' software spend is very low.

Operations

Feature Enhancements
As further modification and feature requests driven by our various Users lead to more platform enhancement work, Connexion's subsequent Fixed-dollar SaaS Revenues continue to increase along with the functionality of the platform.

Beyond its own increasing R&D spend, the Company is confident of receiving further enhancement work revenue over time, as several customisations and feature requests for its software are ongoing.

Customer Success Team
The Customer Success Team continued with its mandate of developing a data-rich CRM to uncover the value of the Company's strategic asset, being its Distribution Network of ~22% of all franchised light-vehicle dealerships in the US.

Relationship Expansion
Throughout the quarter, meaningful progress was made growing relationships across the US Automotive industry, with OEMs and potential commercial partners alike.

APIs
Connexion now has APIs live across multiple Dealer Management System ("DMS") providers in the US, and an increasing number of other commercial partners. These initiatives include, but are not limited to, Commercial Pilots (referenced below) and other related divisions within General Motors.

Whilst the near-term revenue opportunity of these initial APIs is unlikely to be material, the Company expects to benefit both strategically and through feature enhancements over time.

CXZTRAC
Designed as Connexion's OEM-agnostic platform, CXZTRAC was launched ahead of schedule in May 2021 for its second use-case, being a solution for GM and its Dealers to navigate the vehicle supply shortage. The platform was developed with the objective of generating sustained revenue even after normal levels of new vehicle supply resume.

Pleasingly, the adoption of CXZTRAC by GM Dealers during the Quarter was consistent with our expectations and previous commentary to the market. We see this adoption continuing in Q3 FY22.

Strategic Alliance
During the quarter, Connexion was pleased to execute a Teaming Agreement ("Strategic Alliance") with global automotive software company Infomedia Ltd ("Infomedia").

The Strategic Alliance follows Connexion's strategy of partnering with high-quality software providers servicing the US automotive industry with products complementary to its own.

Based in Sydney, Australia, Infomedia is a SaaS platform provider of parts, service and data insights solutions to the global automotive industry. Infomedia has led innovation in aftersales technology within global automotive distribution networks for more than 25 years and continues to expand its reach within the three global regions in which it operates.

Within a dealership, the software platforms of Infomedia and Connexion sit adjacent to one another. Put simply, Infomedia powers the initial Service Lane experience, whilst Connexion enables the resulting Courtesy Vehicle experience.

In the US, the OEM customer base of both parties is largely complementary, and the Strategic Alliance allows both parties to cooperate and work together on projects to enhance each party's products and services.

Pilots

In the prior quarter, Connexion signed Commercial Pilot Agreements ("Pilots") with US automotive software companies Tollaid LLC ("Tollaid") and Digital Dealership USA Inc ("Carsfast").

The Pilots follow Connexion's strategy of partnering with high-quality software providers servicing the US automotive industry with products complementary to OnTRAC & CXZTRAC.

Based in Dallas, Texas, Tollaid supplies an innovative range of digital tools used today by fleet managers, including dealerships, to manage their toll payments in real-time across 8 states in the US.

Today, a significant portion of Connexion's Dealers regularly contend with the challenge of manually processing and recovering customers' toll-charges following the return of a courtesy or rental vehicle.

Through integration with Tollaid's technology, OnTRAC & CXZTRAC Dealers stand to benefit from reduced net tolling expenses and reduced time to process and recover payments.

Based in Scottsdale, Arizona, Carsfast is a next-generation digital car dealership, offering buyers cars and credit directly from their phones. Carsfast eliminates friction from the car buying process, such as long forms, onerous negotiations, and the hours of input usually required to get a finance offer.

Through integration with Carsfast's technology, OnTRAC & CXZTRAC users stand to gain access to new, highly qualified sales leads, along with the unique improvements to customer experience that come with digital retailing. Both benefits to Connexion's Dealers are expected to become increasingly sought-after following the eventual normalisation of Dealer inventory levels.

As the commercial model of both Pilots is linked to the number of vehicles in a dealer's inventory, their integration was reprioritised during the quarter. The initial Tollaid pilot concluded in December, with pleasing results in line with our expectations. With this development, Connexion can proceed to a broader commercial rollout with confidence.

Both the Strategic Alliance and Pilots involve a range of risks, including technological risk and commercial adoption risk. Notwithstanding the best efforts of each party, there is no guarantee that any of these initiatives will lead to sustained commercial success.

Revenue Analysis

This quarter we again take the opportunity to encourage Shareholders to distinguish between Services revenue and SaaS revenue when analysing our Company and others.

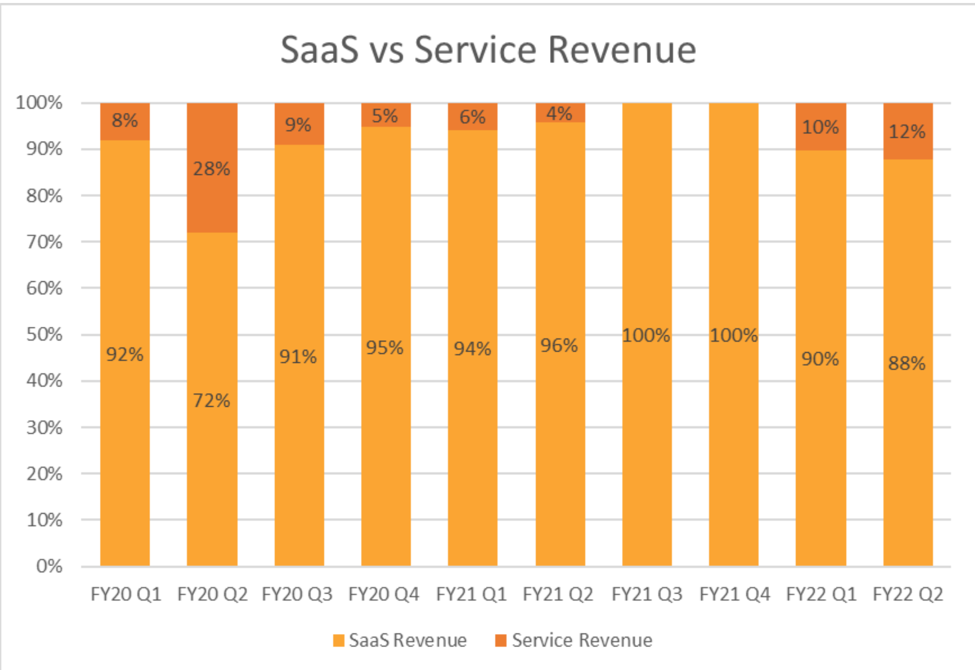
Connexion had historically derived a large percentage of revenue from its “Services” business. This was a tactic successfully employed by the Company to repair its balance sheet without diluting Shareholders. Whilst the Services model offers the quickest route to profitability, it is rarely effective in creating a platform for meaningful and sustained growth. This is no secret, of course, with a plethora of material available online to espouse the benefits of a SaaS-driven model.

Whilst superior in almost every way, a true SaaS model is characterised by the return on each tranche of investment being relatively long-dated, compared with a Services model where staff costs and billable hours generally flex and match-off more easily. As a result, the SaaS model requires meaningful investment before the revenue “flywheel” emerges. However, once the flywheel gathers pace, the genuinely scalable nature of the model means growth can compound in ways that are simply impossible for a Services business.

Whilst the past quarter is too short a timeframe upon which to place much weight, we do believe that it represents the early emergence of the flywheel concept described in the previous quarterly update. Increased internal investment is supporting increased Gross Profitability which, in turn, is supporting increased future internal investment.

Following a period of concerted effort, Connexion now enjoys a high percentage of SaaS-based revenue. When combined with our recent and ongoing investment initiatives, the Company is being methodically set up to grow at compound rates over time. The shift in model is deliberate and, we expect, will be worthwhile.

To be clear, Services activity is still very important for all B2B software companies, including Connexion. This is for many reasons, including key customer satisfaction and stickiness. We are simply highlighting that Services revenue no longer constitutes the “main game”, as Connexion instead focuses on developing its long-term revenue “flywheel”.

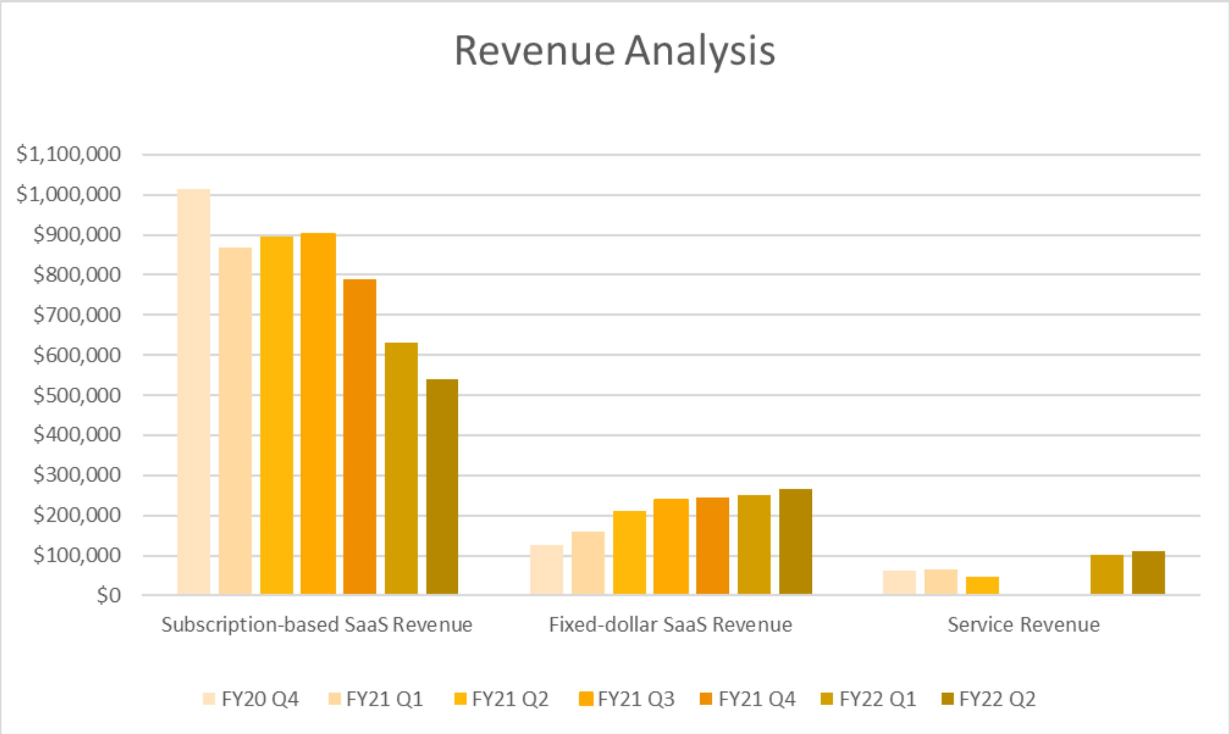


Looking in more detail, Connexion's three main revenue sources are:

1. Subscription-based SaaS Revenue – includes the OnTRAC and CXZTRAC Subscription Bases. OnTRAC revenue is linked to the maximum number of vehicles on the platform each month, whilst CXZTRAC generates a monthly fee per Dealer. Each has a unique cost structure.
2. Fixed-dollar SaaS Revenue – typically linked to the maintenance of previously performed customisation work, including analytics, and some APIs.
3. Service Revenue – typically linked to one-off software customisation work.

All commercial revenue is USD-denominated, and it is important to note the second and third revenue categories above are typically fixed fees (both recurring and one-off, respectively), and not directly linked to any variable Subscription Base. As such, they serve to dampen some of the volatility caused by a fluctuating Subscription Base. Naturally, each revenue category has its own cost structure.

Below, we present the revenue categories:



Financial Position

The Company's financial position remains strong as both Fixed-dollar SaaS Revenue and Service Revenue increased for a consecutive quarter. The increase to both revenue streams was expected after the launch of CXZTRAC in the previous quarter, which utilised most resources. Service revenue is forecast to stay material for the remainder of the financial year.

The Company's continued focus during the global semiconductor shortage is the challenge of minimising discretional spending whilst balancing growth opportunity and organisational capability enhancements. The Company is well placed to benefit should vehicle subscription numbers recover.

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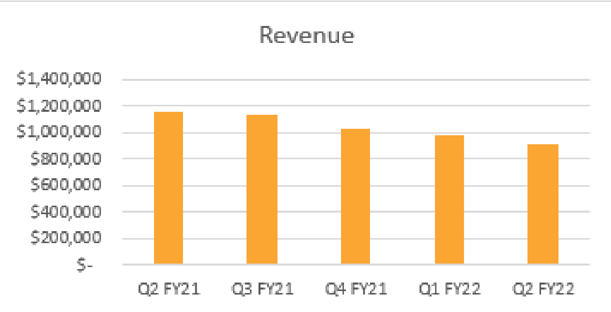
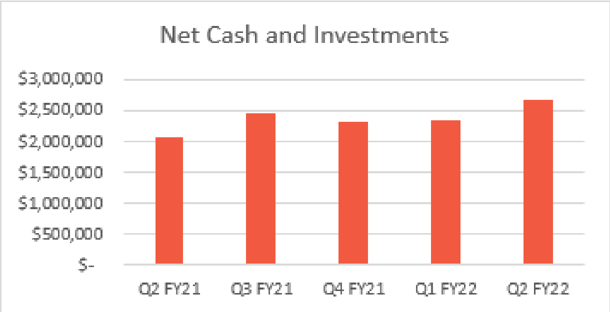
The Company recognised total revenue during the quarter of $919k, which included $112k of Service Revenue. This has led to an unaudited Gross Profit of $605k for the quarter - the highest in seven quarters (since Q2 FY20).

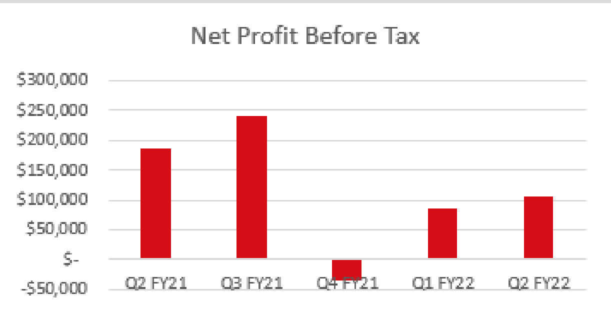
The Company recorded a quarterly unaudited Net Profit Before Tax of $107k. Net Cash and Investments increased to a record high while operating cashflow activities were also positive. The AUD:USD exchange rate fluctuated during the quarter before ending at a similar rate.

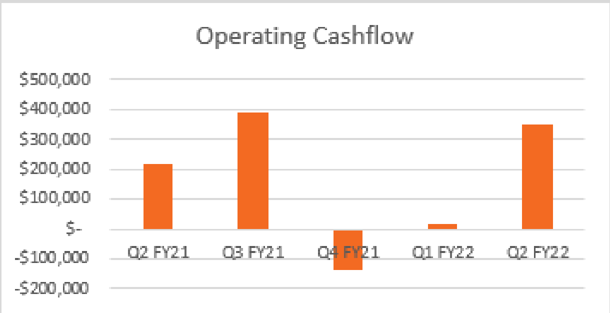
Both Board and Management continue to maintain a highly disciplined approach to costs, whilst reinvesting a growing portion of Gross Profit (“GP”) back into the business in the pursuit of long-term growth.

Below features a summary of our key financial metrics:









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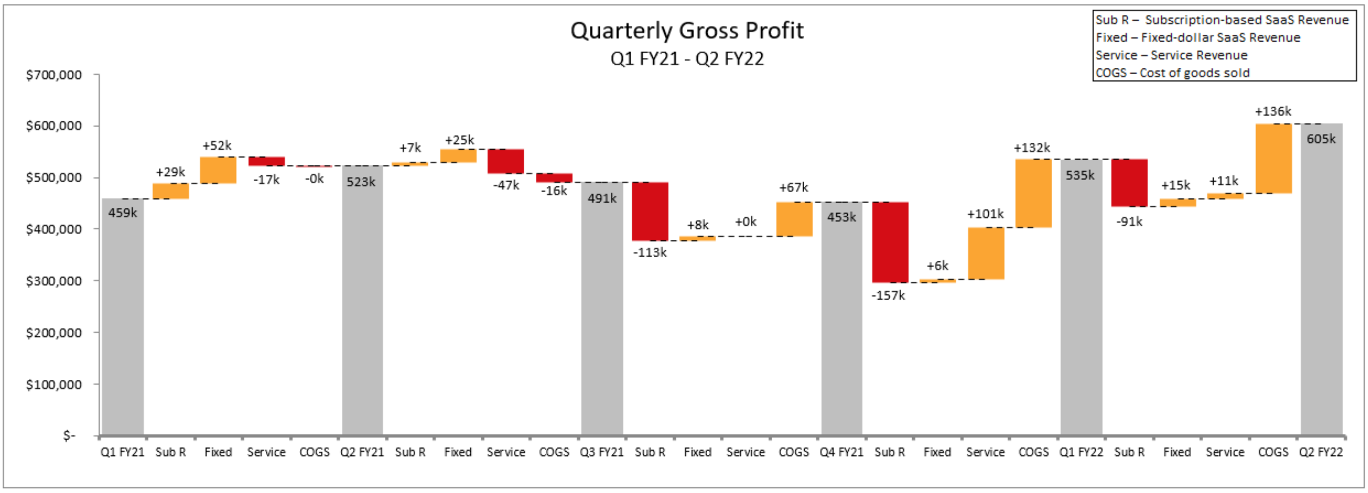
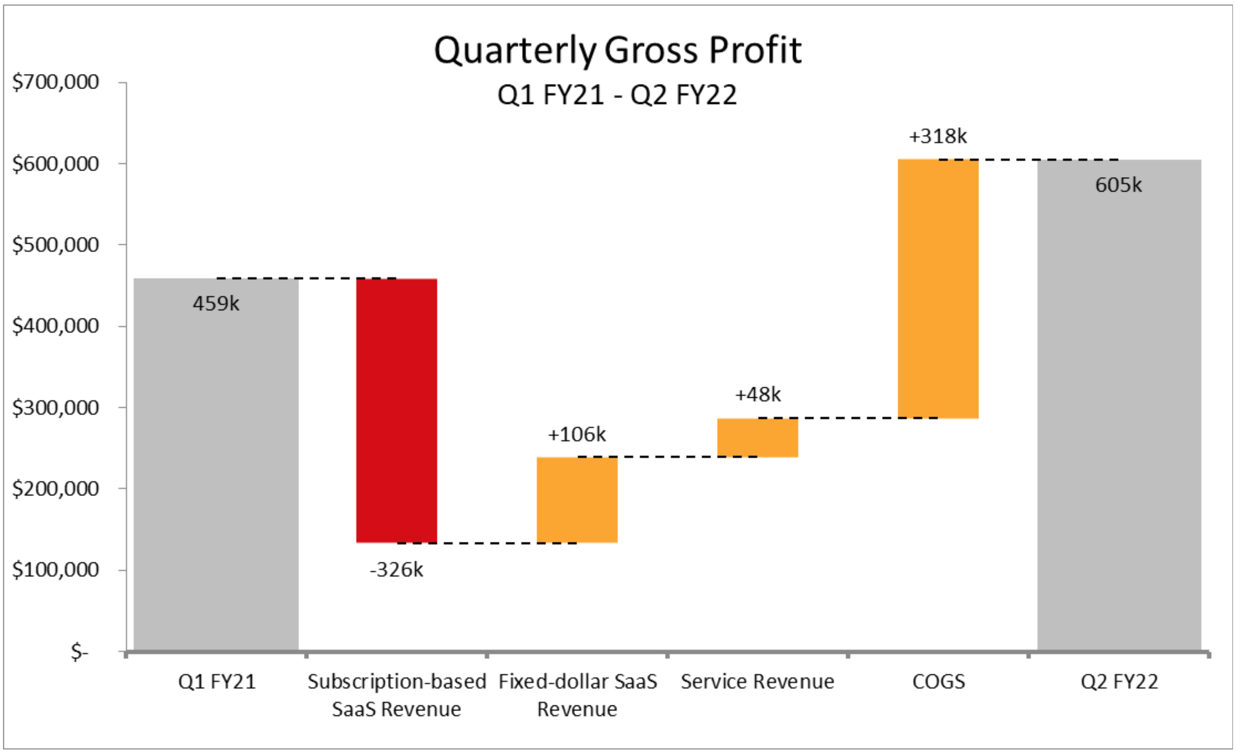
Below is a summary of the key impacts to Quarterly Gross Profit over the past 15 months:



Below are the combined key impacts to Quarterly Gross Profit over the past 15 months:



Over the past 15 months, the Company has adapted its operations according to external factors. Most notably, the global semiconductor shortage has directly and materially impacted Subscription Revenue and Gross Profit since Q3 FY21.

The Company demonstrated its resilience by generating greater Fixed-dollar SaaS Revenue and reducing Cost of Goods Sold ("COGS") where possible. Included in COGS is the cost of telemetry, which is charged per vehicle.

It is also worth noting that the impact from the decline in vehicles on OnTRAC is much larger than what is shown by the Subscription-based SaaS Revenue bar above, as our new CXZTRAC subscription revenue is included within this metric.

Cash Management Strategy

Following more than three years of balance sheet recapitalisation through operating cashflow, and the recent five-year renewal of its foundational GM contract, Connexion is now in a sound position from a balance sheet perspective and a stable and growing position from a profitability perspective.

With exceptionally low Total Liabilities of US$0.4m versus Current (liquid) Assets of US$3.7m as at 31 December 2021, Connexion has ample opportunity to improve the near-term return on its Excess Capital by implementing its Cash Management Strategy ("Strategy").

The Strategy consists of an internally managed, highly diversified portfolio of AUD cash and largely AUD-denominated managed funds. Overwhelmingly, these funds operate according to mandates prioritising capital preservation.

As with any investment, Connexion's Cash Management Strategy carries with it the potential for capital loss, particularly over shorter timeframes. A strict management framework is in place to mitigate such risk where possible, to the extent deemed appropriate by the Board.

Management also notes that in times of general investment market distress, the AUD has tended to devalue against the USD. This is supported historically through the Global Financial Crisis of 2007-08, COVID-19 and other market disruptions. To the extent that there may be any weakness in the performance of our Strategy (as measured in USD), this should be more than offset by a reduction in Connexion's majority AUD-denominated cost-base. Conversely, should market conditions remain benign or positive, placing upward pressure on our cost-base (through wage inflation, for example), returns from our Strategy should offset some of this.

The purpose of the Strategy is to maintain the value of Connexion's Excess Capital in real terms, that is after inflation, whilst preserving capital until there is a meaningful opportunity to deploy capital at attractive risk-adjusted rates of return.

The Strategy offers meaningful liquidity with which the Company can change tack as required for either operational or strategic initiatives.

Corporate

During the quarter, the Company continued to invest meaningfully in its human capital, expanding our team with another Quality Assurance Tester. This investment is designed to support not only our GM-related product-roadmap, but also our OEM-diversification initiatives. Today, two thirds of Connexion's Team have joined only in the past eighteen months, reflecting our pace of expansion.

Naturally, the Company's investment in human resources will continue to impact its profitability in the near term as it pursues what is a material long-term growth opportunity in the US. To date, the current Management and Board have successfully demonstrated a highly disciplined approach to the management of Shareholder capital, and this will continue as the Company invests for growth.

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Outlook

Connexion expects to continue growing its SaaS revenue streams through feature enhancements across both its OnTRAC and CXZTRAC platforms that are valued by its large Franchised Dealership Network.

Beyond this core function, the Company is actively executing on previously referenced initiatives in pursuit of what is a material long-term growth opportunity in the US. The Tollaid and Carsfast Pilots, along with the Infomedia Strategic Alliance, represent the first formal examples of what the Company expects to be multiple Commercial Partnerships over time.

All numbers in this release are preliminary and unaudited. This announcement has been authorised for release to the ASX by the Board of Directors.

Ends

Issued by: Connexion Telematics Ltd
Authorised by: The Board of Connexion Telematics Ltd

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