ASX Announcement | 23 February 2022
X2M Connect Limited (ASX:X2M)

Commentary on H1 FY22 Results

X2M continues to build scale in its target APAC markets; balance sheet strengthened by successful IPO

Key Highlights

- Revenues from ordinary activities increase by 44% on a previous corresponding period (pcp) basis in H1 FY22 to $4.6 million
- Eight new enterprise and customers were acquired, taking the total customer base as at 31 December 2021 to 42 up 35% on 31 December 2020
- Total connected devices increased to 181,102, well up on the end-FY21 figure of 123,256
- X2M's balance sheet is strengthened by its successful IPO and repayment of most borrowings, with end-H1 FY22 cash at hand of $5.1 million (versus pcp of near $2.0 million)
- After year end, X2M secured new SaaS and maintenance contracts for the South Korean municipality of Gochang and self-governing province of Jeju Island

Melbourne, Australia, 23 February 2022: Australian Internet of Things technology company X2M Connect Limited (ASX:X2M) ('X2M' or 'the Company') has lodged its Appendix 4D financial statements for the half year ended 31 December 2021 (H1 FY22) and provides the following commentary.

Strong revenue uplift delivered as X2M invests for growth post IPO

X2M reported H1 FY22 revenue of $4.6 million, up 44% on the pcp, reflecting strong organic growth across most operating jurisdictions. A clear highlight was the Company's ability to continue realising its growth pipeline in South Korea.

South Korea
- ❖ H1 FY22 Revenue: $2.8 million (+22% on pcp)
- ❖ H1 FY22 EBIT (adjusted): -$1.3 million (+117% on pcp)

The Company's South Korean operations performed strongly, driven by deployments at Bucheon and Okcheon. The Group also won significant tenders from Korea Water Resources Corporation (K Water) to deploy remote water monitoring solutions across three South Korean municipalities.

In a clear positive for X2M's growth prospects in the country, the Company was selected by the principal government-owned water management agency K Water, as the successful bidder for three tenders with an aggregated tender value of approximately A$4.1 million. X2M's ability to win a number of these tenders in quick succession is clear evidence the Company is gaining

---

significant market traction in this key Asian country. These contract wins align with X2M's long-term growth strategy of securing customers with large numbers of households that will drive future subscription revenues.

South Korea's adjusted EBIT of -$1.3 million, which was up 117% on the H1 FY21 figure, in part reflected increased growth investment in the South Korean business as X2M deliberately positions itself to increase market penetration and secure market leadership. The lower earnings number also flowed from a lower gross profit margin, the latter mainly attributable to higher component costs associated with the global shortage of semi-conductors.

Taiwan
- ❖ H1 FY22 Revenue: $0.2 million (-52% on pcp)
- ❖ H1 FY22 EBIT (adjusted): -$0.4 million (versus -$0.4m in pcp)

The H1 FY22 period saw Taiwan enhance its status as X2M's incubation hub, with the first commercial deployment of the Company's new energy management solution secured in that country.

Taiwan recorded revenue of $0.2 million, down 52% on pcp mainly due to a one-off hardware sales contract in the pcp, and an adjusted EBIT of -$0.4 million (H1 FY21: -$0.4 million).

Revenue was mainly attributable to the ETC project, which completed in November 2021. ETC is the "Taiwan Testing and Certification Center", a government-sponsored body that, amongst other things, advises policymakers on technology trends, technology solutions and public policy formulation. ETC through a public tender invited applicants to participate in an energy sustainability project. The project brought together energy from solar and the grid, the ability to distribute this to battery storage, electric vehicle (EV) charging, servicing all aspects of building energy management, and remotely controlling end devices such as air conditioners. This project forms part of the X2M strategy to participate in the electricity utility ecosystem.

China
- ❖ H1 FY22 Revenue: $1.4 million (+319% on pcp)
- ❖ H1 FY22 EBIT (adjusted): -$0.1 million (-120% on pcp)

The China market, which X2M entered for the first time in FY21, made good progress, earning revenues of $1.4 million over 1H FY22.

Other (including Japan, Hong Kong and Australia)
- ❖ H1 FY22 Revenue: $0.2 million (+44% on pcp)
- ❖ H1 FY22 EBIT (adjusted): -$1.8 million (+92% on pcp)

The Other segment consists of Japan, Hong Kong and Australia. This geographic segment's EBIT includes Australia being the cost centre for corporate and R&D software development costs.

In Japan, X2M continued to grow connected devices under a licensing arrangement. Total connected devices in Japan by 31 December 2021 totalled 97,233, up 60% on the number just six months ago and 153% above the prior year figure.

Connected devices continue to climb; growth initiatives increase opex

Total connected devices numbered 181,102 by 31 December 2021. X2M added approximately 58,000 connected devices to its patented software platform over the half year period, around double its year-earlier figure. Enterprise/government customers as at 31 December 2021 rose to 42, up 35% on the prior year figure.

X2M's operating expenses (excluding finance costs) increased to $7.6 million in H1 FY22, up 107% on pcp. However, if one-off IPO-related expenses of $0.9m as well as share-based costs of $1.9m (including $1.8 million associated with options that were issued and fully expensed during the period) are excluded, the H1 FY22-on-H1 FY21 opex increment was trimmed back to 40%. Big contributors to this normalised pcp-basis opex increase included the 'professional fees' and the 'other expenses' category (the latter uplift included additional costs of being a listed entity and $0.4 million incurred on delivering product upgrades). The staff costs segment rose by 15% on a pcp basis, as X2M entered the Chinese market, built headcount to meet customer growth and included director and company secretarial fees not incurred in the Company's H1 FY21 accounts.

SaaS contract renewal announced post year end

On 25 January 2022, the Company announced that it had secured a renewal SaaS and maintenance contract for the South Korean municipality of Gochang. The contract is for three years of remote water monitoring and is worth approximately A$1.0 million over the life of the contract

X2M also announced that the self-governing province of Jeju had entered into a twelve-month contract for a similar service to Gochang. The Jeju contract is valued at approximately A$60,000 and will need to be renewed annually.

The FY22 outlook and growth strategy

X2M has continued to successfully grow its revenue base over the H1 FY22 period, with contracted revenue since 30 June 2021 currently $9m. This is already well up on the FY21 total of $5.7m.
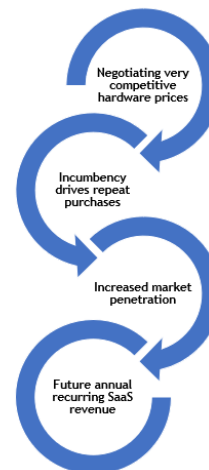
The Company's FY22 growth strategy is premised on:

- Capitalising on X2M's APAC position: Utilities and governments in the APAC region are migrating to sophisticated Internet-based technology solutions in search of productivity improvements and environmental sustainability. To meet demand, hardware and sensor manufacturers supplying the sector are seeking access to leading edge technology platforms to enhance their product offerings, which X2M can provide.
- Exploring the Australian water sector and energy management categories: The Australian market presents scalable opportunities in the water and energy management sector as organisations work towards net zero emissions and consumers seek to reduce energy costs and support environmental sustainability.

Consolidate strong position in existing markets - lock in government enterprise customers with large utility client bases

Expand into compatible verticals in existing markets - get an increased number of households using the X2M solution

Continue development of SaaS business - convert all households over time to the platform

Expand into new geographies - exploring Australia's energy management space

Core strategy based on rapid growth at early stage of the business

1. Competitive pricing for initial hardware sales :
   o incumbency strongly tends to drive repeat orders increasing penetration into the total addressable market of each customer: and
   o hardware sales strongly tend to lock in future annual recurring SaaS revenues

2. SaaS revenues are at higher gross margins than hardware sales.

3. As SaaS recurring revenues become a larger and increasing proportion of total revenues, they will drive future profitability.

Negotiating very competitive hardware prices

Incumbency drives repeat purchases

Increased market penetration

Future annual recurring SaaS revenue

X2M CEO Mohan Jesudason said "We are well-pleased with the strong revenue growth X2M achieved in the first half of its 2022 financial year. This uplift reflected further contract wins in the exciting South Korean market and signs X2M's entry into the huge Chinese market is gaining traction. We are confident the Company's recent success in growing its customer base has already laid the groundwork for future repeat orders and higher subscription revenues.

The X2M team is now focussed on the delivery of our two-pronged growth strategy. It will see the Company capitalise on its existing presence in key APAC economies and push into new markets, including Australian-based water sector and energy management categories. We look

forward to updating the market on growth initiatives now in train that will clearly demonstrate the market potential of locally designed and developed technology."

Ends

The Board of X2M has approved this announcement.

For further information contact:

Shareholder Enquiries
Automic Pty Ltd
hello@automic.com.au
+612 9698 5414

Media and Investor Relations
Mohan Jesudason
investor.relations@x2mconnect.com1
800 926 926 (1 800 X2M X2M)

About X2M Connect Group

X2M Connect Limited (ASX:X2M) is an Australian technology company that has developed and commercialised a patented proprietary Internet of Things (IoT) solution which delivers productivity improvements, cost savings and improved public safety to enterprise and government clients in the utilities sector.

X2M's technology connects devices such as water, gas and electricity meters and other utility sensors to the internet, enabling data exchange and the remote control of these devices. The Company generates revenue from the sale of hardware and monthly subscription fees under Software as a Service arrangements.

X2M now has more than 180,000 devices connected to its IoT platform and distributed intelligence solution, providing real-time information and control to a steadily increasing customer base operating over multiple radio technologies.

X2M's current focus is on servicing the utility sector in the Asia-Pacific region, where it has a number of government and enterprise customer relationships already in place. Going forward, X2M will look to continue its global expansion, with subsidiaries already operating in Japan, South Korea, Taiwan and, most recently, China.

To learn more about X2M click here: www.x2mconnect.com or follow us on LinkedIn.