

X2M Connect Limited (ASX:X2M) ASX Announcement



Quarterly Activity Report and Appendix 4C Quarter ended 31 March 2022

28 April 2022

X2M maintains strong growth momentum in March quarter

Investment Highlights:

- Q3 revenues of \$1.5 million¹, up 68% on previous corresponding period (pcp)
- Total revenues for nine months ended 31 March 2022 were \$6.1 million, up 49% on pcp
- Contracted revenues to be recognised in the coming months at \$3.8 million
- Connected devices at 31 March 2022 were 196,037, up 87% on pcp
- Enterprise/government customers increased to 44, up 29% on pcp

Australian Internet of Things (IoT) technology company **X2M Connect Limited** (ASX:X2M) (“X2M” or “the Company”) is pleased to provide its Quarterly Activity Report and Appendix 4C for the period ended 31 March 2022 (Q3 FY22) along with the following operational updates.

Continued strong growth across key operating metrics

68% year on year growth in Q3 revenues

The Company achieved revenues of \$1.5 million in Q3 FY22, up 68% on the previous corresponding period. This was a pleasing result. Q3 is a quieter period due to Lunar New Year holidays in the Company’s key Asian markets.

In the first three quarters of FY22, X2M has already generated more revenue than its full-year FY21 results. Total revenues for the nine months were \$6.1 million, up 49% on pcp and ahead of the FY21 full-year result of \$5.7 million.

¹ All FY22 Financial results are in Australian dollars and unaudited.

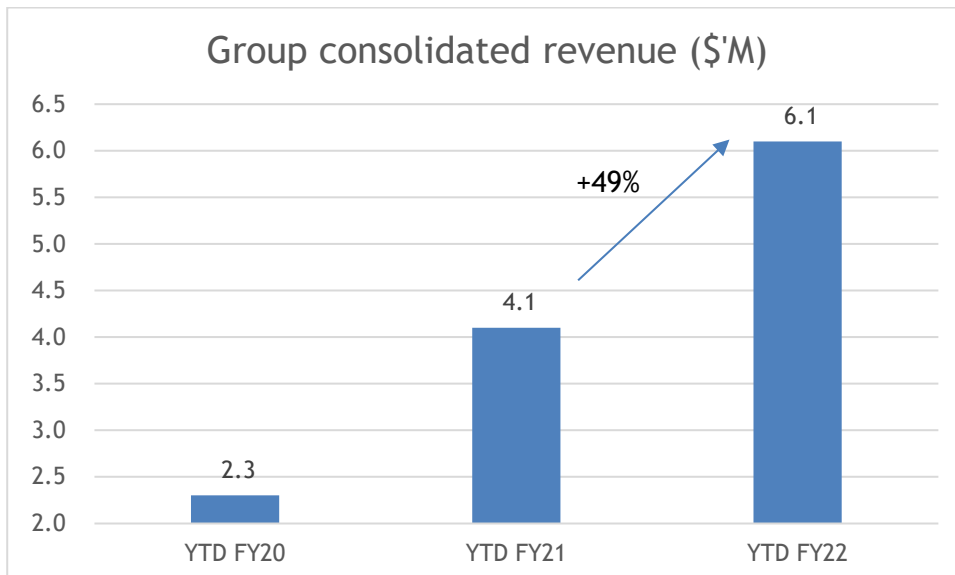


Chart 1: YOY growth in consolidated revenues for the first three quarters

29% year on year increase in Enterprise and Government customers

X2M's target market is the Enterprise and Government utility sector in the APAC region. The current base of X2M's Enterprise and Government customers delivers a total addressable market of approximately 26 million households.

As shown in the chart below, X2M's Enterprise and Government client base has continued to rise steadily in the current fiscal year, reaching 44 in Q3 and representing a 29% year on year increase.

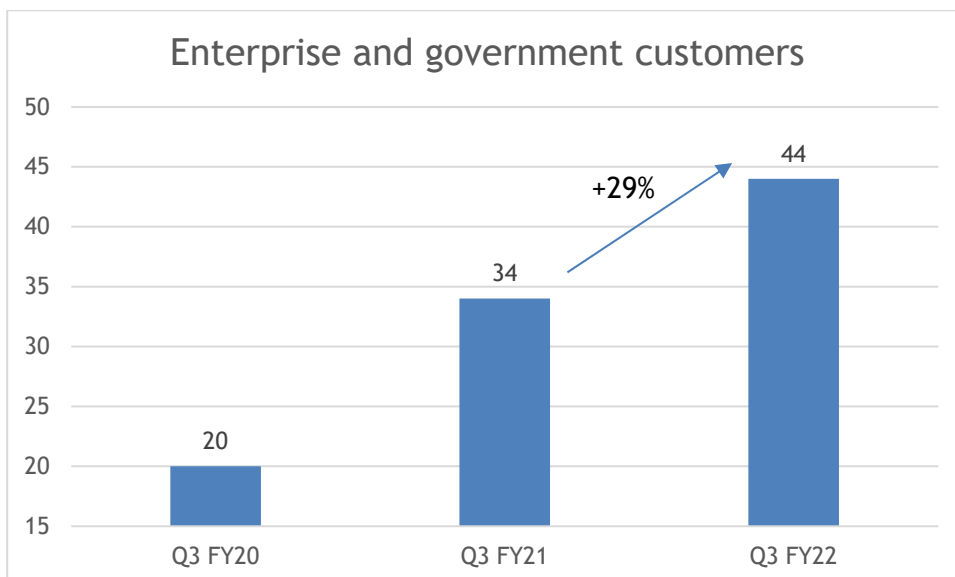


Chart 2: YOY growth in enterprise and government customers

87% year on year increase in connected devices

A key focus area for the Company is the continued growth in the number of connected devices because they establish the base for future recurring SaaS revenues.

The rise in connected devices is driven by the Company's core Enterprise and Government customers.

Total connected devices at 31 March 2022 reached 196,037, an increase of 8% from 31 December 2021 and 87% from 31 March 2021.

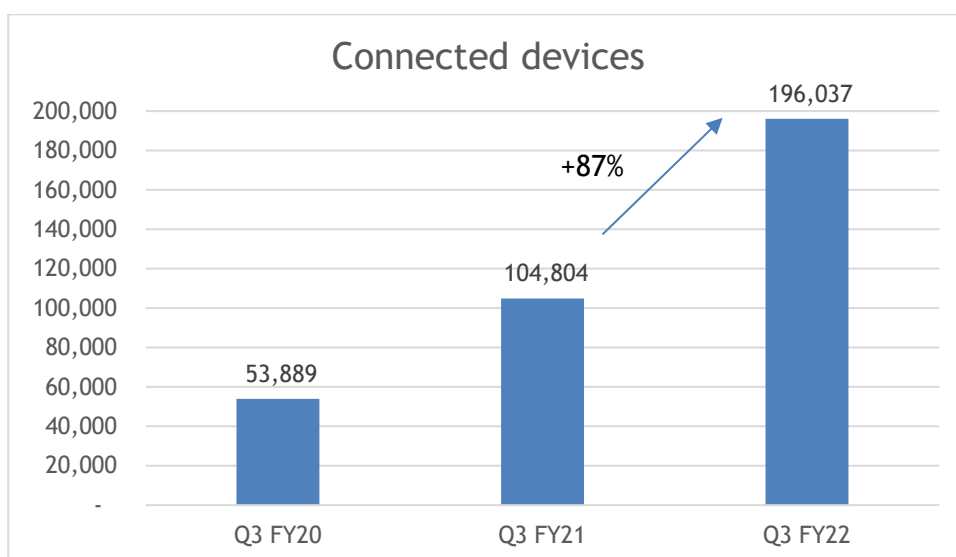


Chart 3: Growth in connected devices, 31 March 2020 to 31 March 2022

Business development progresses

In March 2022, X2M secured two additional contract wins in South Korea, with a combined value of approximately \$0.85 million. X2M will provide remote water monitoring and control services (including its proprietary IoT platform, end devices and 12 months of remote meter monitoring) to two new municipalities further expanding its enterprise and government customer base. Winning a number of these tenders in quick succession shows X2M's leadership position in the South Korean market. This also aligns with the Company's long-term strategy to secure customers with large numbers of households that will drive future subscription revenues.

X2M also continued to grow its China footprint during the quarter, winning two contracts from existing customer Chongqing LianQing Instrument Company. This increased the FYTD China revenues to \$2.3 million. The two contract wins build on X2M's stated China market growth strategy, which is to initially establish a business base in this country through the sale of hardware and then follow up these sales with the connection of devices to the X2M IoT platform. Over time, the successful execution of this growth plan is expected to impact favourably on customer growth and margin metrics.

Japan continued to deliver strong growth in connected devices with more than 13,000 devices added to the platform during the quarter. This represents 14% growth in the quarter and 133% growth on the pcp.

Taiwan continues to contribute as the incubation hub for new commercial deployments, particularly in the energy management area.

Financial and corporate

Receipts from customers for the quarter were \$1.5 million, reflecting a normally quieter quarter mainly attributable to Lunar New Year holidays in the Asia region.

Net operating cash outflows were \$2.0 million, which includes \$1.7 million in payments for product manufacturing and operating costs, some of which were paid in advance to secure component parts for future already contracted deployments.

Net cash outflow from investing activities was \$0.7 million, mainly attributable to \$0.6 million spent on capitalised development costs.

Total cash at 31 March 2022 was \$2.2 million.

Related party payments in Appendix 4C section 6.1 of \$74K represents director fees.

Use of Funds

The Company prepared the Replacement Prospectus in relation to the Public Offer of 32m shares to raise \$8 million.

In section 6.16, the Company provided a proposed use of funds table.

Table 1 below shows the use of funds for the period from admission to the ASX on 20 September 2021 to 31 March 2022.

Use of Funds	Total Allocated Funds (\$000's)	Funds Used 20 Sep 21 - 31 Mar 22 (\$000's)	Commentary
Customer acquisition	1,300	913	In line with expectations
Customer support	1,200	1,078	In line with expectations
Development, IT services and patents	1,500	1,667	Above expectations driven by additional resources engaged to support customer growth
Licensing & geographic expansion	1,700	334	In line with expectations
Mergers & acquisitions review	300	-	In line with expectations
Administration	1,750	1,368	In line with expectations
Working capital	1,100	816	In line with expectations
Expenses of the Public Offer	850	1,022	Above expectations driven by legal costs
Total	9,700	7,198	

Table 1: Use of funds

X2M CEO Mohan Jesudason said: “We are very pleased with our achievements in the March quarter, with revenues from the first three quarters of FY22 already ahead of the full FY21 results. The Company continues to penetrate the South Korean market reflecting our strong position in the remote water monitoring space there. The two new contracts in China represent another important step in the further validation of the X2M strategy, which is to use hardware sales as a base for future recurring higher-margin SaaS platform revenues. We have also seen promising growth in our Japan business, which continues to deliver connected devices to our IoT platform. X2M is well-placed to continue executing its strategic objectives and looks forward to providing the market with further updates on our progress.”

Ends

The Board of X2M has approved this announcement.

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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 190,000 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](https://www.linkedin.com/company/x2mconnect).

Appendix 4C

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

Name of entity

X2M Connect Limited

ABN

48 637 951 154

Quarter ended ("current quarter")

31 March 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,483	7,951
1.2 Payments for		
(a) research and development	(87)	(234)
(b) product manufacturing and operating costs	(1,667)	(6,381)
(c) advertising and marketing	(18)	(43)
(d) leased assets	(22)	(158)
(e) staff costs	(1,127)	(4,475)
(f) administration and corporate costs	(350)	(1,700)
1.3 GST/VAT received	(198)	(167)
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(1)	(3)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	340
1.8 Other – IPO related costs	-	(378)
1.9 Net cash from / (used in) operating activities	(1,987)	(5,248)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(8)	(14)
(d) investments	-	-
(e) intellectual property	(647)	(1,023)
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
	(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 – Deposits on office leases	(37)	(128)
2.6	Net cash from / (used in) investing activities	(692)	(1,165)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	8,000
3.2	Proceeds from issue of convertible debt securities	-	500
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(561)
3.5	Proceeds from borrowings	-	500
3.6	Repayment of borrowings	(82)	(1,431)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	(63)	(146)
3.10	Net cash from / (used in) financing activities	(145)	6,862

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	5,121	1,953
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,987)	(5,248)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(692)	(1,165)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(145)	6,862
4.5	Effect of movement in exchange rates on cash held	(56)	(161)
4.6	Cash and cash equivalents at end of period	2,241	2,241

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	2,241	5,121
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)	2,241	5,121

6. 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	74
6.2 Aggregate amount of payments to related parties and their associates included in item 2	-
6.3 Aggregate amount of payments to related parties and their associates included in item 3	-

Note: if any amounts are shown in items 6.1, 6.2 or 6.3, your quarterly activity report must include a description of, and an explanation for, such payments.

7. Financing facilities <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>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-
7.5 Unused financing facilities available at quarter end		-
7.6 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.		
N/A		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(1,987)
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,241
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	2,241
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.13

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.

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: No. The March quarter is usually a quieter period for X2M given the markets in which it operates. Business receipts were negatively impacted by Lunar New Year celebrations and cold weather preventing deployments. X2M also prepaid a number of suppliers to secure component parts for future deployments. In addition, the company expects to receive R&D tax incentives greater than \$1m in the September quarter.

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: Based on answer 8.6.1, the company believes that it has at least two quarters of cash available to fund its operations. X2M continually reviews its cash requirements on an ongoing basis and may consider raising further capital to support its growth strategy. It is confident any such raising undertaken would be successful.

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 stated above

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: 28 April 2022

Authorised by: By the Board of X2M Connect Limited
(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.