ASX Announcement | 28 February 2023
X2M Connect Limited (ASX:X2M)

X2M reports strong first half financial performance

HIGHLIGHTS

- 1H23 revenues of $9.0 million, up 96% on the previous corresponding period (pcp)

- Adjusted EBITDA loss of $2.1 million, improvement of 30% on the pcp

- Loss after Income Tax was $2.9 million, improvement of 55% on the pcp

- Connected devices at 31 December 2022 were 361,345, up 100% on the pcp

- Enterprise/government customers increased to 58, up 38% on the pcp

- X2M's strategy to "land and expand" is working as market and customer penetration continues

Melbourne, Australia, 28 February 2023: Australian Internet of Things technology company X2M Connect Limited (ASX:X2M) ('X2M' or 'the Company') has lodged its Appendix 4D and financial statements for the half year ended 31 December 2022 (1H23) and provides the following commentary.

2023 FINANCIAL YEAR OFF TO A STRONG START

96% year on year growth in X2M first half revenues

X2M achieved revenues of $9.0 million, up 96% on the pcp. A particularly pleasing result with South Korea, China, Japan and Taiwan all reporting strong year on year performances. Total revenues for the full FY22 financial year were $10.4m, which gives further context to momentum in the business. Revenues up almost three-fold from 1H21 as shown in the Chart 1 below.
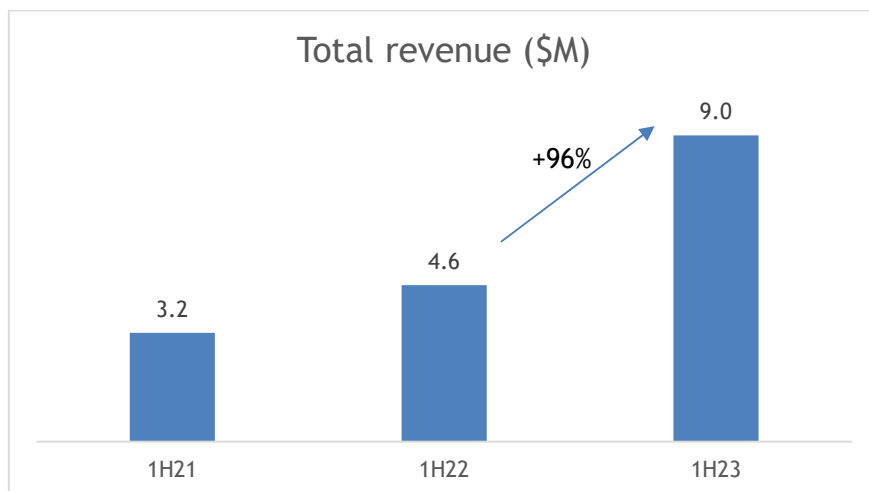

Chart 1: YOY growth in revenue

30% improvement in adjusted EBITDA loss

X2M reported an adjusted EBITDA loss of $2.1 million, an improvement of 30% on the pcp. This improved result was driven by growth in revenues which translated into Gross Profit of $2.2 million, up 135% on the pcp. Gross Profit growth was stronger than revenue growth due to an increase in Gross Profit Margin to 25%, up from 20% in the pcp as shown in Chart 2. Operating expenses were $4.7 million, up 14% on the pcp.
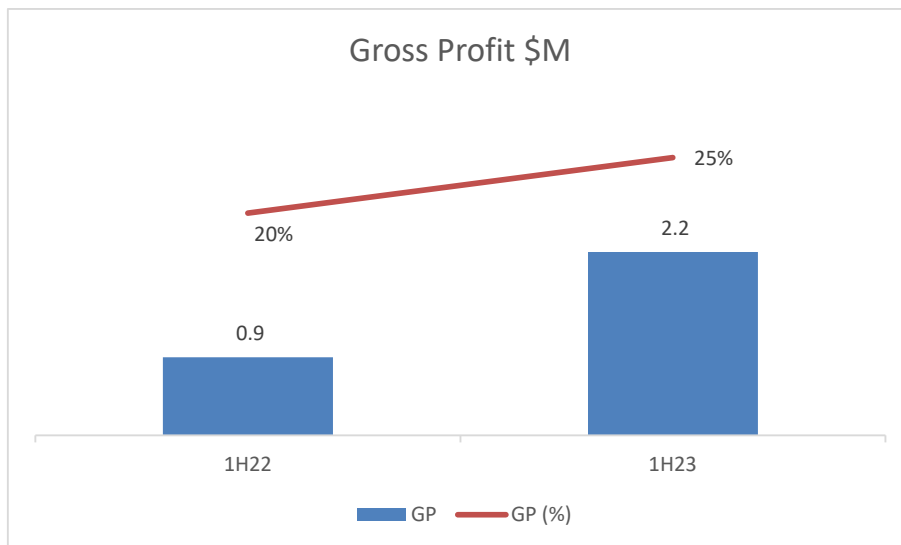

Chart 2: YoY improvement in gross profit

55% improvement in loss after income tax

X2M reported a loss after income tax of $2.9m, an improvement from a loss of $6.5 million in the pcp. The performance was driven by an improvement in adjusted EBITDA, as described above, and one-off expenses in the prior period related to the IPO.

38% year on year increase in Group Enterprise and Government customers

X2M's target market is the Enterprise and Government utility sector in the APAC region.

X2M's Enterprise and Government client base has continued to rise steadily, reaching 58 at 31 December 2022 and further expanding the company's addressable markets. 52% of our 58 customers have placed repeat orders already, further validation of the technology and a business model that delivers low churn and increasingly deep customer penetration.

100% year-on-year increase in connected devices

Growth in enterprise and government customers, together with deeper penetration into the addressable market within the Company's existing customer base, drives growth in devices connected onto the Company's proprietary platform. This forms part of X2M's "land and expand" strategy. This is an important lever in establishing the base for future recurring SaaS revenues.

Total connected devices at 31 December 2022 reached 361,345, an increase of 100% from 31 December 2021 with a record 68,539 new devices being added onto the platform during the quarter. Chart 3 below shows the acceleration in the rate of connection of devices over the last 2 years.
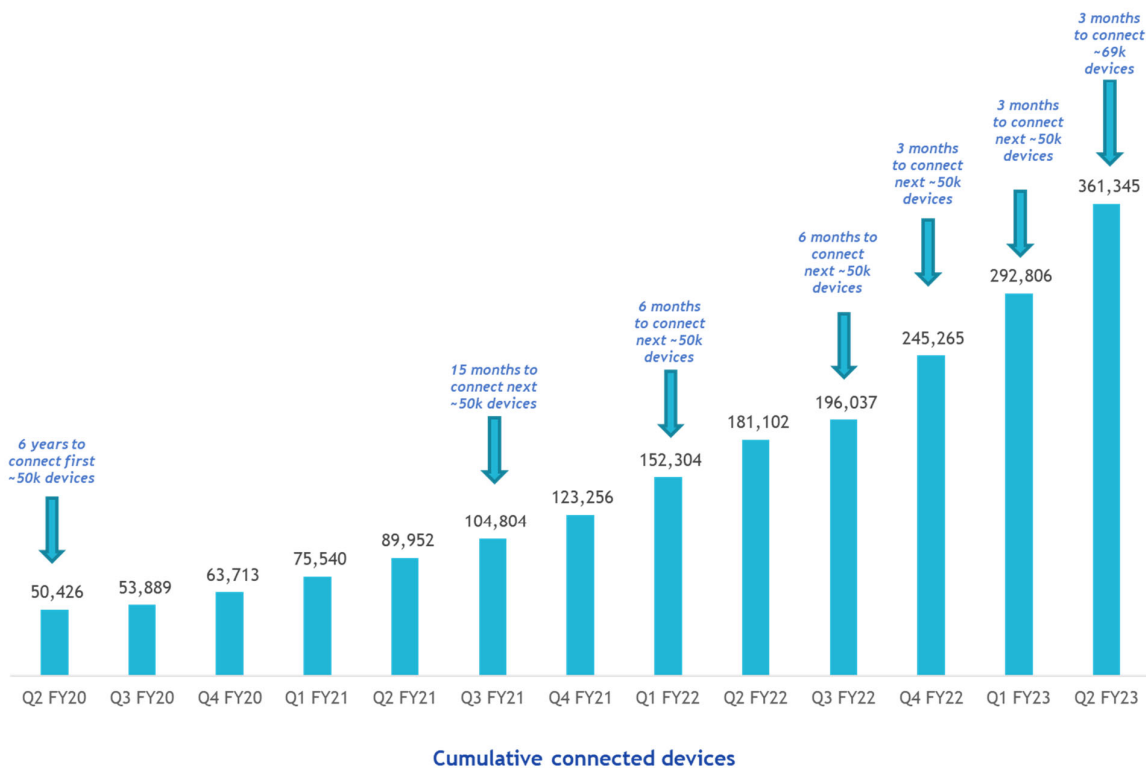

Chart 3: Growth in connected devices

Annual Recurring Revenues (ARR) hit a $1 million milestone

X2M began reporting ARR from the last quarter. ARR is the monthly SaaS and maintenance revenue that is recorded in the last month of the reporting period, annualised by multiplying by twelve. SaaS and maintenance revenues arise from pure subscription services contracts and from subscription allocations in bundled contracts.

For December 2022, the ARR is $1.1 million compared with $0.7 million from December 2021, an increase of 65%. The December 2021 value is calculated after removing the Gochang hardware related subscriptions from the data.

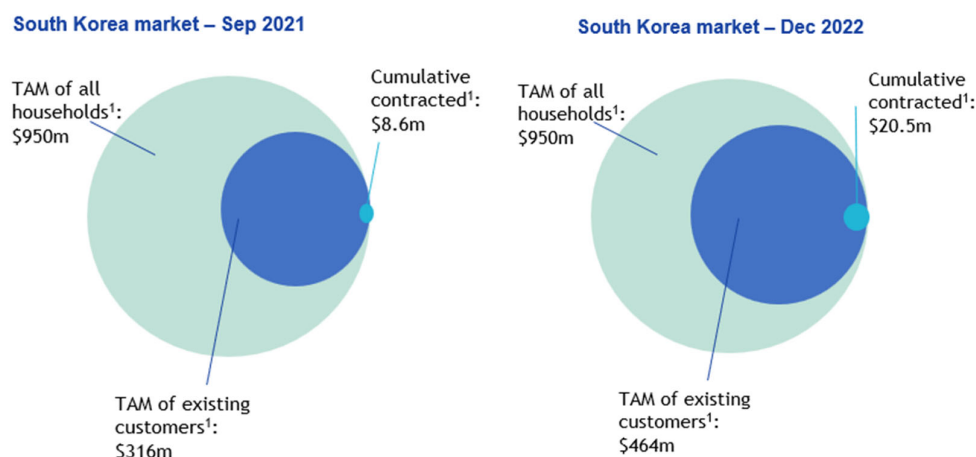## HALF YEAR RESULTS UNDERPINNED BY STRONG SEGMENT PERFORMANCES

South Korea
- ❖ 1H23 Revenue: $6.6 million (up 134% on the pcp)
- ❖ 1H23 EBIT (adjusted): -$0.4 million (-$1.3 million in the pcp)

South Korea continues to be a stand-out performer with a number of tenders being won in succession. During the first six months of FY23, X2M has added 13 new customers and other contract wins in South Korea with a combined value of approximately $6.1 million. Continuing

to win a number of these contracts in quick succession confirms 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.

Over the last fifteen months, in South Korea, the Total Addressable Market (TAM), i.e. the total number of households with water meters serviced by our customers, increased from $A316 million to $A464 million. This represents an increase from 33% to 49% of the total South Korean country market. A strong position to be in from a competition perspective. During the same period, penetration of customers' TAM, on average, has increased from 2.7% to 4.4%. X2M continues to receive follow-up orders from existing customers and win new customers. The fact that overall penetration of customers' TAMs is still relatively low, augers well for future growth of connected devices and Annualised Recurring Revenue (ARR).

The graphic in Chart 4 pictorially shows the TAM and penetration growth data and the future potential.

South Korea market – Sep 2021

TAM of all households[1]: $950m

Cumulative contracted[1]: $8.6m

TAM of existing customers[1]: $316m

South Korea market – Dec 2022

TAM of all households[1]: $950m

Cumulative contracted[1]: $20.5m

TAM of existing customers[1]: $464m

Chart 4: Growth in customer TAM and contracted value
Note 1: Total addressable market (TAM) and contracted values are based on Year 1 device revenues of $120.

Taiwan
❖ 1H23 Revenue: $0.5 million (up 145% on the pcp)
❖ 1H23 EBIT (adjusted): -$0.4 million (-$0.4 million in the pcp)

1H23 saw Taiwan continue its progress as X2M's incubation hub, securing repeat orders from the Electronics Testing Centre for further energy management solutions and Great Tainan Gas Company for gas monitoring solutions. The Company now has deployments across energy, gas monitoring, remote battery monitoring, water monitoring and pressure sensors all of which have substantial market opportunities.

X2M secured a new customer through a contract with the National Chung Cheng University (CCU) in Taiwan for the delivery of a smart water resources management system for the university campus. The contract includes software to monitor the water usage, flows and levels around the campus plus supply, installation and connection of an on-premises server and communications hardware. The contract will be delivered by June 2023. New product released for CCU is strategically important as it takes X2M deeper into the customer's water eco system and has the potential to be taken into South Korea where X2M has a strong presence in the water sector.

China
- ❖ 1H23 Revenue: $1.6 million (up 20% on the pcp)
- ❖ 1H23 EBIT (adjusted): $0.0 million (-$0.4 million in the pcp)

Despite the challenges with COVID-19 restrictions, X2M delivered water meter contracts in Heibei province in China. As previously announced (ASX announcement 20 June 2022), the Qingyuan district of Baoding City is a new customer that saw the deployment of approximately 22,000 water meters. X2M also completed delivery of a contract for approximately 5,000 water meters deployed in the Shunping county which is administered by Baoding City.

Other (including Japan, Hong Kong and Australia)
- ❖ 1H23 Revenue: $0.3 million (up 29% on the pcp)
- ❖ 1H23 EBIT (adjusted): -$1.8 million (-$1.8 million in the 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 at 31 December 2022 totalled 200,174, up 41% on the number just six months ago and 106% above the prior year figure.

GOVERNMENT INITIATIVES PROVIDE POTENTIAL TAILWINDS

A number of government initiatives are being put in place that are expected to have the effect of driving momentum in our business. In Australia, a number of State and Federal funding programmes have been announced including battery and renewables subsidies and regional development support. In Japan, the government has a JPY 13.8b (Approx. A$150m) budget to reduce LPG gas prices by strengthening the management structure of LP gas companies through implementing equipment such as smart meters that can remotely open and close gas taps and remotely read meters, delivery vehicles, and other equipment.

X2M CEO Mohan Jesudason said: "We are pleased to report on the ongoing momentum of X2M as shown across all our key metrics and the 96% first half revenue growth was a very pleasing result. Importantly, we improved margins and controlled opex growth which resulted in an improved EBITDA outcome. We continue to execute our strategy of securing customers with large addressable markets that will provide the base for future subscription revenues. X2M is well positioned in its respective markets."

ENDS

The Board of X2M has approved this announcement.

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About X2M Connect Limited

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. X2M generates revenue from the sale of hardware and monthly subscription fees under Software as a Service arrangements.

X2M now has more than 370,000 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 significant 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).