

X2M Connect Limited (ASX:X2M)

ASX Announcement



Quarterly Activity Report and Appendix 4C

Quarter ended 31 March 2023

28 April 2023

X2M CONTINUES STRONG GROWTH MOMENTUM

YTD REVENUES UP 114% ON PCP

THIRD QUARTER BUSINESS HIGHLIGHTS:

- 3Q23 revenues of \$4.1 million¹, up 173% on the previous corresponding period (pcp)
- YTD total revenues of \$13.1 million¹, up 114% on the pcp
- Cash burn from operating activities for 3Q23 of \$1.5 million
- Connected devices at 31 March 2023 were 390,626, up 99% on the pcp
- Enterprise/government customers increased to 61, up 39% on the pcp
- Balance Sheet to be strengthened in 4Q23 with \$858k Placement and Share Purchase Plan to be completed in May

Australian Internet of Things (IoT) technology company **X2M Connect Limited (ASX:X2M)** ("X2M") is pleased to provide its Quarterly Activity Report and Appendix 4C for the period ended 31 March 2023 (3Q23).

CONTINUED STRONG GROWTH ACROSS KEY OPERATING METRICS

173% year on growth in 3Q revenues

X2M achieved revenues of \$4.1 million¹ in 3Q23, up 173% on the pcp, driven by strong performances especially in South Korea and China. Total revenues for the nine months were \$13.1 million¹, up 114% on the pcp. Chart 1 shows growth over the last three comparable periods.

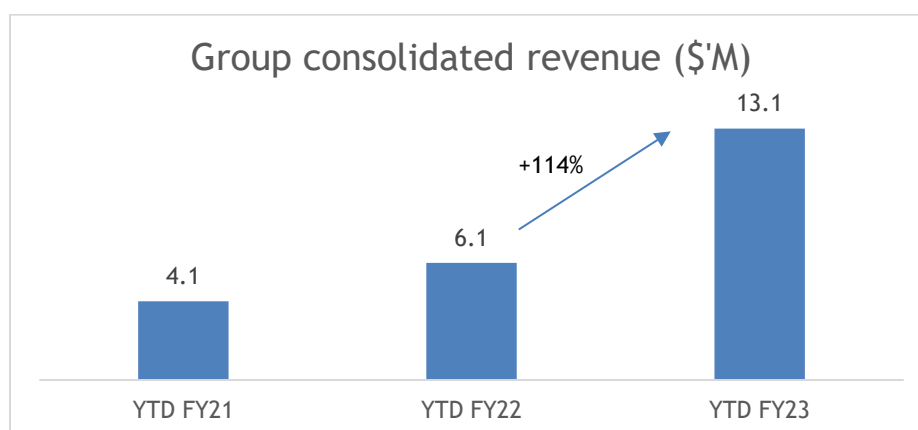


Chart 1: YOY growth in consolidated revenues for the first three quarters

¹ Unaudited

39% year on year increase in Enterprise and Government customers

X2M's target market is the Enterprise and Government utility sector in the APAC region and its client base has continued to rise steadily, reaching 61 at 31 March 2023, up 39% on the pcp. Chart 2 shows the growth in customers.

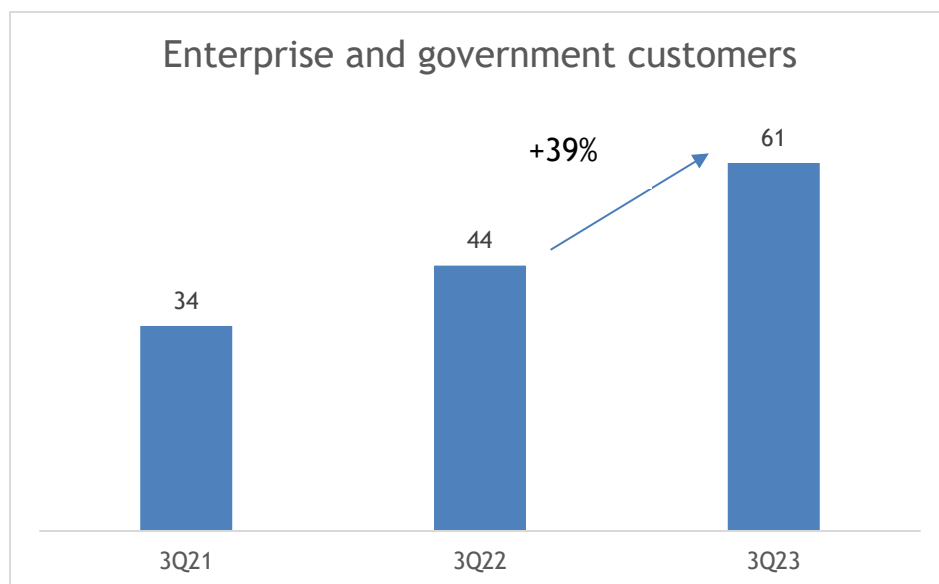


Chart 2: YOY growth in enterprise and government customers

Growth in enterprise and government customers, together with deeper penetration into the addressable market within X2M's existing customer base, drives growth in devices connected onto X2M's proprietary platform. This is a key focus area for X2M and an important lever in establishing the base for future recurring SaaS and maintenance revenues.

99% year on year increase in connected devices

Total connected devices at 31 March 2023 reached 390,626, an increase of 99% from 31 March 2022 as shown in Chart 3 below.

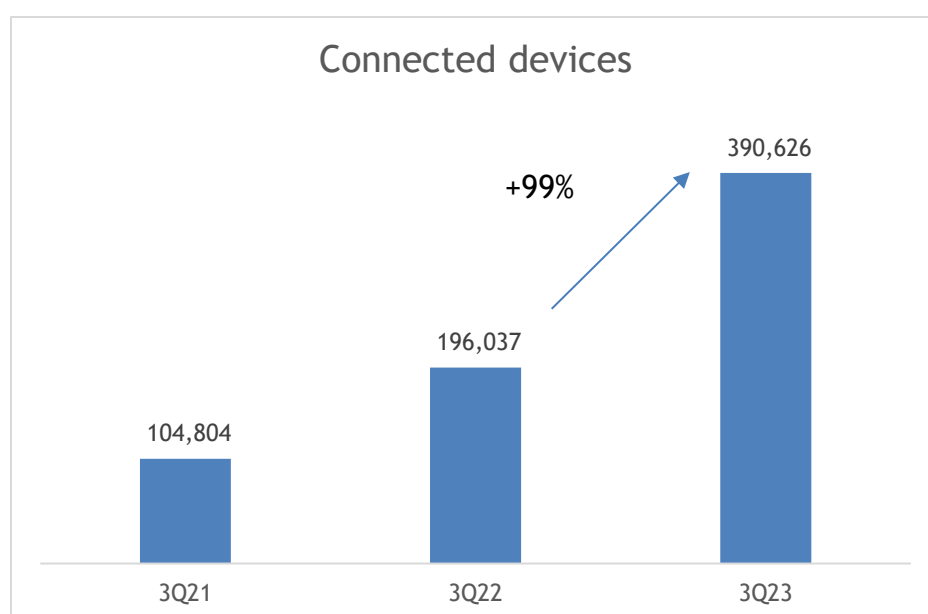


Chart 3: Growth in connected devices, 31 March 2021 to 31 March 2023

X2M began reporting Annualised Recurring Revenue (ARR) this financial year. ARR is the monthly SaaS and maintenance revenue that is recorded in the last month of the reporting period and annualised by multiplying by twelve. SaaS and maintenance revenues arise from pure subscription services contracts and from subscription allocations in bundled contracts. For March 2023, the ARR is \$1.2million².

FINANCIAL AND CORPORATE 3Q23

Receipts from customers for the quarter were \$2.4 million, including \$1.3 million from China water quality sensor hardware orders. Receipts were expected to be lower in Q3, as X2M received \$3.1 million deposits for new contracts in 2Q23.

Cash outflows from operating activities were \$5.2 million including \$3.1 million in payments for product manufacturing and operating costs of which a total of \$1 million was across current inventory and supplier upfront payments for already contracted future deployments.

Net cash outflows from operating activities were \$1.5 million. On a YTD basis, net operating cash outflows were \$2.4m compared to \$5.2m for the pcpc. This improved performance reflects the strong revenue growth YTD compared to the pcpc together with tight control on costs.

Net cash flows from investing activities were \$0.6 million, mainly attributable to investment on capitalised development costs for new product development on the X2M IoT platform.

Net cash outflows from financing activities were \$0.8 million, including full repayment of FY22 R&D loan. X2M has lodged a total of \$0.5 million as performance security deposits YTD FY23. These will be refunded in due course upon completion of deployments or expiry of the performance period.

Total cash at 31 March 2022 was \$94K. X2M secured an additional \$1 million in loan facilities during the quarter, which remained unused as at 31 March 2023.

Related party payments in Appendix 4C section 6.1 of \$65K represents director fees.

USE OF IPO FUNDS

X2M prepared a Replacement Prospectus in relation to the Initial Public Offer of 32m shares to raise \$8 million. In section 6.16, X2M 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 30 June 2022. This same table was included in the Quarterly Activity Report released to the ASX on 29 July 2022. X2M has fully utilised the funds from the IPO and therefore this same statement applies.

Use of Funds	Total Allocated Funds (\$000's)	Funds Used 20 Sep 21 - 30 Jun 22 (\$000's)	Commentary
Customer acquisition	1,300	1,206	In line with expectations
Customer support	1,200	1,467	In line with expectations
Development, IT services and	1,500	2,423	Above expectations driven by

² Unaudited

patents			additional resources engaged to support customer growth
Licensing & geographic expansion	1,700	334	Below expectations because of prioritisation of current markets
Mergers & acquisitions review	300	-	Below expectations
Administration	1,750	1,805	In line with expectations
Working capital	1,100	1,309	In line with expectations
Expenses of the Public Offer	850	1,156	Above expectations driven by legal costs
Total	9,700	9,700	

Table 1: Use of IPO funds

X2M CEO Mohan Jesudason said: “X2M delivered a strong Q3 on the back of a good first half year and this augers well for the full year. The current capital raising via a Placement and the Share Purchase Plan will strengthen the balance sheet in Q4.”

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

X2M now has more than 390,000 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/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 2023

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	2,380	13,502
1.2 Payments for		
(a) research and development	(89)	(268)
(b) product manufacturing and operating costs	(3,129)	(10,932)
(c) advertising and marketing	(30)	(116)
(d) leased assets	(22)	(126)
(e) staff costs	(1,074)	(3,913)
(f) administration and corporate costs	(568)	(1,689)
1.3 GST/VAT received / (paid)	(197)	(254)
1.4 Interest received	1	4
1.5 Interest and other costs of finance paid	(57)	(84)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	1,310	1,375
1.8 Other	-	66
1.9 Net cash from / (used in) operating activities	(1,475)	(2,435)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	(2)
(d) investments	-	-
(e) intellectual property	(659)	(1,883)
(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 – Security deposits	32	(532)
2.6	Net cash from / (used in) investing activities	(627)	(2,417)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	3,970
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(347)
3.5	Proceeds from borrowings	-	1,250
3.6	Repayment of borrowings	(750)	(782)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	(75)	(203)
3.10	Net cash from / (used in) financing activities	(825)	3,888

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,050	1,020
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,475)	(2,435)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(627)	(2,417)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(825)	3,888
4.5	Effect of movement in exchange rates on cash held	(29)	38
4.6	Cash and cash equivalents at end of period	94	94

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	94	3,050
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)	94	3,050

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	65
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	2,000	1,000
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	2,000	1,000
7.5	Unused financing facilities available at quarter end		1,000
7.6	<p>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.</p> <p>\$2 million loan facility is with Brownvalley Family Trust which \$1 million was drawn down on 29 December 2022. This was an advance secured against X2M's FY23 RDTI. The interest rate for the loan facility is 14% per annum. X2M must repay the loan, together with all interest accrued on the earlier of 30 June 2024 or 14 business days after receipt of an early repayment notice from the lender.</p>		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,475)
8.2	Cash and cash equivalents at quarter end (item 4.6)	94
8.3	Unused finance facilities available at quarter end (item 7.5)	1,000
8.4	Total available funding (item 8.2 + item 8.3)	1,094

8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	0.74
<p><i>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.</i></p>		
8.6	<p>If item 8.5 is less than 2 quarters, please provide answers to the following questions:</p>	
8.6.1	<p>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?</p>	
<p>Answer: No. The current quarter was impacted by the timing of cash receipts from customers, which were \$2.4m compared to reported revenue of \$4.1m. On a YTD basis, net operating cash outflows were \$2.4m compared to \$5.2m for the pcg. This improved performance reflects the strong revenue growth YTD compared to the pcg together with tight control on costs.</p>		
8.6.2	<p>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?</p>	
<p>Answer: Yes, as noted in the ASX announcement on 17 April 2023, X2M received commitments of \$858K in a placement which will settle in May 2023. On 18 April 2023, X2M also launched a Share Purchase Plan, which is due to close on 2 May 2023. X2M may also place any shortfall under the SPP using its remaining placement capacity under ASX Listing Rules 7.1 and 7.1A.</p>		
8.6.3	<p>Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?</p>	
<p>Answer: Yes as stated above.</p>		
<p><i>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.</i></p>		

Compliance statement

- This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- This statement gives a true and fair view of the matters disclosed.

Date: 28 April 2023

Authorised by: By the Board of X2M Connect Limited
(Name of body or officer authorising release – see note 4)

Notes

- 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.
- 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.
- 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.
- 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".
- 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.