CONNEXION

ASX Announcement
21 July 2023

Quarterly Update

For the Quarter Ended 30 June 2023

- **Significant technical resources allocated to the All-in-One consolidation**
- **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**
- **Q4 Revenue of $2.30m → +3% over prior quarter**
- **Q4 Gross Profit of $1.91m → +9% over prior quarter**
- **Q4 Net Profit Before Tax of $1.3m → +32% over prior quarter**
- **Q4 Operating Cashflow of $812k → +499% over prior quarter**

Connexion Telematics Ltd ("Connexion" or the "Company") is pleased to provide an update on its activities for the quarter ended 30 June 2023 ("Q4 FY23" or "the Quarter").

Summary

Connexion continued to provide its mobility SaaS platforms, OnTRAC and Connexion, to General Motors' ("GM") dealers, and others in the US, for management of their Courtesy Transportation Programs ("CTP").

Financially, Connexion's performance in Q4 FY23 is summarised as follows:

1. Steady revenue growth from Connexion subscriptions
2. Steady revenue growth, albeit off a low base, from income linked to vehicle inventories
3. Steady revenue growth from feature-enhancement delivery
4. Increasing growth expenditure from reinvestment into our Team and Products

Taking the above into account, Connexion traded profitably throughout Q4 FY23, with a Net Profit Before Tax ("NPBT") of $1.3m, versus a Net Profit Before Tax of $0.99m for Q3 FY23.

Gross Profit in Q4 FY23 was $1.91m, being a 9% increase on the prior quarter's Gross Profit of $1.75m, which itself was already an all-time high for Connexion.

Notwithstanding Connexion's strong financial performance today, our overriding priority is growing long-term Shareholder value.

This translates to our mission to be the “Connexion” between Fleet Owners and the Future of Mobility.

We are starting this journey within the niche of Courtesy Transportation for Automotive Retail.

This niche is supplied by three main modes of transportation: the loaner, shuttle and ridehail.

To date, we have only commercialised our solution for managing loaners.

We continue to take a balanced approach towards the pursuit of financial and strategic objectives. Our budget for growth initiatives (“Growth Spend”) is that which, when fully expensed, reduces our NPBT to nil.

Strategy execution means prioritising the development of our product suite, whilst deepening and expanding customer relationships, rather than over-optimising for top-line or bottom-line profitability.

When assessing the financial outcomes of our activities, we continue to pay most attention to growth in Gross Profit, whilst targeting a neutral bottom line (NPBT). We will continue to grow our reinvestment into the business by way of Growth Spend, provided that we see a clear path to generating an acceptable return on such expenditure.

Operations

Team

Connexion continues to invest into its Team, adding 4 FTEs during the Quarter, across Operations and Sales. These individuals form a highly experienced, independent Product Team tasked with building a product for Connexion in which they have had recent practical experience together at another organisation. One of our strengths is our speed of execution, and this is a prime example.

Feature Enhancements

Connexion’s core focus remains keeping its two platforms, including our mobile app, at the forefront of fleet and rental management capabilities.

Some of this work is invoiced, contributing to either Fixed-dollar SaaS or Service Revenue, with the balance self-funded within our R&D program (which itself forms part of our Growth Spend metric).

Each feature enhancement falls into one of the three categories within Connexion’s operating model of “Embed, Integrate, Generate”. Activity during the Quarter remained at an all-time high, as measured by R&D Expenditure.

Customer Success

Our Customer Success Team spent much of the Quarter engaging with dealership customers now recovering from such severely depleted inventories that they were without a loaner fleet (and therefore a need for our software) altogether. This area of investment is increasingly important to our business as we establish a higher level of direct engagement with our dealer customers.

Sales

Sales traction outside of GM remains below our expectation and our required rate of return in relation to Growth Spend. The Team is working hard to remedy this, though risk remains.

Today, we pursue sales growth in three ways:

1. Proprietary feature enhancements valued by our existing Userbase of franchised dealerships
2. Commercial Partnerships bringing complementary functionality to this existing Userbase
3. Expansion of the Userbase itself to new OEMs and franchised dealerships

The efficacy of our sales efforts is influenced by the competitiveness of our product and that of our Sales & Marketing capabilities. During Q3 and Q4 FY23, our Product resources were largely consumed by the recent consolidation-related contract expansion announced to the ASX earlier this year. We expect to regain technical resource availability over the coming months, whereas our Sales & Marketing efforts require more critical review and adjustment - currently underway.

APIs

Connexion has APIs live across multiple Dealer Management System ("DMS") providers in the US, and an increasing number of other Commercial Partners, along with various divisions within GM.

Whilst the anticipated near-term revenue from these initial APIs is immaterial, the Company expects to benefit both strategically and economically over the long-term.

Connexion Platform

Designed as our OEM-agnostic software, the Connexion platform was launched ahead of schedule in May 2021 for its secondary use-case, being a solution with which GM and its dealerships could better navigate the vehicle supply shortage by managing used vehicles. The platform was developed with the objective of generating sustained revenue, even after a normalisation of new vehicle supply.

In February, Connexion advised that its cornerstone OEM customer agreed to mandate the supply of the Connexion Platform to all its CTP-participating dealerships as part of an "All in One" version of the OnTRAC platform.

The extension took effect January 2023, and is expected to be formalised in due course via an Extended Agreement, subject to the internal review, procedures, and documentation from GM's dedicated Purchasing Team. The extension was responsible for much of the uplift in Subscription Revenue during Q3 FY23.

Platform Consolidation

During the past two quarters, most of our technical resources were allocated toward the consolidation of our two software platforms. As at the date of this report, these efforts are largely complete, delivering operational efficiencies in FY24 and beyond. From a branding perspective, the OnTRAC and Connexion product names will continue.

Ford & Lincoln

Connexion holds Approved Vendor status for the Ford Motor Company's ("Ford") Ford Courtesy Transportation Program ("FCTP") and Lincoln Courtesy Transportation Program ("LCTP") in the US.

Consistent with the terms of the FCTP and LCTP, and unlike our status within GM, Ford does not mandate the use of any loaner management vendor's product. Instead, Connexion is only one of multiple software vendors previously approved to supply Ford and Lincoln dealerships with fleet & rental management software customised for the FCTP/LCTP. Notably, certain vendors hold "preferred" status, which was granted prior to Connexion's approval, and is currently unavailable to Connexion.

Shareholders should also note that the majority of Ford and Lincoln dealerships already use a Ford-approved software solution today, so it is incumbent upon us to market our approved product directly to Ford and Lincoln dealerships who may consider switching vendors.

No Ford or Lincoln dealerships were signed during the Quarter, and there is no guarantee that we will generate any minimum amount of revenue from this endeavour.

Commercial Partnerships

We update on our Commercial Partnerships as follows:

- Tollaid: we continued national marketing of our Toll Management Solution, powered by Tollaid. Toll Management software allows dealerships to improve operational efficiency, cost recovery and customer experience.

  Numerous dealerships signed up to trial during the Quarter, from which we anticipate a strong conversion rate, as we have seen with our other trial users to date. As expected, the near-term revenue is growing, but remains immaterial.

- Quickride: during the Quarter, and in collaboration with Quickride, we launched our MVP Shuttle Management product. With shuttle being one of the three pillars of courtesy transportation, Quickride's shuttle management platform presents numerous logical integration points through which we believe we can unlock value for our mutual customers. Anticipated near-term revenue remains immaterial.

- We signed a new product integration agreement with Privacy4Cars ("P4C"). P4C's mission is to help fleet owners protect their customers' Personally Identifiable Information ("PII") from getting into the wrong hands following a change in ownership or user access.

We are working with these parties, and others, to develop a vibrant software ecosystem, managed via our proprietary Marketplace, which is under development.

Attracting, developing and retaining a broad range of participants in our Marketplace is critical to unlocking significant long-term value for all stakeholders.

With that said, all Commercial Partnerships 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.

Financial Position

Connexion's financial position remained consistent during the Quarter, with steady growth in Subscription Revenue, and consistent SaaS Revenue and Service Revenue.

The Company recognised total revenue during the Quarter of $2.3m, being a 3% increase over the prior quarter.

Subscription and SaaS Revenue increased by 6.7% and 4.4%, respectively, over the prior quarter, both reaching all-time highs. Service Revenue decreased by 21.4% over the prior quarter to $173k due to increased customised requests in the prior quarter. Service Revenue of $173k is the second-highest in the past 12 quarters.

Combined, this led to an unaudited Gross Profit of $1.91m for the Quarter – the highest in Connexion's history, and an increase of 9.3% over the prior quarter.

Connexion also recorded a quarterly, unaudited Net Profit Before Tax of $1.3m. Net Cash and Investments increased by $768k, consisting of Operating Cash Inflow of $812k, Investing Cash Outflow of $368k and Financing Cash Outflow of $95k.

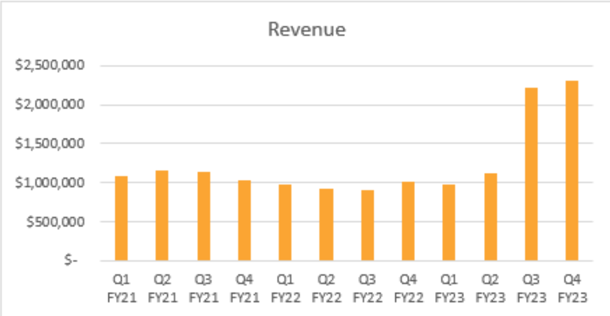
The AUD:USD exchange rate decreased throughout the Quarter before ending largely unchanged.

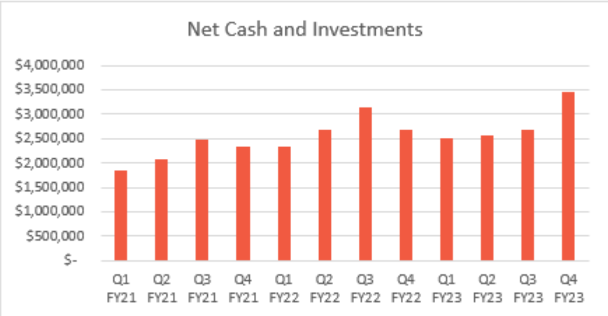
Generally speaking, a decrease in the AUD:USD has the following impact:

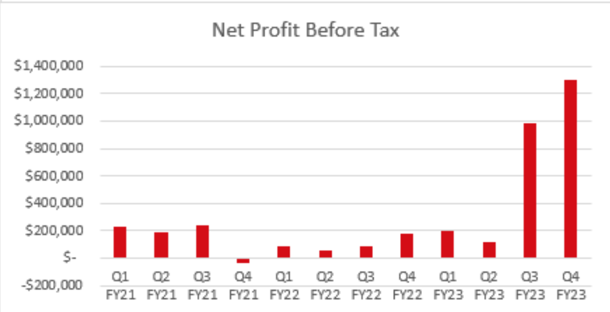
1. An immediate negative impact to our P&L via a decrease in the USD value of our AUD-oriented balance sheet.
2. A sustained positive impact to our P&L via increased Operating Cashflow over time.

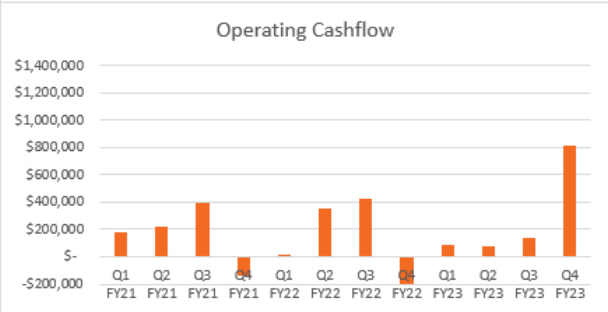
Both Board and Management continue to maintain a disciplined approach to costs, whilst reinvesting a large portion of Gross Profit back into the business in the pursuit of long-term growth.

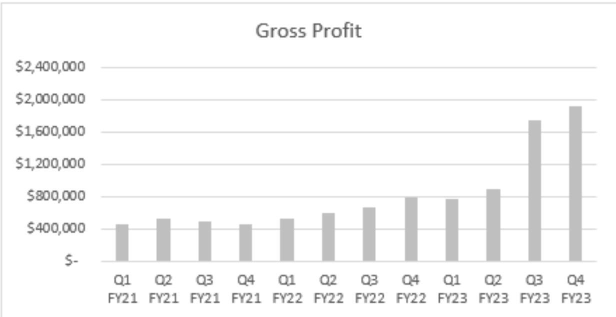
Below features a summary of our key financial metrics:



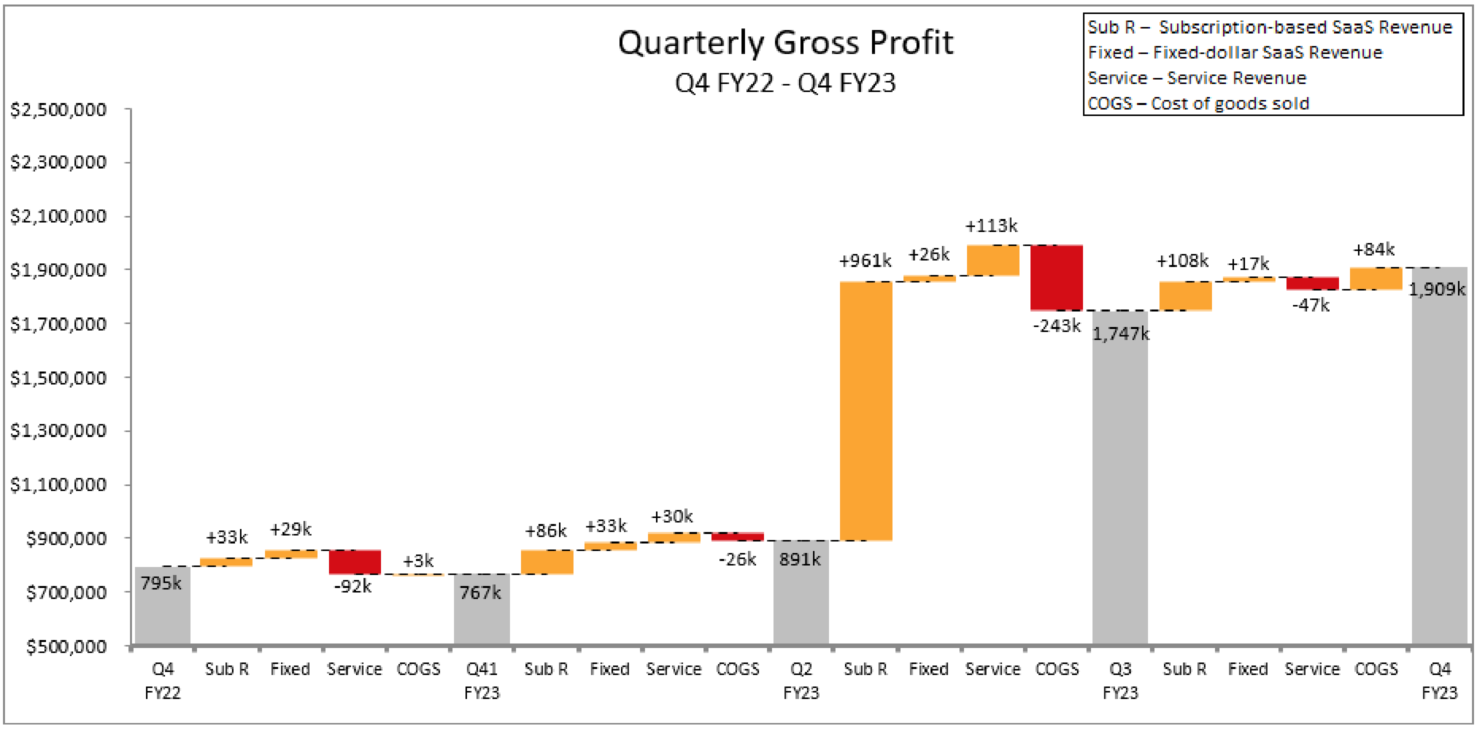




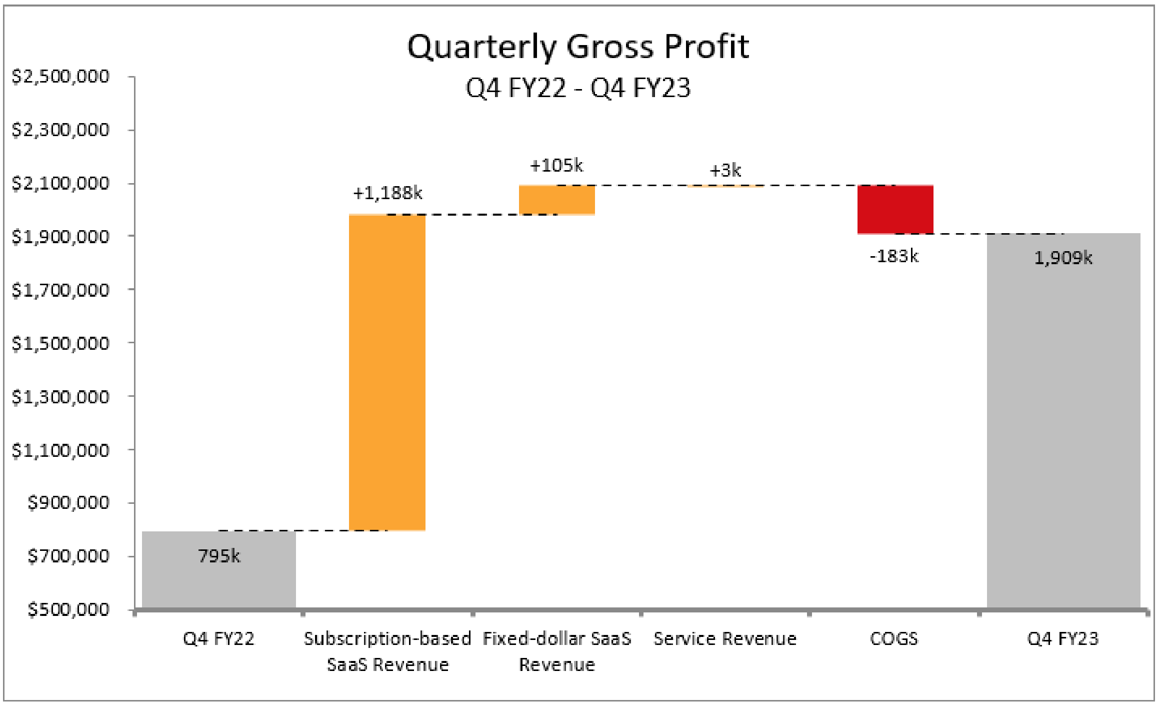




Below is a summary of the key impacts to quarterly Gross Profit over the past 12 months:



Below are the combined key impacts to quarterly Gross Profit over the past 12 months:



Included in COGS is the cost of telemetry, which is charged per vehicle.

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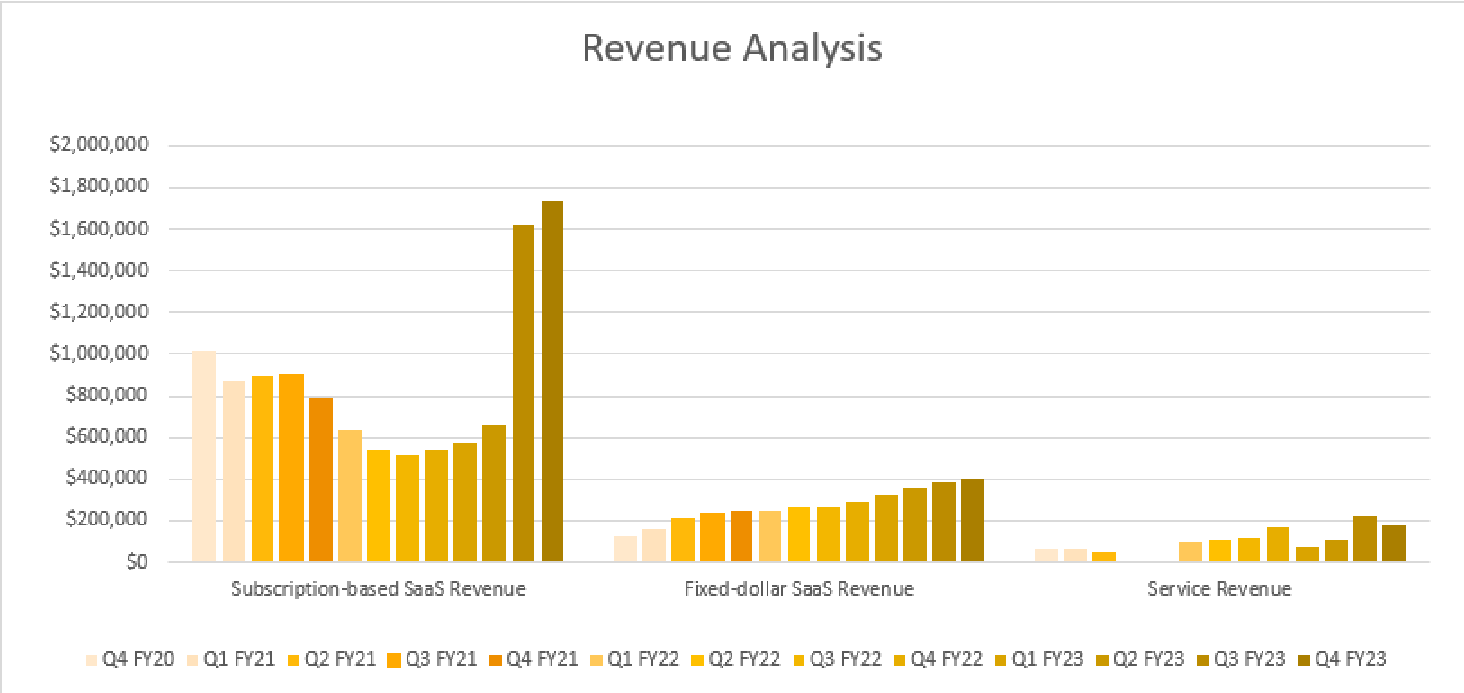
Revenue Analysis

Connexion's three main revenue sources are:

1. Subscription-based SaaS Revenue – includes the OnTRAC and Connexion Subscription Bases. Both OnTRAC and Connexion generate revenue which is linked to the maximum number of vehicles on the platform each month. In addition, the Connexion Platform generates a monthly fee per dealership. Each revenue stream has its own 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. Notably, the second and third revenue categories above are 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.

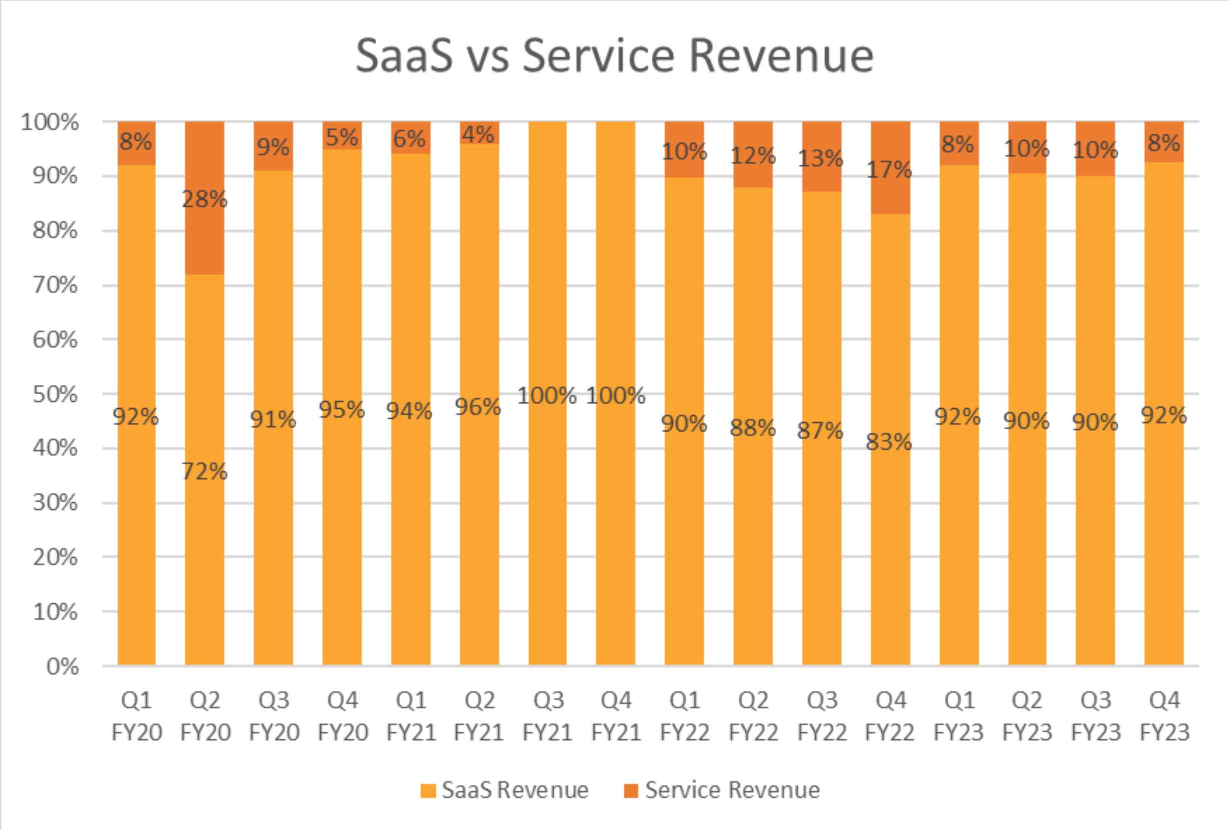
Below, we present the revenue categories from Q4 FY20 onwards. This starting point marked the beginning of significant impact from both the Covid pandemic and the global semi-conductor chip shortage:



Subscription-Based Revenue increased to $1.73m. Notably this is the fifth consecutive quarterly increase since Q3 FY22.

Fixed-dollar SaaS Revenue increased 4.4% compared with the prior quarter, from an annualised run rate of $1.53m in Q3 FY23 to $1.59m in Q4 FY23. This reflects Connexion's ongoing product enhancement work.

Below, we present the split between Service revenue and SaaS revenue.



Corporate

During the Quarter, we continued to invest meaningfully in our human capital, expanding our Team. Our hiring efforts continue, supporting both our OnTRAC and Connexion product roadmaps. Today, nearly 50% of our Team has joined only in the past twelve months, reflecting our pace of expansion.

Naturally, our investment into Product and Sales & Marketing initiatives will continue to constrain profitability in the near term as we pursue what is a material long-term growth opportunity in the US.

Consistent with our growth ambitions, our overriding priority is in deepening & expanding our customer relationships at attractive gross margins, rather than in optimising for top-line or bottom-line profitability. Financially, we continue targeting growth in Gross Profit combined with a neutral bottom line.

To date, the current Management and Board have successfully demonstrated a disciplined approach to the management of Shareholder capital, and this will continue as the Company invests for growth.

Share Buyback

During the Quarter, Connexion repurchased 10,322,469 shares at an average price of A$0.018 per share. Across all its buyback initiatives, Connexion has repurchased 72,023,365 shares between A$0.01-0.018 per share.

The logic for the buyback was articulated most recently in Connexion's Q4 FY22 Quarterly Update.

Outlook

Connexion's mission is to be the "Connexion" between Fleet Owners and the Future of Mobility.

We are starting this journey within the niche of Courtesy Transportation for Automotive Retail.

This niche is supplied by three main modes of transportation: the loaner car, shuttle and ridehail. To date, we have only commercialised a solution for managing loaners.

From our observations, we see OEMs and dealerships increasingly adopting software to:

1. Improve their customer's experience
2. Drive operational efficiency
3. Reduce risk

Connexion's software:

1. Delivers on each of the above, today
2. Has a large Userbase within which to iterate its product, and grow its market presence
3. Has only a small share of dealerships' total software spend, providing ample scope to grow

Connexion intends to continue growing its SaaS revenue streams via:

1. Proprietary feature enhancements valued by its existing Userbase of franchised dealerships
2. Commercial Partnerships bringing complementary functionality to this existing Userbase
3. Expansion of the Userbase itself to new OEMs and franchised dealerships

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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