CONNEXION

ASX Announcement
19 October 2023

Quarterly Update

For the Quarter Ended 30 September 2023

- **Significant technical resources allocated to the All-in-One consolidation**
- **Continued progress made on Company strategic objectives**
- **Significant growth in investment in both Team and Product**
- **All reported figures are unaudited and in USD, unless otherwise stated**
- **Q1 Revenue of $2.32m → +1% over prior quarter**
- **Q1 Gross Profit of $1.88m → -1% over prior quarter**
- **Q1 Maintainable Earnings of $1.39m → -26% over prior quarter**
- **Q1 Net Profit Before Tax of $0.46m → -64% over prior quarter**
- **Q1 Operating Cashflow of $1.05m → +29% over prior quarter**

Connexion Telematics Ltd ("Connexion" or the "Company") is pleased to provide an update on its activities for the quarter ended 30 September 2023 ("Q1 FY24" 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 Q1 FY24 is summarised as follows:

1. Marginal revenue growth from Connexion subscriptions
2. Marginal revenue growth from income linked to vehicle inventories
3. Marginal revenue growth from feature-enhancement delivery
4. Increasing growth expenditure from reinvestment into our Team and Products

Quarterly Gross Profit decreased 1% quarter-on-quarter, to $1.88m.

Quarterly Maintainable Earnings decreased 26% quarter-on-quarter, to $1.39m.

Quarterly Net Profit Before Tax ("NPBT") decreased 64.5% quarter-on-quarter, to $0.46m.

Connexion's overriding priority is growing long-term Shareholder value, being a function of the size, sustainability, and diversification of earnings.

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, would reduce our NPBT to nil.

Executing our strategy means prioritising product development, whilst deepening and expanding customer relationships, rather than over-optimising for near-term revenue or NPBT.

When assessing the financial outcomes of our activities, we pay most attention to growth in Diluted Maintainable Earnings Per Share ("DMEPS"), whilst targeting a neutral bottom line (NPBT). We will continue growing our reinvestment into the business, as measured by Growth Spend, provided that we see a clear path to generating an acceptable Return on Growth Spend ("RGS").

We recently updated Shareholders on our use of DMEPS and RGS as financial metrics. Further information regarding these metrics is found in the ASX announcement dated 16 October 2023.

Operations

Team

We continued investing into our Team, adding 6 FTEs during the Quarter, across Product and Customer Success. These individuals will enhance our Product and communicate these enhancements effectively to our Users.

Product Enhancements

Connexion's core focus is keeping its two platforms, including its mobile app, at the forefront of fleet, rental, and mobility management capabilities.

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

Each product enhancement falls into one of the three categories within Connexion's operating model of "Embed, Integrate, Generate". During the Quarter, product development remained at an all-time high, as measured by R&D Expenditure.

During the Quarter, we significantly increased our investment into Product, and we anticipate launching multiple new products and features, including a new UI, in late Q2.

Customer Success

We added two new Customer Success Managers, with the Team spending much of the Quarter engaging with dealership customers 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 higher levels of direct engagement with our dealer customers.

Sales

Outside our existing customer base, our external sales results remain well below our internal targets. Per the prior quarter, our Product Team has been largely unable to support Sales & Marketing Team's immediate needs in areas such as UI/UX, whilst the GM expansion and other product initiatives are underway. We anticipate that the launch of new products and features, including a new UI, in late Q2 will support our external Sales and Marketing efforts in due course.

Within our existing customer base, our internal sales efforts are beginning to gain traction, with dealers starting to sign up for our Toll and Shuttle Management products. Whilst direct-to-dealer revenue is growing, it remains immaterial.

Addressing customer concentration is our number one focus, and we are working to reduce this in four ways, by:

1. Deepening our commercial relationship with our existing OEM counterparts
2. Initiating commercial relationships within other departments of our OEM customers
3. Initiating and deepening commercial relationships directly with franchised dealerships
4. Initiating commercial relationships with OEMs outside of our existing customers

Commercial Partnerships

We update on our Commercial Partnerships as follows:

- Tollaid: during the Quarter, multiple dealerships signed up to trial, 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, though is not yet material.

- Quickride: during the Quarter, multiple dealers signed up to trial. Most of these were existing mutual customers, from whom we will not derive revenue but expect valuable feedback, testimonials, and stickiness. Anticipated near-term revenue is not yet material.

- Privacy4Cars: integration work was deprioritised during the Quarter as our Product Team focused on clearing its backlog.

We are working behind the scenes with these parties, and others, to develop a vibrant software ecosystem, managed via our proprietary Marketplace.

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 overall financial position remained strong during the Quarter, with steady growth in all three Revenue streams of Subscription Revenue, SaaS Revenue and Service Revenue.

The Company recognised total revenue during the Quarter of $2.32m, being a 1% increase over the prior quarter and a record for the company.

SaaS and Service Revenue increased by 1.8% and 4.7%, respectively, over the prior quarter, with SaaS Revenue reaching all-time highs. Subscription Revenue had a minor increase over the prior quarter and, like SaaS Revenue, reached an all-time high.

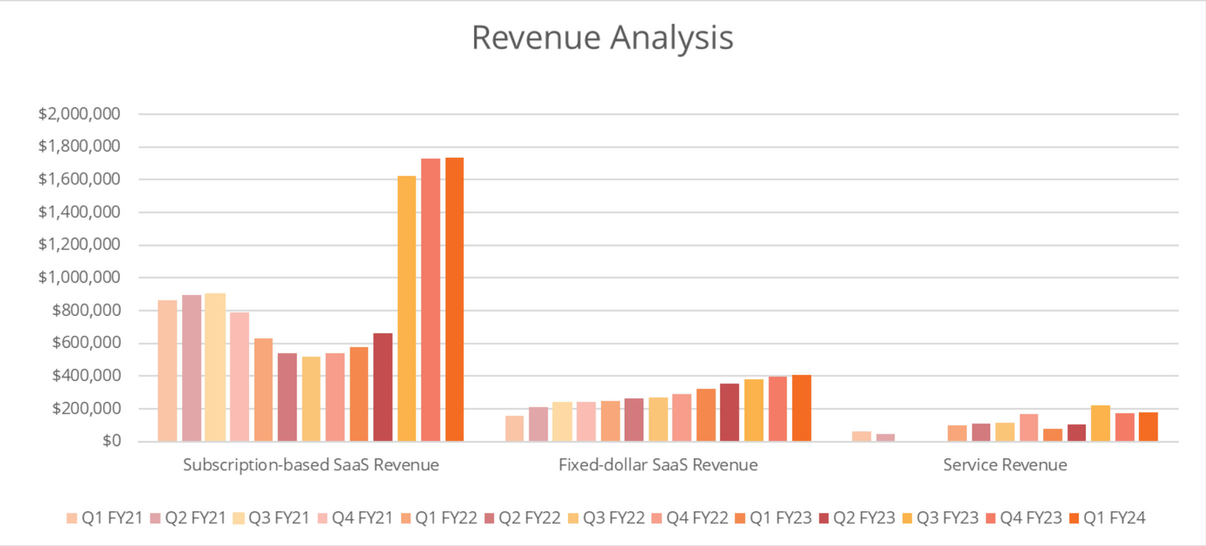
Revenue

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. Each revenue category has its own cost structure.

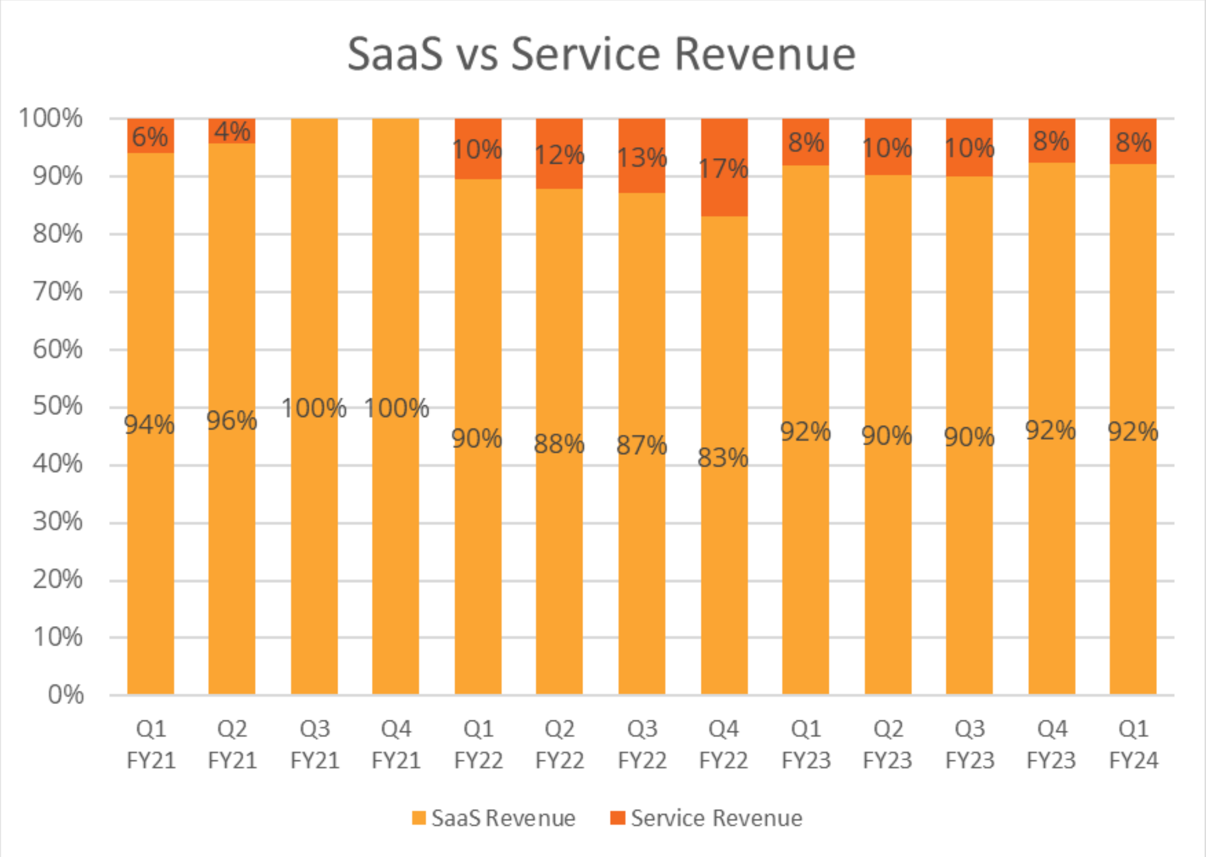
Below, we present the revenue categories from FY21 onwards.



Subscription-Based Revenue increased to $1.735m. Notably this is the sixth consecutive quarterly increase since Q3 FY22.

Fixed-dollar SaaS Revenue increased 1.8% compared with the prior quarter, from an annualised run rate of $1.59m in Q4 FY23 to $1.62m in Q1 FY24. This reflects Connexion's ongoing product enhancement work.

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



Maintainable Earnings

To date Connexion has presented Gross Profit as the core measure of the underlying economic health of Connexion's business. As announced to the ASX on 13 October 2023, Management now presents an improved set of metrics designed to measure performance with greater scrutiny.

From now, Management will present Diluted Maintainable Earnings Per Share ('DMEPS') as a core financial metric, complemented by Return on Growth Spend ('RGS').

DMEPS is calculated as Maintainable Earnings / Diluted Share Count.

RGS is calculated as Growth in Maintainable Earnings / Prior Year Growth Spend.

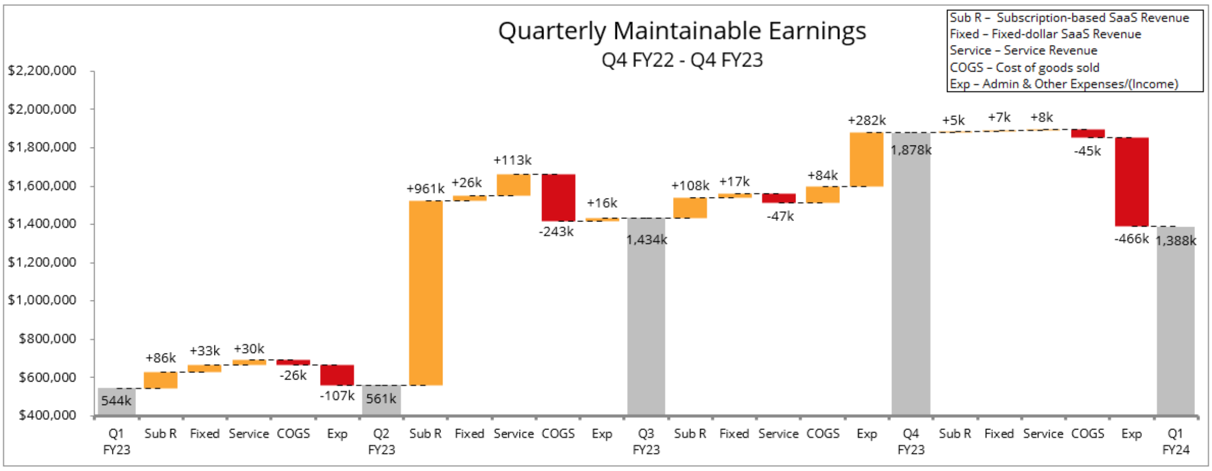
As also mentioned in the recent announcement, most of the variable component of Management's remuneration is now set against DMEPS and RGS.

For Q1 FY24, DMEPS decreased by 28% to 0.14 cents. Maintainable Earnings decreased to $1.39m, down from $1.88m from the previous quarter. The prior quarter's Maintainable Earnings included a once-off R&D tax rebate under Admin & Other Expenses/(Income) of $0.36m, while Q1 FY24 includes the quarterly provision for incentive remuneration for both Management and Staff.

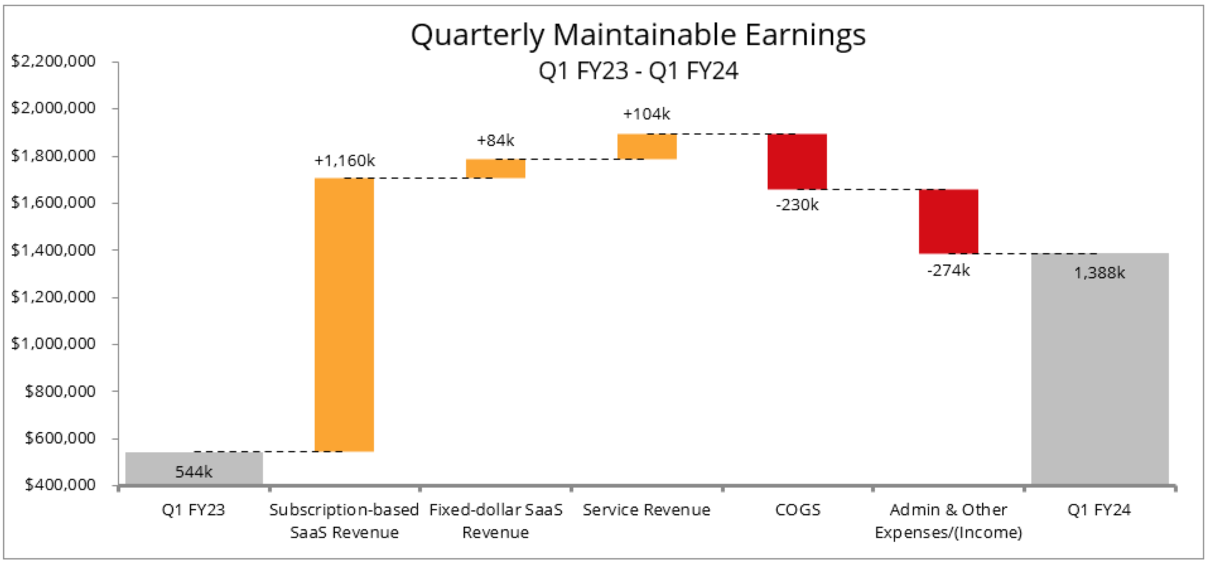
The rolling one-year RGS is 273%. We expect this to decrease in future quarters, as the historically low Growth Spend through FY22 rolls off. In the coming quarters, RGS will decrease as the denominator of Growth Spend increases.

Management notes that for software companies building recurring, B2B revenue streams, an average RGS below 100% is almost universal, as customer cohorts typically deliver revenue for many years after the major associated cost is spent, being the initial cost to build the product and acquire the customer. Due to the natural variance in sales and operational cycle length, RGS is best assessed over multiple periods. For now, Connexion will publish its one-year RGS metric.

Below are the key impacts to Maintainable Earnings, both quarterly and aggregated, over the past 12 months.



Note that included in COGS is the cost of telemetry, which is charged per vehicle.

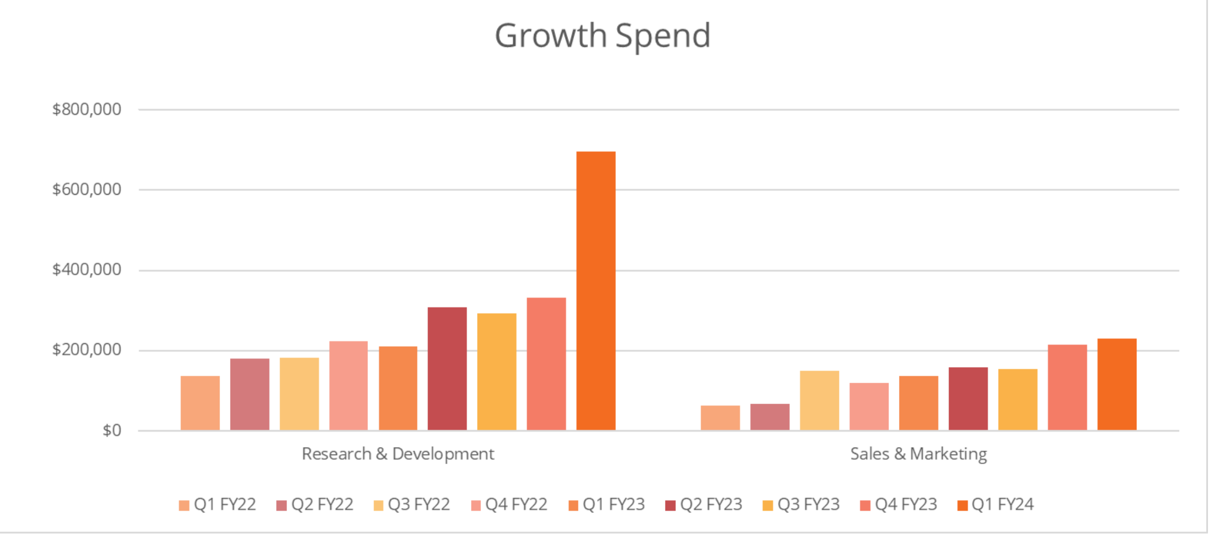


Growth Spend

Connexion's Growth Spend consists of discretionary Research & Development plus Sales & Marketing expenditure, and is generally expensed as incurred.

In Q1 FY24, our Research & Development expenditure increased by 110% over the prior quarter, reflecting our investment into new products and projects. Sales & Marketing expenditure increased modestly, 7% over the prior quarter.

Below, we present the Growth Spend categories from FY22 onwards:



Net Profit Before Tax

Connexion recorded a quarterly, unaudited Net Profit Before Tax of $0.46m, a decrease of 64.5% over the prior quarter. The significant decrease vs prior quarter reflects:

1. The significant increase in Growth Spend above ($0.38m)
2. The absence of the once-off R&D tax rebate received in the prior quarter ($0.36m)
3. The decrease in AUD:USD exchange rate ($0.11m)

The AUD:USD exchange rate decreased throughout the Quarter, ending 2.4 cents lower.

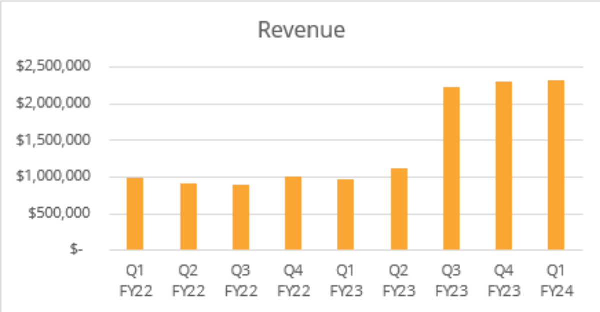
Generally speaking, a decrease in the AUD:USD has the following impact on Connexion:

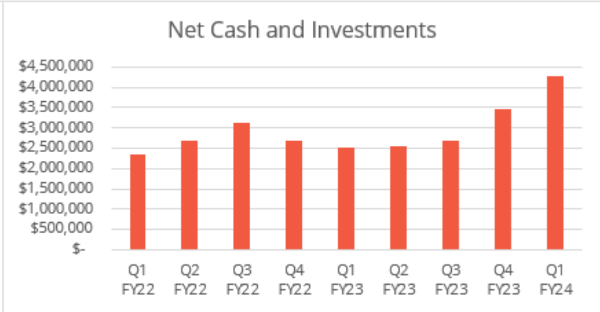
1. An immediate negative impact to our P&L via a decrease in the USD value of our AUD-oriented balance sheet.
2. A sustained positive impact to our P&L via increased Operating Cashflow over time.

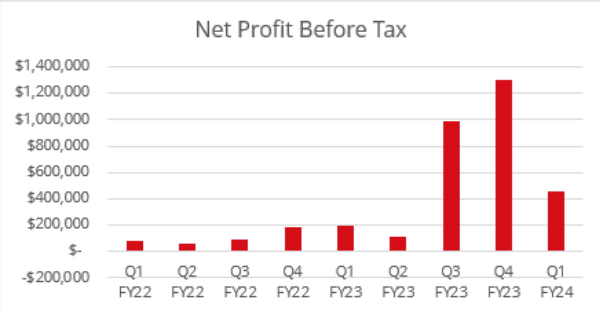
Both Board and Management continue to maintain a disciplined approach to costs, whilst reinvesting a large portion of Maintainable Earnings back into the pursuit of long-term growth.

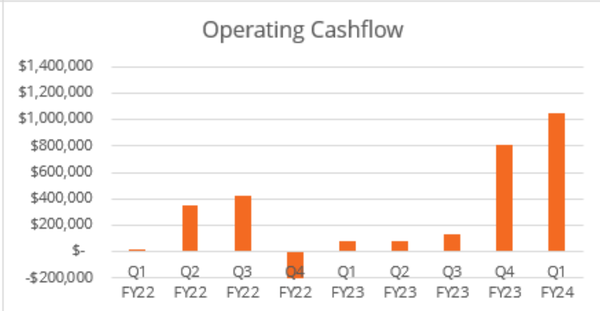
Net Cash and Investments increased by $0.83m, driven by Operating Cash Inflow of $1.05m, Investing Cash Outflow of $1.17m and Financing Cash Outflow of $0.15m.

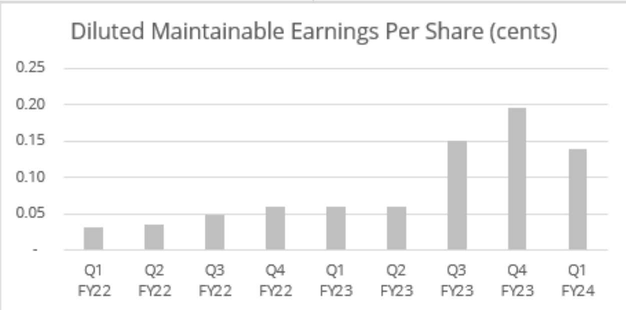
Below features a summary of our key financial metrics.











Corporate

During the Quarter, we invested meaningfully in our human capital, expanding our Team. Our hiring efforts support both our OnTRAC and Connexion product roadmaps. Today, around 50% of our Team has joined only in the past twelve months, reflecting our pace of expansion.

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

Consistent with our growth ambitions, our overriding priority is to deepen & expand our customer relationships at attractive gross margins, rather than over-optimise for near-term revenue or NPBT. Financially, we are targeting growth in DMEPS and RGS, combined with a neutral NPBT.

To date, current Management and Board have enforced 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 approximately 5m shares at an average price of A$0.022 per share. Across all its buyback initiatives, Connexion has repurchased approximately 76.8m shares between A$0.01-0.022 per share.

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

CONNEXION

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 features 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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About Connexion Telematics

Connexion is a public, enterprise-grade, mobility software company servicing the global Automotive Retail industry. Its mission is to be the Connexion between Fleet Owners and the Future of Mobility, starting with courtesy transportation.

The Company's proprietary OnTRAC and Connexion platforms incorporate embedded telemetry, fleet management, contract management and data analytics tools to help OEMs and dealerships move people, parts, and vehicles.

Connexion powers courtesy transportation for thousands of dealerships across the US, maximising their asset utilisation and increasing operational efficiency, whilst elevating the end-customer experience.