

ASX ANNOUNCEMENT
30 July 2024

X2M Connect significantly improves gross profit and margins in FY24

Quarterly Activity Report and Appendix 4C

Business Highlights

- Total revenues for FY24 were \$13.4 million¹, down 17% on the previous corresponding period (pcp)
- 4Q FY24 Revenue of \$2.1 million, down 34% on the pcp (4Q FY23: \$3.1 million), reflecting the Company's targeted and previously announced strategy to exit low margin hardware-only sales
- Gross profit for FY24 of \$4.9 million up 30% on the pcp (FY23: \$3.8 million), reflecting profitable conditions in Japan and South Korea turning to profitability
- FY24 Gross profit margin of 37% up 57% on pcp (FY23: 23%) due to reduced low margin sales and lowered product costs
- Connected devices as at 30 June 2024 were 537,706, up 25% on the pcp
- Enterprise/government customers increased to 75, up 15% on the pcp
- Net cash outflows from operating activities for the quarter was \$1.2 million; total cash as at 30 June 2024 was \$1.9 million
- Entered Middle East with \$2.63 million secured via Placement and Converting Loan Facility
- Strategic focus on high-margin opportunities sees X2M place China business on pause.

Australian Internet of Things (IoT) technology company **X2M Connect Limited** (ASX:X2M) ("X2M" or "the Company") provides its quarterly activity report and Appendix 4C for the period ended 30 June 2024 (4Q FY24).

X2M CEO Mohan Jesudason said: *"We have this quarter continued our targeted strategy to increase the ratio of higher-margin opportunities for our patented IoT solution which enables smart cities by digitising and integrating seamless communication between property, industry and government organisations on one centralised platform. We are focusing efforts on markets where product and installation fees of our smart devices yield higher margins, before we then earn recurring SaaS and maintenance fees under long-term contracts.*

"In our largest market of South Korea demand for our integrated platforms continues to bring in solid profits as customers see the efficiency and cost savings that our smart devices and unique platform bring to the utility sector. In both South Korea and Japan, we are operating at higher margins with positive EBITDA as we provide these enterprise customers with piece of mind against technology redundancy as we seamlessly add new technologies and software upgrades remotely over the life of the long-term contract.

"This quarter we reached 537,706 households using our connected smart devices - a 25% increase over 30 June 2023. New enterprise customers often install an initial 1,000 meters. After experiencing the benefits they start rolling out across their network, often to thousands of meters at a time. We have a current repeat order rate of approximately 50%, with four customers now at having our devices in 100% of premises in their jurisdiction.

"Our devices then work connecting to gas, water and electricity meters, sending and receiving information from the X2M platform providing utilities with accurate, real-time data on meter or device usage, increasing

¹ All revenue figures are unaudited

billing accuracy and eliminating expensive manual reading.

“During the quarter, our enterprise/government customers grew to 75, a 15% increase over the June 2023 figure. We are riding the strong industry tailwinds and government incentives to digitise services in preparation for smart city rollouts and are aggressively targeting new municipalities in our current main markets of Japan, Taiwan, South Korea and parts of China that will bring in new government customers. As an example, we currently work in 40 out of the 161 municipalities in South Korea and are targeting market share of other providers.

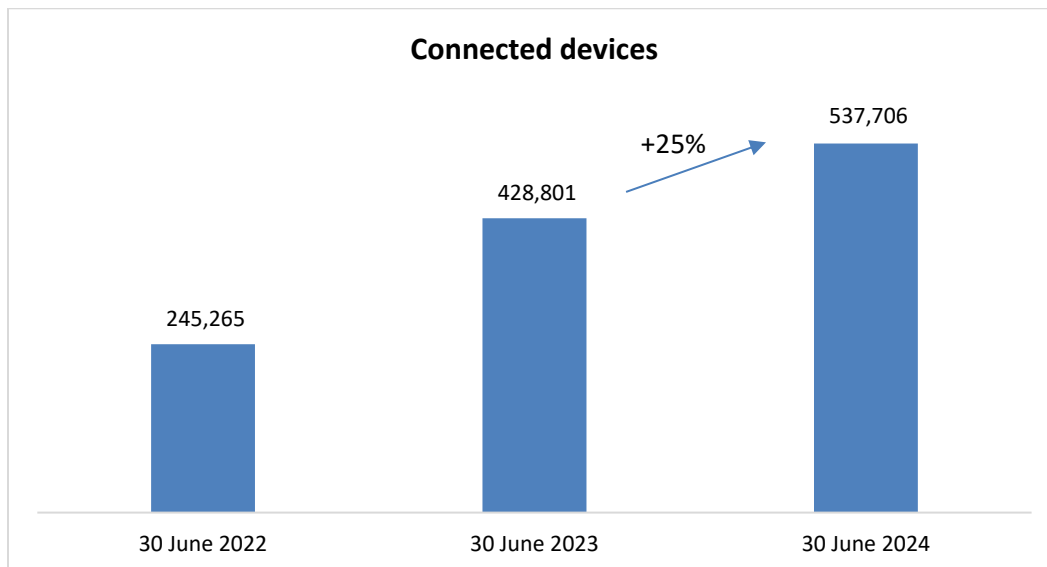
“Softer revenues this quarter were expected as government subsidies for digitisation of utility services ended in some jurisdictions, and we prioritised higher-margin hardware sales and SaaS, rather than chasing low-margin hardware sales in others. However, now that we have established relationships with key utility providers in markets with significantly increased margins, we can implement the next phase of growth by increasing market share.

“The \$2.63 million we secured via a Placement and Converting Loan Facility during the quarter has prepared our entry into the Middle East with the Placement strongly supported by our Middle East channel partner Dicode and other new investors.”

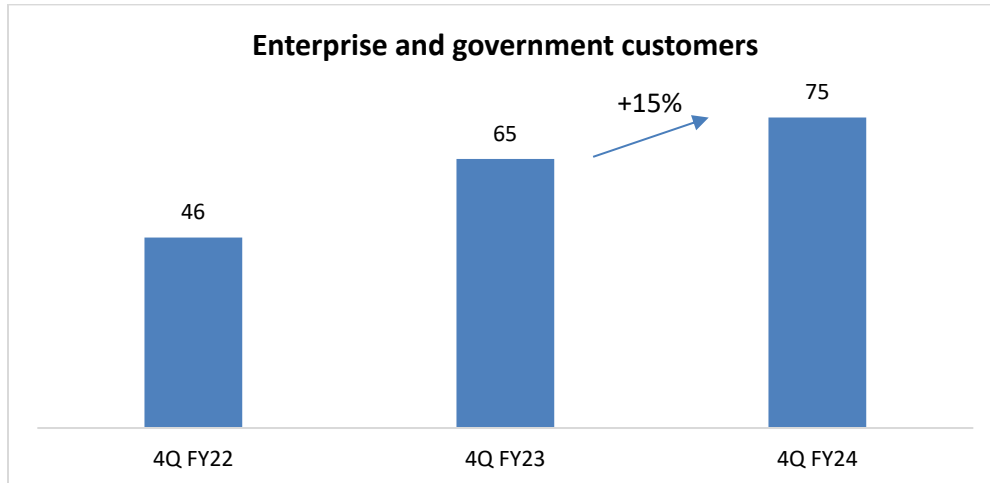
Operational overview

Connected devices, Enterprise Customers and Recurring Revenue

A key focus area for the Company is the continued growth in the number of connected devices which provides the base for future recurring SaaS revenues under long-term contracts. The rise in connected devices is driven by the Company’s core enterprise and government customers. Total connected devices at 30 June 2024 reached 537,706 an increase of 25% on the 30 June 2023 figure.



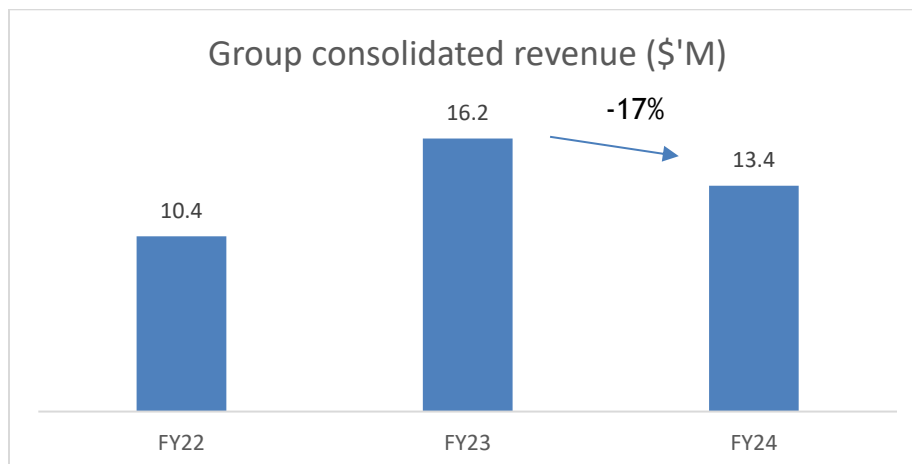
X2M’s enterprise and government client base continued to rise steadily, reaching 75 at 30 June 2024, up 15% on 30 June 2023. X2M has continued to win repeat orders during the quarter.



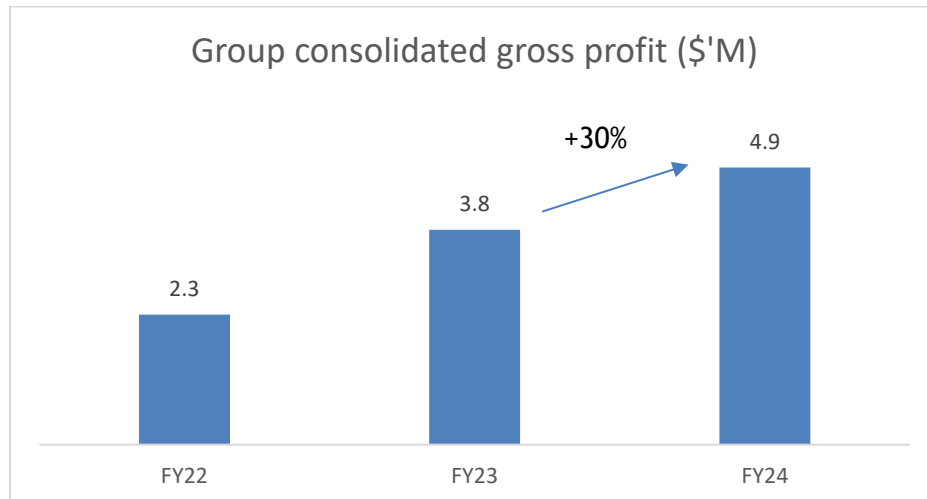
Annual recurring subscription revenues for the Company rose to \$1.7 million at June 2024, up from \$1.2 million in June 2023, an increase of 42%.

Financial overview

X2M achieved total revenues for FY24 of \$13.4 million, down 17% on the pcp. 4Q FY24 Revenue of \$2.1 million was down 34% on the pcp (4Q FY23: \$3.1 million), reflecting X2M's targeted strategy to increase higher margin contracts and as government subsidies for digitisation of utility services came to an end in South Korea and other jurisdictions.



FY24 Gross profit of \$4.9 million was up 30% on the pcp (FY23: \$3.8 million) largely due to the market in South Korea becoming profitable, while the margin was 37%, up 57% on the pcp (FY23: 23%) due to reduced low margin sales and lowered product costs.



Net cash outflows from operating activities during the quarter was \$1.2 million, compared with a cash gain of \$0.1 million in 4Q FY23, reflecting changes in Korean market conditions and the timing of government tenders.

Quarterly receipts from customers were \$2.5 million, including a \$1.1 million cash collection from a Chinese customer, \$0.5 million from Korean deployments and \$0.6 million deposits for new contracts.

The net cash outflow from investing activities was \$1.2 million for the reporting period, mainly attributable to the investment in GreenRock, X2M's strategic energy management partner, and continued investment on capitalised development.

Net cash flows from financing activities were \$2.3 million, including \$1.5 million received on completion of share placements and \$1 million received from a converting loan, offset by \$0.2 million in repayment of borrowings.

Total cash at 30 June 2024 was \$1.9 million.

Related party payments in Appendix 4C section 6.1 of \$84K represent director fees.

China Market

X2M entered the China market in 2021 with targeted strategy to explore opportunities. Our programme to date has focused on developing channels to market through low margin sales to establish a foundation for distribution of the company's proprietary platform. We have made progress in securing these channel partners. The Company's customers typically have been government and semi government organisations. The economic environment in China is such that this market will be slow to mature with lengthy payment terms and restrictions to expatriating funds out of China. After careful consideration, the Board has determined to move away from the China operations for the foreseeable future effective immediately. This decision is expected to enhance the significance of the Company's other operations and will not result in any impairments or asset write-downs. X2M will manage 'run-off' via back-to-back collection and payment arrangements.

Placement and Converting Loan Facility

During the quarter X2M successfully completed a Placement to raise \$1.13 million and secured a Converting Loan Facility of \$1.5 million.



The Placement was strongly supported by associates of X2M's Middle East channel partner Dicode Technologies LLC and other new investors with the former investing \$750,000, validating X2M's prospects in the region.

Funds raised from the Placement and the Converting Loan Facility will be used for X2M's entry into the Middle East – initially the United Arab Emirates – as well as platform enhancements for renewable energy applications and ongoing operations.

Outlook

X2M CEO Mohan Jesudason said: *"We have some exciting projects over the coming months, including the Middle East and rolling out Australia's first smart community of its type in Echuca. The opportunity for us in the Middle East with tens of millions of households is immense where governments are eager to facilitate the move to smart city infrastructure."*

Ends

The Board of X2M has approved this announcement.

For further information contact:

X2M Connect Limited**Mohan Jesudason**

Chief Executive Officer

investor.relations@x2mconnect.com

T: 1 800 926 926 (1 800 X2M X2M)

Investor Enquiries**Gabriella Hold**

Automic Markets

gabriella.hold@automicgroup.com.au

T: +61 411 364 382

Media Enquiries**Tristan Everett**

Automic Markets

tristan.everett@automicgroup.com.au

T: +61 403 789 096

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. The strategy is to stay focused on the utility sector where X2M has proven performance and tap the growing artificial intelligence, renewable energy generation and battery storage markets' demand for data collection, analytics and device control.

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 collection of large volumes of data from meters or sensors and our ability to go back and control devices also provides the basis for artificial intelligence or machine learning applications to build upon our platform. The Company generates revenue from the sale of hardware and monthly subscription fees under Software as a Service arrangements.

X2M now has more than 530,000 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 communications 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. The addressable market across the region is large and importantly, the addressable market within X2M's existing customer base is also large with penetration growing.



Going forward, X2M will look to continue its global expansion, with subsidiaries already operating in Japan, South Korea, Taiwan and, most recently, China.

X2M is now extending its focus into the Middle East, licensing its platform to partners based in Dubai.

To learn more about X2M click here: www.x2mconnect.com or follow us on [LinkedIn](#).

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")

30 June 2024

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,453	13,668
1.2 Payments for		
(a) research and development	(82)	(333)
(b) product manufacturing and operating costs	(1,817)	(9,109)
(c) advertising and marketing	(11)	(41)
(d) leased assets	(60)	(187)
(e) staff costs	(1,069)	(4,988)
(f) administration and corporate costs	(542)	(2,479)
1.3 GST/VAT received/(paid)	(62)	(288)
1.4 Interest received	2	19
1.5 Interest and other costs of finance paid	-	(105)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	1,461
1.8 Other	-	-
1.9 Net cash from / (used in) operating activities	(1,188)	(2,382)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(1)	(41)
(d) investments	(520)	(520)
(e) intellectual property	(677)	(2,769)
(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 (12 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	41	6
2.6	Net cash from / (used in) investing activities	(1,157)	(3,324)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	1,545	5,564
3.2	Proceeds from issue of convertible debt securities	1,000	2,675
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(38)	(268)
3.5	Proceeds from borrowings	-	680
3.6	Repayment of borrowings	(154)	(2,517)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other - Repayment of lease liabilities	(59)	(241)
3.10	Net cash from / (used in) financing activities	2,294	5,893

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,016	1,785
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,188)	(2,382)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,157)	(3,324)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,294	5,893
4.5	Effect of movement in exchange rates on cash held	(26)	(33)
4.6	Cash and cash equivalents at end of period	1,939	1,939

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	1,939	1,939
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)	1,939	1,939

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	84
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	202	202
7.2 Credit standby arrangements	-	-
7.3 Other		
- Convertible notes	1,778	1,778
- Converting loan	1,500	1,000
7.4 Total financing facilities	3,480	2,980
7.5 Unused financing facilities available at quarter end		500
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.		
<p>Loan facility X2M secured a loan facility from SBC Global Investment Fund (SBC) in October 2023. The loan is unsecured with a 12-month term. No interest is payable however the facility has a face value of \$720,000 of which SBC advanced \$650,000.</p>		

Convertible notes

In August 2023, X2M Completed a capital raising of \$1.7 million through entering into convertible note arrangements with professional and sophisticated investors. The key terms were as follows:

- Face value: \$1.7 million (\$1 per note)
- Expiry date: 30 June 2025
- The Convertible Note holder can convert Notes at any time into Shares at the rate of \$0.05 per Share.
- Interest on Convertible Notes not yet converted or redeemed accrues at the rate of 18% per annum, however a minimum of 12 month's interest must be paid.
- X2M may, at its sole discretion, redeem the Convertible Notes at any time by repaying the then outstanding unconverted Convertible Notes and accrued interest, provided at that time it pays at least 12 months of interest and it notifies and provides the Convertible Note holder the opportunity to issue a Conversion Notice for 5 business days prior to any redemption.
- The Convertible Notes are partly secured parri passu against X2M's anticipated FY24 R&D tax refund amount and the Company must keep that refund in a trust account until the total amount outstanding under the Convertible Notes is less than the trust account amount.

Converting loan

In May 2024, X2M established a converting loan facility up to \$1.5 million from Barks Hawthorn Pty Ltd ATF Barkers Hawthorn Property Trust. The key terms are as follows:

- Repayment date is 30 November 2025 unless
 - early payment is requested after 31 October 2024 by the lender;
 - the date of receipt of the R&D Incentive Tax refund for 2025 ("R&D Tax Refund") is before 30 November 2025, in which case the date of receipt applies;
 - conversion into shares occurs;
- Lender may elect to convert any advanced loan amount to Shares at the following conversion price per share:
 - at the 5 day volume weighted average price leading to a request for conversion in the 30 days following execution; or
 - at a discount of 15% to the 5 day volume weighted average price leading to a request for conversion after the date that is 30 days following execution;provided no more than 37,500,000 Shares in total can be issued. Once this ceiling is reached further conversions cannot occur;
- Any conversion is subject to shareholder approval and if not received, the higher interest rate below applies;
- Interest is payable monthly in cash at a rate of 15% per annum or the higher rate of 20%;
- Loan amounts advanced are secured against the R&D Tax Refund.

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,188)
8.2	Cash and cash equivalents at quarter end (item 4.6)	1,939
8.3	Unused finance facilities available at quarter end (item 7.5)	500
8.4	Total available funding (item 8.2 + item 8.3)	2,439
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.05

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: N/A

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: N/A

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: N/A

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: 30 July 2024

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.