

29th July 2022

June 2022 Quarterly Shareholder Update and Appendix 4C

Highlights:

- Record quarterly gross unaudited revenue of \$10.5 million (+81% year-on-year (YoY), including intercompany sales)
- Continued growth in new business activity with small-to-medium enterprise (SME) customers drove quarterly total contract value (TCV) for new customer sales of \$2.37 million, +47% YoY
- June quarter cash receipts of \$9.5 million, +110% YoY, with monthly cashflow to improve by \$833k post the final deferred payment on 2 August 2022 for the Direct Business acquisition
- More than 100,000 active users registered on Vonex's cloud-based private branch exchange phone service following successful ongoing migration of customers of acquired businesses
- Major supply contract secured with More Telecom, telco strategic partner of The Commonwealth Bank (CBA), via a binding agreement to develop, operate and maintain a custom software platform to enable, provision and manage hosted PBX services, IP telephony hardware and softphone licenses for SME customers of More
- 2SG Wholesale division continues to deliver consistent growth, with NBN and IP Voice revenues up 22% and 37% YoY respectively, led by a leading product suite and world-class platform and user experience
- Annualised recurring revenue (ARR) grew to ~\$36.2 million as at 30 June 2022, up 97% YoY
- Vonex continues to advance M&A pipeline opportunities which offer the potential to expand Vonex's customer base, provide geographic presence in new markets and boost cross-sellable product diversity to drive growth in average revenue per user

Telecommunications innovator Vonex Limited ("Vonex" or the "Company") (ASX: VN8) is pleased to provide an update on its activities for the quarter ended 30 June 2022. The quarter was marked by progress and growth across the Company's acquired business units: Voiteck (acquired January 2022), the Direct Business (August 2021), Nextel (February 2021) and 2SG Wholesale Division (March 2020).

Financial Commentary

- Gross unaudited sales revenue for Q4 FY22 of \$10.5 million, a YoY increase of 81%.
- Annualised recurring revenue (ARR) of ~\$36.2 million as at 30 June 2022, up more than 97% YoY.
- \$9.5 million in cash receipts earned during the quarter, a year-on-year increase of 110% driven by a rapidly growing customer base and continued expansion of cross-selling and market share.

- Cashflow dynamics will improve to the tune of \$833k per month following completion on 2 August 2022 of the final monthly cash payment as part of the deferred consideration for the Direct Business acquisition, which will then become complete.
- Cash on hand of \$3.2 million as at 30 June 2022, ensuring surplus available liquidity for activities over the coming quarters.

The chart below shows Vonex’s delivery of consistent long-term growth in ARR.

Annualised Recurring Revenue ('ARR')¹



(*) Gross sales revenue reflects the unaudited sales performance of the Company’s wholesale and retail operations, on a standalone basis, including intercompany sales.

Retail Business Continues to Grow Strongly

The Company continues to deliver increases in contracted revenue through new and existing small-to-medium enterprise (SME) customers, with growth supercharged by Vonex's successful acquisition of the Direct Business operations from MNF Group in August 2021 and Voiteck in January 2022.

Following record levels of revenue in Q3 FY22, Vonex added total contract value (TCV) for new customer sales of \$2.37 million in the June quarter. This represents YoY growth of 47% and marks three successive quarters in which Vonex has added more than \$2 million of TCV.

Vonex has now attracted more than 100,000 registered active users to its cloud-based private branch exchange (PBX) phone service, a YoY increase of 117% and a key indicator of the Company's business development progress.

M&A Integration Progress

Vonex remains focused on a proactive and disciplined M&A growth strategy, targeting profitable IT and telco businesses that offer potential for growth in revenue, profit, product diversity and entry into new markets.

In January 2022, the Company completed its acquisition of Voiteck, an established provider of voice and internet services to SME customers in South Australia. Since completing the acquisition, Vonex has rapidly integrated Voiteck into the Group.

As at June 30, all Voiteck customers have been successfully migrated to the Vonex network. This process has also seen the successful migration to Vonex of all the Voiteck brand, financial and billing systems and network services.

Through its integration of the Direct Business, the Company has continued to deliver its phased migration of former MNF customers to Vonex's network and PBX platform. Vonex has applied learnings from the first phase of the migration project which is now well advanced, redesigning its methods to optimise for customer experience and retention outcomes rather than speed at a cost to the business. This strategy has delivered a very strong net promoter score (NPS) of 64 for Hosted PBX migrated customers and will still see the SME migration complete in the first half of FY23, with revenue from all migrated and unmigrated former MNF customers accruing to Vonex throughout.

Pleasingly, customer churn from the MNF direct business remains within normal parameters and appears to be largely unaffected by the migration which is a positive result and better than expected.

Further efficiencies were identified in Q4 FY22 as the integration of the MNF direct business nears completion. Through careful rationalisation of roles, the Company anticipates net saving on staff costs to be \$600-\$700k per year.

2SG Wholesale Growth Continues

Vonex's Wholesale division continued to deliver consistent growth in the June quarter, with quarterly revenues for NBN with 4G backup up by 22% YoY. Vonex's flagship IP voice product has also delivered ongoing growth with quarterly wholesale voice revenues up 37% YoY, with the strong sales increases across the product suite reflective of successful delivery of the Company's cross-sell / up-sell strategy.

Vonex continues to invest in developing and delivering a world-class platform and user experience for its wholesale customers. The Company continues to upgrade Fusion, its platform facilitating automatic ordering and management of mobile services for wholesale customers. Recently delivered updates include improved management tools to facilitate simpler plan changes for existing services, real time data usage reporting and a scheduling assistant to action forward dated cancellations or suspension of services.

Vonex Partners with More, Telco Partner of CBA

During the quarter, Vonex partnered with telecommunications service providers More Telecom Pty Ltd and Tangerine Telecom Pty Ltd ("More") to become More's exclusive provider of hosted PBX services. This partnership will see Vonex deliver a new hosted PBX and IP telephony enablement platform for More's new and existing SME customers.

With annualised revenue over \$100 million and more than 125k active customers, More is a Melbourne-based provider of a full suite of innovative NBN, business phone and mobile products, services and plans to consumers and SME business customers. More is part-owned by Commonwealth Bank, having announced a strategic partnership in July 2021 that unlocks special benefits for CBA customers.

Under the agreement, Vonex will charge More a one-off fee for the initial development of the customised software platform, which is estimated to be \$70,000 based on a daily development rate.

At this stage the Company is unable to quantify the likely revenue from the ongoing managed services as it is dependent on the level of onboarded extensions; however, significant revenues are expected from providing ongoing managed services to More across four key areas:

- Monthly extension license fees. More has agreed to pay a license fee for each Hosted PBX Extension activated via the Vonex Platform. As part of the relationship, More has also committed to migrate its 8,800 existing extensions to the Vonex platform.
- The exclusive sale of hardware to More. More has agreed for all IP Phone related hardware needed for each new Business phone service to be purchased via the Vonex platform.
- Local and international call carriage. More have also committed to exclusively use Vonex carriage for national and international minutes.
- Software licensing and Management fees. Softphone licenses will also be charged on a per license basis. The agreement also includes an ongoing monthly management fee for the platform.

Vonex Managing Director, Matt Fahey, said:

“We are proud to report our continued delivery of our three-pronged growth strategy, focusing on growth in Retail, in 2SG Wholesale and through targeted acquisitions. We are particularly proud of the strong organic growth we have achieved across our businesses while also focusing on acquisition integration and search.”

“We are pleased by the progress of our M&A program to date. The financial benefits, scale gains in customer numbers and expansion into new regions have all met our expectations. We continue to advance pipeline opportunities which offer the potential to expand Vonex's customer base, provide geographic presence in new markets and boost our cross-sellable product diversity. We look forward to greater cross-selling activities in FY23 which we expect to boost our average revenue per user (ARPU).”

“We continue to see a positive outlook for growth as the Company's customer base expands driven by organic growth initiatives, acquisition opportunities and market tailwinds.”

CORPORATE

Executive Appointment

During the quarter, Vonex appointed Declan O'Callaghan as Vonex group Chief Operating Officer, adding significant strength to the leadership team. Declan joined Vonex from the position of Managing Director of Voiteck, acquired by Vonex in January 2022. Declan's new role has supported and enhanced the Company's focus on growth via acquisition.

Cash Position

As at 30 June 2022, the Company had approximately \$3.2 million of cash and \$14.5 million drawn from a financing facility with Longreach Credit Investors. Vonex has one remaining deferred cash consideration payment payable to MNF Group of \$0.8 million. The Company intends to repay this through a combination of cash at hand and future cashflows from the business. The Company retains sufficient funding to carry out its activities over the coming quarters.

DISCLOSURE

Listing Rule 4.7C.1

The net operating cash inflow for the June 2022 quarter was \$1.3 million from cash receipts of \$9.5 million (achieving a financial year result: inflow of \$5 million on \$33.2 million in cash receipts).

Quarterly expenditure was focused on the following areas:

- Cost of goods relating to sales across the Wholesale and Retail divisions of \$4.4 million
- Acquisition/Transaction related expenses of \$0.3 million
- Advertising and marketing including investments in cross-selling opportunities of \$0.2 million
- Employment, customer support, MNF migration, Voiteck integration/migration and contractor costs of \$2.1 million
- Channel Partner training, support and expansion of \$0.1 million
- Staff redundancies of \$0.3 million
- Maintenance and continual improvements to the Company's systems and data security of \$0.2 million

Note 6 to Appendix 4C

- Payments to related parties of the entity and their associates during the quarter:
- Director fees and wages of approximately \$159,215
- Company secretarial and accounting fees of \$13,500

This announcement has been authorised for release by Matt Fahey, Managing Director of Vonex Ltd.

ENDS

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ABOUT VONEX:

Vonex is a full service, award-winning telecommunications service provider selling mobile, internet, traditional fixed lines, infrastructure solutions and hosted PBX and VoIP services - predominantly to small to medium enterprise ("SME") customers under the Vonex brand. Vonex also develops new technologies in the telecommunications industry, including a feature-rich cloud-hosted PBX system.

The Company also provides wholesale customers, such as internet service providers, access to the core Vonex PBX, 5G mobile broadband and call termination services at wholesale rates via a white label model. Vonex is pursuing a disciplined M&A growth strategy, targeting profitable IT and telco businesses that offer potential for growth through further product expansion, scale and cross-selling.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Vonex Limited

ABN

39 063 074 635

Quarter ended ("current quarter")

30 June 2022

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	9,503	33,229
1.2 Payments for		
(a) research and development	486	486
(b) product manufacturing and operating costs	(4,403)	(15,931)
(c) advertising and marketing	(161)	(473)
(d) leased assets	-	-
(e) staff costs	(1,974)	(6,388)
(f) administration and corporate costs	(2,165)	(6,128)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(24)	(78)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	8	11
1.8 Other (provide details if material)	15	284
1.9 Net cash from / (used in) operating activities	1,285	5,012
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) businesses (Nextel and MNF)	(2,500)	(30,893)
(b) businesses (stamp duty)	-	-
(c) property, plant and equipment	(54)	(331)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investment - mining royalty	-	-
	(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 (payments for security deposit)	-	-
2.6	Net cash from / (used in) investing activities	(2,554)	(31,224)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	14,000
3.2	Proceeds from issue of convertible debt securities	-	(644)
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	16,000
3.6	Repayment of borrowings	(500)	(1,500)
3.7	Transaction costs related to loans and borrowings	(334)	(2,015)
3.8	Proceeds from lease liability borrowings	-	169
3.9	Payments for lease liabilities (excl. interest charged)	(76)	(261)
3.10	Net cash from / (used in) financing activities	(910)	25,749

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	5,374	3,658
4.2	Net cash from / (used in) operating activities (item 1.9 above)	1,285	5,012
4.3	Net cash from / (used in) investing activities (item 2.7 above)	(2,554)	(31,224)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(910)	25,749
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	3,195	3,195

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	3,195	5,374
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)	3,195	5,374

6. Payments to related parties of the entity and their associates

6.1 Aggregate amount of payments to related parties and their associates included in item 1

6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

173

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Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Consulting fees and directors' fees	\$ 159,215
Company secretarial and accounting fees	\$ 13,500

7. Financing facilities

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.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	16,000	14,500
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	16,000	14,500

7.5 **Unused financing facilities available at quarter end** -

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.

Vonex entered into a \$16 million debt facility from Longreach Credit Investors. Longreach Credit Investors provides customised private debt solutions to high quality corporate borrowers in Australia and New Zealand.

The key terms of the Debt Facility are as follows:

Maturity:	3 years
Principal repayments:	\$500k per quarter commencing 15 December 2021
Security:	First ranking General Security Interest
Key covenants:	Net leverage cover, interest cover, debt service cover and minimum cash at bank
Interest costs:	The interest rate payable depends on the prevailing net debt / pro forma Last Twelve Months ("LTM") EBITDA.

Provided Vonex maintains a pro forma net debt / LTM pro forma EBITDA^[1] below 2.0x, the Company will secure Longreach's lowest interest rate (interest rate payable ranges between 8% and 13% depending on the prevailing pro forma net debt / LTM pro forma EBITDA).

^[1] LTM pro forma EBITDA is calculated as the combined businesses FY21 pre-synergy EBITDA of \$6.3m, which comprises 9 months' preliminary consolidated management accounts and a 3 month forecast for Vonex and 12 months consolidated preliminary management accounts for the Direct Business. Vonex and the Direct Businesses' FY21 EBITDA includes certain pro forma adjustments as detailed in the Investor Presentation dated 23 July 2021

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	1,285
8.2 Cash and cash equivalents at quarter end (Item 4.6)	3,195
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	3,195
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	N/A

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

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

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.

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

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: 29 July 2022

Authorised by:
 Daniel Smith – Company Secretary

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.

Quarterly cash flow report for entities subject to Listing Rule 4.7B

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.