



31 January 2019

ASX Announcement / Media Release

Quarterly Report for Period Ending 31 December 2018

HIGHLIGHTS

- Total customer cash receipts were A\$560k for the quarter reflecting an increase of 26% over the prior quarter (Q1FY19).
- Currently accrued revenues, being shipped and invoiced product total A\$431,959. Accrued revenues are expected to convert to customer cash receipts in Q3FY19.
- Total value of Purchase Orders excluding accrued revenues and customer cash receipts is A\$1,334,171. Purchase Orders are expected to convert to customer cash receipts before the end of FY19.
- Estimated retail value of inventory at the end of the quarter was A\$560,000.
- Product manufacturing successfully transitioned from China to Taiwan yielding double digit increases in profit margins and eliminating potential cost increases due to anticipated trade tariffs increases.
- Total salary related expenses in the US reduced 44% year over year (Q2FY19 vs Q2FY18). Gross operating expenses in Australia reduced 75% year over year (Q2FY19 vs Q2FY18) with the exception of severance paid.
- The Company completed a successful entitlement issue raising \$2.13m.
- Total Company creditors and liabilities reduced from A\$1.3M to \$A220k (excluding converting loan) reflecting a decrease of 83% over the prior quarter (Q1FY19).

OPERATIONAL COMMENTARY

Total customer cash receipts were A\$560k for the quarter reflecting an increase of 26% over the prior quarter (Q1FY19). Around 80% of revenues came from existing customers with the majority of the Company's major customers being recurring and have been re-ordering CIO products for over 12 months. This demonstrates the strengthening penetration of the Company's products in the IOT sectors and continue to develop and offer cutting edge solutions.

Sales of the Company's cloud managed routers outpaced the sales of modems helping build a robust recurring revenue stream. Connected IO's proprietary cloud management platforms is leveraged by customers to deliver a wide range of customized solutions.

An example of the Company's ability to evolve its products includes the new family of fully managed enterprise routers with dual SIMs, 10 Ethernet ports and 802.11ac Wi-Fi. First batch of routers will ship to customers at the end of Q2FY19. This also emphasizes the scale of the Internet of Things sector which is rapidly growing with new applications and vertical markets that require managed communication devices. The Company expects to maintain its competitive edge going forward as its proprietary technology is easily customized and adapted to a wide range of industries.

The Company continued to further strengthen its collaboration with the two largest mobile operators in the United States, Verizon and AT&T. Both operators are introducing Connected IO to their enterprise clients, and the potential pipeline of business for calendar year 2019 from these telecommunications majors is substantial. This is reflected in the total value of purchase orders excluding accrued revenues and customer cash receipts currently reaching A\$1,334,171 and growing.

The Company's firm objective remains to increase revenues while maintaining tight controls on expenses. As part of this initiative product manufacturing was successfully transitioned from China to Taiwan yielding double digit increases in profit margins and eliminating potential cost increases due to anticipated trade tariffs increases.

In addition, wide sweeping cost reductions were made with total salary related expenses in the US reduced 44% year over year (Q2FY19 vs Q2FY18) and gross operating expenses in Australia reduced 75% year over year (Q2FY19 vs Q2FY18) with the exception of severance paid.

The Company successfully completed a non-renounceable, pro rata entitlement offer on the basis of 4 new shares for every 5 shares held by eligible shareholders at an issue price of \$0.003 to raise \$2,130,999. This was in addition to the Company's placement raising \$399,562 at an issue price of \$0.003 (during Q1FY19). These funds were used to reduce Company creditors and liabilities reduced from A\$1.3M to \$A220k (excluding converting loan) reflecting a decrease of 83% over the prior quarter (Q1FY19).

The Company's CEO commented that "‘White-labelled’ products where Connected IO put customer's branding on its products currently make up around 30% of revenues. We expect the ‘white-labelled’ share of the business to exceed 50% in the second half of calendar 2019 as more trials successfully complete, and Connected IO is awarded the business. Branded business tends to be more lucrative as clients are willing to pay more for branding and put more time and effort into testing and qualifying products. ‘White-label’ relationships tend to have more longevity as the substantial initial investment to quality and brand products generally deters clients from considering other options. This is one of the many exciting growth opportunities the Company expects to expand into in 2019."

ABOUT CONNECTED IO

Connected IO Limited has its operations based in Dallas Texas, in the USA. Its business is a wireless technology innovator and manufacturer operating in the multi-trillion-dollar “IoT” (Internet of Things) sector. CIO specializes in machine to machine (“M2M”) connectivity, providing hardware and software solutions to some of the world’s largest companies. CIO’s software solutions also include a customised cloud management interface and a variety of support services. Cisco predicts there will be 50 billion connected devices by 2020.

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Connected IO Limited

ABN

99 009 076 233

Quarter ended ("current quarter")

31 December 2018

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	557	1,011
1.2 Payments for		
(a) research and development	(95)	(122)
(b) product manufacturing and operating costs	(113)	(181)
(c) advertising and marketing	(107)	(118)
(d) leased assets	(17)	(58)
(e) staff costs	(397)	(741)
(f) administration and corporate costs	(514)	(587)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid	(1)	(2)
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(687)	(798)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(17)	(60)
(b) businesses (see item 10)		
(c) investments		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
	(d) intellectual property		
	(e) other non-current assets		
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment		
	(b) businesses (see item 10)		
	(c) investments		
	(d) intellectual property		
	(e) other non-current assets		
2.3	Cash flows from loans to other entities	(555)	(924)
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	(572)	(984)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	2,132	2,534
3.2	Proceeds from issue of convertible notes		
3.3	Proceeds from exercise of share options		
3.4	Transaction costs related to issues of shares, convertible notes or options	(62)	(100)
3.5	Proceeds from borrowings	0	164
3.6	Repayment of borrowings	(129)	(150)
3.7	Transaction costs related to loans and borrowings	(71)	(71)
3.8	Dividends paid		
3.9	Other- repayment of convertible note		
3.10	Net cash from / (used in) financing activities	1,870	2,377

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	52	122
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(687)	(798)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(572)	(984)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,870	2,377

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of exchange rates on cash held	0	(2)
4.6	Cash and cash equivalents at end of quarter	663	715

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	663	52
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details) Outstanding cheques		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	663	52*

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter
\$A'000

303

1. Director fees, salaries and super (including severance pay to Chairman); and
2. Consultancy fees.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter
\$A'000

(290)

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	1,500	1,370
8.2 Credit standby arrangements		
8.3 Other (please specify)		
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		


8.1 Secured debt facility with an interest rate of 9%.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(41)
9.2 Product manufacturing and operating costs	(377)
9.3 Advertising and marketing	(45)
9.4 Leased assets	(16)
9.5 Staff costs	(240)
9.6 Administration and corporate costs	(100)
9.7 Other (provide details if material)	
9.8 Total estimated cash outflows	(819)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity		
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

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.



Sign here:
Director

Date: 31 January 2019.

Print name: Yakov Temov

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.