

31 January 2020

December 2019 Quarterly Shareholder Update and Appendix 4C

Highlights:

- December quarterly cash receipts from sales totaled \$2.224 million, +13.2% year-on-year
- Additionally, cash receipts from research and development grant received totaled \$0.629m
- Vonex close to finalising due diligence for completion of the acquisition of 2SG Wholesale, an established telecommunications and data wholesaler, which is expected to contribute approximately \$750k to the Company's FY21 EBITDA
- The Acquisition will materially boost Vonex's Annualised Recurring Revenue (ARR), with group-wide ARR to increase to more than \$14 million
- Vonex continues to deliver strong growth in active users to its cloud-based phone system platform
- Total Contract Value (TCV) of \$1.4 million signed in the December quarter, up 47% year-on-year
- Version 1 of Oper8tor App enters final stages of testing, with a closed user group test set for the March quarter

Telecommunications innovator Vonex Limited ("Vonex" or the "Company") (ASX: VN8) is pleased to provide an update on its activities for the quarter ended 31 December 2019.

FINANCIAL COMMENTARY

- Unaudited sales revenue of \$2.53 million, representing 17.25% year-on-year growth
- Cash receipts from sales totaled \$2.224 million, representing 13.2% year-on-year growth
- Additional cash receipts for the December quarter included \$0.629m of research and development grant funds
- Cash at the end of the December quarter totalled \$2.61 million

OPERATIONAL COMMENTARY

In November, Vonex announced it had signed a binding term sheet with 2SG Wholesale Pty Ltd ("2SG Wholesale") to acquire 2SG Wholesale's business operations as a going concern.

2SG Wholesale is a telecommunications and data wholesaler based in Brisbane, Queensland which provides Australian Managed Service Providers, ISPs and System Integrators with access to the latest in hardware and connectivity solutions from leading brands.

In FY19, the 2SG Wholesale achieved revenue of circa \$7 million, with revenue from mobile broadband a key growth

driver. 2SG Wholesale is expected to generate EBITDA in the first full financial year post acquisition (FY21) of approximately \$750k. It also brings a highly capable and experienced team that is well positioned and incentivised to drive further growth, and a dedicated technical support team.

2SG Wholesale's mobile broadband capability provides Australian ISPs the opportunity to sell a wireless broadband solution via the Optus 4G Network. Integration with Australia's premier carriers facilitates the delivery of the latest fixed line, mobile connectivity and hardware solutions country-wide.

The Acquisition is subject to Vonex completing legal and financial due diligence to its satisfaction, which is now likely to complete by February 7th.

Consideration for 2SG Wholesale's business operations is A\$2.66m, comprising:

- 21,578,947 ordinary shares at a deemed issue price of A\$0.10 to be escrowed for 12 months post issue; and
- A\$500,000 in cash at completion.

The Acquisition brings 2SG Wholesale's proprietary billing and provisioning systems, staff and equipment, contracts with major telecommunications companies, 140 wholesale customers, inventories and no debt.

The conservative cash outlay helps preserves the Company's cash position, while also highlighting the belief that the 2SG Wholesale vendors have in Vonex taking the combined businesses to the next level and generating attractive returns for all shareholders.

More detail on the Acquisition is available in Vonex's ASX Announcement dated 29 November 2019.

During the quarter, Vonex achieved a new milestone for PBX subscribers, passing the 35,000 active customer mark for its cloud-based phone system platform.

Registered users of these Private Branch Exchange ("PBX") connections are a key indicator of business development progress as Vonex penetrates the multibillion-dollar Australian market for telco services to SMEs.

Vonex signed Total Contract Value ("TCV") of new customer sales worth more than \$1.4 million for the quarter, an increase of 47% compared to the same quarter last year. TCV of provisioned customers is calculated using the minimum monthly commitment multiplied by the contract length and is typically realised over a period of between two and three years.

The Company plans to deliver continued growth in TCV in FY20 as a mix of upfront and recurring revenue as it meets healthy demand from SME customers.

Due to the quickening pace of new registered PBX users signing up, the Company shifted during the quarter from announcing each 1,000 new users' net growth to an increment of 2,500 new users' net growth.

Vonex also provided an update on development of Version 1 of its Oper8tor App during the quarter. Oper8tor will become a disruptive aggregated communications platform targeting the inclusion of Conference, Voice, Message and Video functionality, facilitating user communication across different channels. The mobile app aims to seamlessly link all voice calls as well as messaging across multiple platforms and devices.

Vonex completed major development works required after third-party testing identified opportunities to strengthen

Version 1. This third-party testing reached final stages during the quarter following technical challenges during Q1 and Q2 of FY20, including a complete rebuild of Oper8tor's Skype connector, the inclusion of group SMS capability on a single thread (previously only peer-to-peer), and significant coding requirements that stemmed from Google's revision of Two Factor Authentication ("TFA"), which culminated in Vonex developing an artificial intelligence-driven solution to continuously monitor and comply with the dynamic TFA environment.

During this period, internal testing has seen the Company successfully release 216 beta test builds of Oper8tor to Apple's mobile app testing service, TestFlight, and Google Play's mobile app testing service.

The Company expects to move Oper8tor's development into final stage testing in the March quarter with a closed user group. Following this, Vonex intends to release Oper8tor Version 1 to a wider community, including investors, through a controlled launch of the App.

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, and hosted PBX and VoIP services - predominately to the small to medium enterprise ("SME") customer under the Vonex brand. The Company also provides wholesale customers, such as internet service providers, access to the core Vonex PBX and call termination services at wholesale rates via a white label model.

Vonex also develops new technologies in the telecommunications industry, including a feature-rich cloud-hosted PBX system. Vonex is also developing the Oper8tor App, a multi-platform real-time voice, messaging and social media app that allows users to connect with all social media friends, followers and contacts across different social medias, all consolidated into one app.

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

Vonex Limited

ABN

39 063 074 635

Quarter ended ("current quarter")

31 December 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,517	5,028
1.2 Payments for		
(a) research and development	630	630
(b) costs of goods sold	(1,368)	(2,987)
(c) advertising and marketing	(97)	(224)
(d) leased assets		
(e) staff costs	(846)	(1,690)
(f) administration and corporate costs	(686)	(1,289)
1.3 Dividends received (see note 3)		
1.4 Interest received	2	7
1.5 Interest and other costs of finance paid	(11)	(11)
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (GST)	28	24
1.9 Net cash from / (used in) operating activities	169	(512)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(15)	(46)
(b) businesses (see item 10)		
(c) investments		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 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		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	(15)	(46)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares		
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		
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	-	-

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	2,461	3,173
4.2	Net cash from / (used in) operating activities (item 1.9 above)	169	(512)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(15)	(46)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(1)	(1)
4.6	Cash and cash equivalents at end of quarter	2,614	2,614

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	1,323	1,191
5.2	Call deposits	1,291	1,270
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)	2,614	2,461

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**

149

-

Directors and professional fees - \$149,051

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**

-

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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	-	-
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.		

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9. Estimated cash outflows for next quarter¹	\$A'000
9.1 Research and development	-
9.2 Costs of goods sold	1,575
9.3 Advertising and marketing	90
9.4 Leased assets	-
9.5 Staff costs	620
9.6 Administration and corporate costs	543
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	2,828

1. Note: Revenue generated by the Company will cover a significant portion of these outflows

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:*Lodged Electronically*..... Date: 31 January 2020
(Company secretary)

Print name: Daniel Smith

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.