

Chairman's Letter



Dear Shareholders,

It gives me great pleasure to present the 2020 Annual Report for Vonex Limited. I would like to reflect on our growth as a full-service telecommunications business over the past year as we have continued to improve our wholesale, retail and development divisions, and on the positive momentum with which we move into FY21.

We grew our base of annualised recurring revenue (ARR) by 89 per cent in FY20 to more than \$16.4 million, supercharged by the strong operational and financial performance seen in the June quarter of FY20, which was our best quarter since becoming a listed company. Sales for our Retail business overall remained strong, despite the economic effects of the COVID-19 pandemic, achieving a healthy year-on-year increase of 65 per cent.

Our strong key metrics were boosted by the smooth integration of the 2SG Wholesale (2SG) business into Vonex following completion of the acquisition in February 2020. The acquisition expanded our wholesale customer base and added increased value to our wholesale and retail customers through better network access via 2SG's long-term partnerships with the likes of Optus, NBN Co and iseek Communications. 2SG has also empowered Vonex Telecom (the Company's Retail arm) to expand its offering to small and medium enterprise (SME) customers, with new products including fleet mobile, mobile broadband and NBN with 4G backup.

The 2SG acquisition is driving growth in wholesale customers and order value. We saw a 75 per cent increase in mobile broadband orders in the June quarter on the back of this integration and that is momentum we expect to build on further during FY21 and beyond. 2SG signed five new contracts towards the end of the financial year, and in July, signed an agreement to supply business grade mobile broadband to a subsidiary of ASX-300 company, Data#3 Limited (ASX: DTL), a business technology solutions leader.

We can attribute our most recent wholesale wins to the flexibility we have developed with the NBN active points of interconnect that we recently enabled, and the imminent launch of 5G mobile broadband solutions by 2SG, which will provide customers with Internet speeds of up to 600 Mbps. Building on this, we expect 2SG to sign more new mobile broadband supply contracts.

Another important strategy Vonex rolled out during the year was with Qantas Business Rewards (QBR), Australia's largest business to business loyalty program. Through this partnership, Vonex customers can earn point-based incentives with Qantas for using our products and services. Our success in leveraging this partnership has contributed to growth in average length of new contracts, as well as higher average total contract value (TCV). Despite COVID-19 affecting many people's business and personal travel plans, we continue to see increases in sales and brand awareness due to our involvement in the program. QBR is targeting continued member growth in the years ahead and this will align well with our plans to further increase our SME customer base.

Pleasingly, our customers continue to be satisfied with the service we provide. We maintain a low level of Telecommunications Industry Ombudsman complaints in comparison to our peers and we recently achieved a positive net promoter score of 54, which is an outstanding result compared to our industry peers. The total number of active users of our Private Branch Exchange (PBX) system also continues to grow, nearing 40,000 users towards financial year end, representing another year of strong growth through FY20.

We have continued to develop our Oper8tor app throughout the year, which aims to seamlessly connect conference, voice, message and video functionality across multiple communications platforms and devices. While the development phase has taken longer than initially expected, we have been able to overcome a range of technical challenges that were encountered along the way and the additional work on the app has allowed us to create a product that is more technologically advanced and robust. Vonex has focused recent product development on newly identified commercial applications for Oper8tor, which are attractive as they represent an opportunity for us to potentially monetise the technology faster. We are pleased to have engaged London-based Ragnar Capital Partners LLP to target investment and strategic partners who will be required to assist in navigating Oper8tor through its rollout and commercialisation phases, and we look forward to more progress on this in FY21 as we look to realise the value of our work.

For the 2020 financial year the Company achieved gross revenues exceeding \$15.4 million and a statutory loss of \$596,238. Importantly, Vonex recorded an underlying EBITDA profit, excluding Oper8tor development expenses and extraordinary items, of \$25,237 (30 Jun 2019: EBITDA loss \$454,332).



A reconciliation between statutory results and underlying results is provided below:

	30 / Jun / 20	30 / Jun / 19
Statutory profit (loss) after tax	(\$596,238)	(\$2,791,622)
Add back:		
Tax expense (benefit)	\$0	\$0
Disposal of mining royalties	(\$1,750,000)	\$0
Net finance (income)/expense	\$50,368	(\$17,897)
Share based expense payments *	\$770,573	\$1,008,458
Operator Development expense **	\$997,001	\$1,206,092
Legal and stamp duties associated with 2SG acquisition	\$136,868	\$0
Depreciation and amortisation	\$416,665	\$140,637
Underlying EBITDA	\$25,237	(\$454,332)

* Share based expense payments are a non-cash outlay. These expenses are reported book valuations placed on share issue related transactions that have occurred during the reporting period and in order to meet reporting requirements under the Australian Accounting Standards. Please refer to the Annual Report for further disclosures made on these reported expenses.

** Expenses will be considered for inclusion in the Company's 2019-20 financial year R&D claim in accordance with Australian Taxation Office guidelines.

We finished the year in a strong financial position, with \$4.8 million cash at bank. Our cash was boosted in part by a \$1.4 million oversubscribed institutional placement completed in June, which was undertaken to fund initiatives to supplement the Company's organic growth profile by targeting further acquisition opportunities. I thank our shareholders, both new and existing, for your support in this as well as your continued belief in our company to achieve its goals.

Our achievements in FY20 have been incredible, given the challenges faced by many businesses including our own in the wake of COVID-19. We have continued to accelerate our growth and generate revenue that is largely recurring, and which provides us with a strong foundation on which we can further build in the years ahead.

I would also like to thank my fellow board members for their contributions over the past year as well as our staff and management, who have continued to perform admirably during some challenging periods. We strengthened our skillset and capabilities in FY20 with the appointment of Telco industry veteran Jason Gomersall as a Non-Executive Director, while also making a series of internal senior leadership appointments to deliver the best from our management team.

As we commence FY21, we are excited to build on our strongest quarter to date, and I am confident the strategies and targets we have in place will drive Vonex to hit new milestones as we work continue to execute on a range of growth initiatives. I look forward to keeping you updated on our progress.

Nicholas Ong
Non-Executive Chairman


