CONNEXION

ASX Announcement
21 October 2022

Quarterly Update

For the Quarter Ended 30 September 2022

- **Ongoing enhancements made to both OnTRAC and Connexion platforms**
- **Continued adoption of Connexion platform amongst GM dealerships**
- **Continued progress made on Company strategic objectives**
- **Growing investment made in both Team and Product**
- **All reported figures below are unaudited and in USD, unless otherwise stated**
- **Q1 Revenue of $976k**
- **Q1 Gross Profit of $767k**
- **Q1 Profit Before Tax of $199k**
- **Q1 cash receipts delivered an Operating Inflow of $82k**

Connexion Telematics Ltd ("Connexion" or the "Company") is pleased to provide an update on its activities for the quarter ended 30 September 2022 ("Q1 FY23" or "the Quarter").

Summary

The Company continued to provide its Software as a Service (SaaS) solutions, the OnTRAC and Connexion platforms, for General Motors' ("GM") Courtesy Transportation Program and Cadillac's Courtesy Transportation Alternative, hereafter referred to collectively as "CTP".

The first Quarter of FY23 is best characterised by the following key trends:

1. Prior revenue deterioration linked to vehicle inventories showing signs of stabilising
2. Slowing revenue growth from Connexion subscriptions
3. Steady revenue growth from feature-enhancement delivery
4. Steady expenditure from reinvestment into our Team and Products

Taking the above into account, Connexion traded profitably throughout Q1 FY23, with a Net Profit Before Tax of $199k, versus a Net Profit Before Tax of $180k for Q4 FY22.

Gross Profit in Q1 FY23 was $767k, being a 3% decrease on the prior quarter's Gross Profit of $795k, which was an all-time high for Connexion.

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In Connexion's 2021 AGM Presentation we articulated why we view Gross Profit as the single best financial metric by which to judge our progress. Q1 FY23 breaks the streak of four consecutive Quarters of growth in Gross Profit, however it remains solid, being the second highest in Connexion's history.

With that said, given we believe we are in the early stages of our growth phase, our overriding priority is in deepening and expanding our customer relationships, rather than in over-optimising for top-line or bottom-line profitability. When assessing the financial outcomes of our activities, we continue to pay most attention to growth in Gross Profit whilst targeting a neutral bottom line (NPBT). We intend to target neutral NPBT for the foreseeable future as we fully expense our expanding growth initiatives.

Operations

Vehicle Inventory

Within the past five Quarterly Updates we have given as much insight as possible as to the extreme impact that the global semiconductor shortage has had on dealership inventory, including courtesy fleets, whilst remaining contractually compliant.

As at the date of this announcement, there is no change to our initial guidance to Shareholders in May 2021. Vehicle inventories relevant to Connexion's operations appear to be stabilising.

Wage Inflation

Consistent with our prior Quarterly Update, Shareholders should be aware that severe wage inflation is affecting white collar job markets, and the software industry in particular.

Connexion is not immune to this external force, and its effect on employee retention and acquisition. In response, we have promptly taken numerous tangible steps in relation to both organic and offshore employee retention and acquisition, along with better leveraging the more fixed cost bases of corporate suppliers.

Notwithstanding these external challenges, we continue to proactively grow the net size of, and investment into, our Team. Whilst the job markets most relevant to Connexion remain structurally undersupplied, these conditions appear to be stabilising.

Feature Enhancements

Connexion's core focus remains keeping its two platforms, including their mobile apps, at the forefront of fleet and rental management capabilities.

Some of this work is invoiced, contributing to either Fixed-dollar SaaS or Service Revenue, with the balance self-funded within Connexion's growing R&D program.

Each feature enhancement falls into one of the three categories within Connexion's operating model of "Embed, Integrate, Generate". Activity during the Quarter remained at an all-time high, as measured by R&D Expenditure.

Customer Success Team

Investment in our Customer Success Team increased during the Quarter with the addition of a new full-time specialist. This area of investment is becoming increasingly important to our business as we work to establish a higher level of engagement in our direct-to-dealer relations.

Relationship Expansion

Throughout the Quarter, Connexion made steady progress growing relationships across the US Automotive industry, with OEMs and potential Commercial Partners alike. These efforts were complemented by highly targeted marketing initiatives.

APIs

Connexion has APIs live across multiple Dealer Management System ("DMS") providers in the US, and an increasing number of other Commercial Partners, along with various divisions within GM.

Whilst the near-term revenue opportunity of these initial APIs is unlikely to be material, the Company expects to benefit both strategically and through feature enhancements over time.

Connexion Platform

Designed as our OEM-agnostic software, the Connexion platform was launched ahead of schedule in May 2021 for its secondary use-case, being a solution with which GM and its dealerships could better navigate the vehicle supply shortage. The platform was developed with the objective of generating sustained revenue, even after a normalisation of new vehicle supply.

Growing adoption of the Connexion platform by GM dealerships continued during the Quarter, albeit at a slowing pace, consistent with the stabilisation of new vehicle inventory. Pleasingly, Connexion signed its first non-GM franchised dealership during the Quarter. A small, but notable milestone.

Ford & Lincoln

Connexion holds Approved Vendor status for the Ford Motor Company's ("Ford") Ford Courtesy Transportation Program ("FCTP") and Lincoln Courtesy Transportation Program ("LCTP") in the US.

Consistent with the terms of the FCTP and LCTP, and unlike our status within GM, Ford does not mandate the use of any particular vendor's product. Instead, Connexion is only one of multiple software vendors previously approved to supply Ford and Lincoln dealerships with fleet & rental management software customised for the FCTP/LCTP.

Shareholders should note that the majority of Ford and Lincoln dealerships already use a Ford-approved software solution today, so it is incumbent upon us to market our approved product directly to Ford and Lincoln dealerships who may consider switching vendors.

No Ford or Lincoln dealerships were signed during the Quarter, and there is no guarantee that we will generate any minimum amount of revenue from this endeavour.

Commercial Partnerships

We update on our Commercial Partnerships as follows:

- Tollaid: we are marketing a progressive, national rollout of our Toll Management Solution, powered by Tollaid. Toll Management software allows dealerships to improve operational efficiency, cost recovery and customer experience. Pleasingly, numerous dealerships have signed up to the free trial, from which we anticipate a strong conversion rate.

- Quickride: during the Quarter we signed a new Commercial Partnership with our first Shuttle Management provider, Quickride. Based in Los Angeles, Quickride's Shuttle Management and Jobs Management platform enables dealers to optimise the operational efficiency and customer experience of their courtesy shuttle programs. Falling under the broader category of Courtesy Transportation, Quickride's platform presents numerous logical integration points through which to partner with Connexion to unlock value for mutual customers.

We are working with these parties, and others, to develop a vibrant software ecosystem, managed via our proprietary Marketplace, which is under development.

Attracting, developing and retaining a broad range of participants in our Marketplace is critical to unlocking significant long-term value for all stakeholders.

With that said, all Commercial Partnerships involve a range of risks, including technological risk and commercial adoption risk. Notwithstanding the best efforts of each party, there is no guarantee that any of these initiatives will lead to sustained commercial success.

Financial Position

Connexion's financial position remains strong as both Fixed-dollar SaaS Revenue and Subscription SaaS Revenue increased for the Quarter. Service Revenue was down for the Quarter as the Team focused on recurring revenue-generating product releases. This will fluctuate based on the nature of product releases each quarter.

The Company recognised total revenue during the Quarter of $975k, which included a 5-Quarter high of $898k of SaaS Revenue. This led to an unaudited Gross Profit of $767k for the Quarter – being the second highest in Connexion's history, behind the prior quarter.

The Company recorded a quarterly unaudited Net Profit Before Tax of $199k. Net Cash and Investments decreased by $154k, despite an Operating Cash Inflow of $83k and positive performance of the investment portfolio in its AUD-native currency. The movement in Net Cash and Investments is primarily due to the continued fall in AUD:USD, dropping by 7% for the Quarter and reducing the value of our AUD-orientated balance sheet. There was also Financing Cash Outflow of $99k attributed to the On-Market Share Buyback.

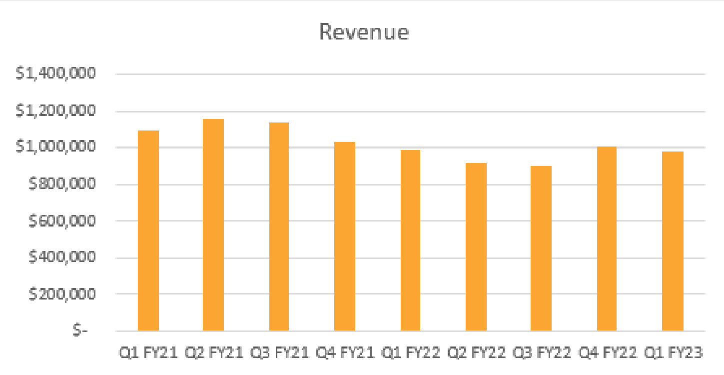
The AUD:USD exchange rate fluctuated significantly during the Quarter before ending almost five cents lower. Falling over ten and a half cents, 14%, over the past two Quarters.

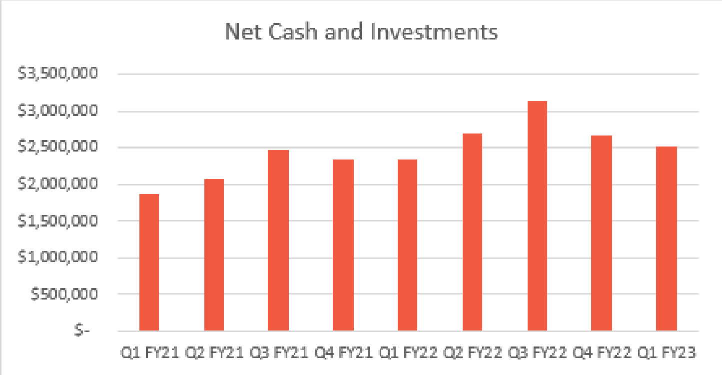
Generally speaking, a fall in the AUD:USD has the following impact:

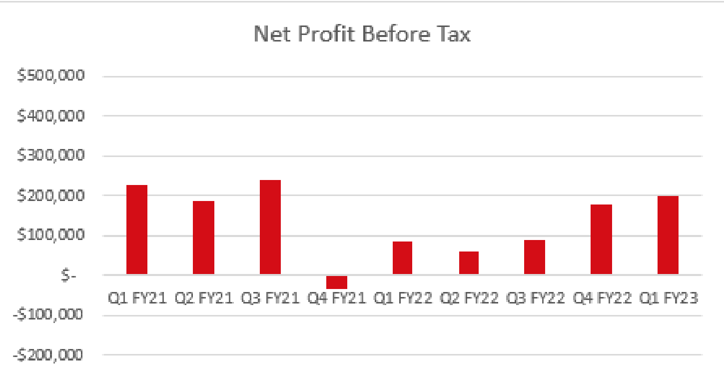
1. An immediate negative impact to our P&L via a reduction in the USD value of our AUD-oriented balance sheet.
2. A sustained positive impact to our P&L via improved Operating Cashflow over time.

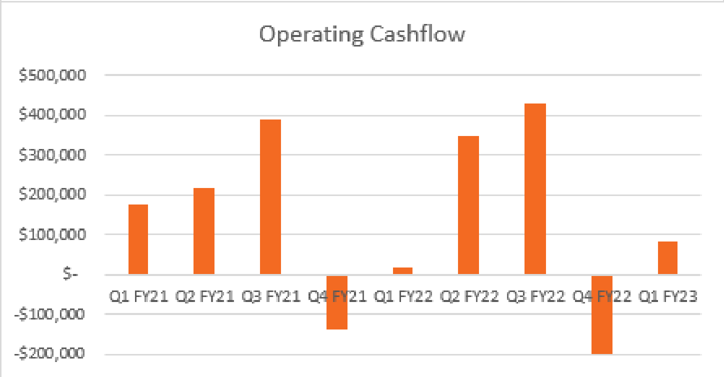
Both Board and Management continue to maintain a disciplined approach to costs, whilst reinvesting a large portion of Gross Profit back into the business in the pursuit of long-term growth.

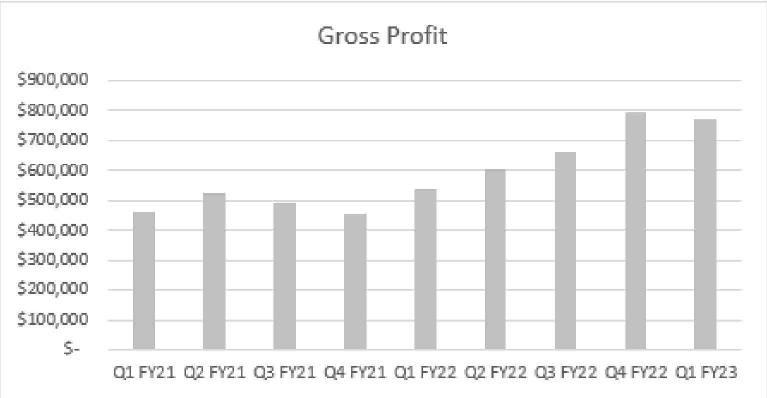
Below features a summary of our key financial metrics:











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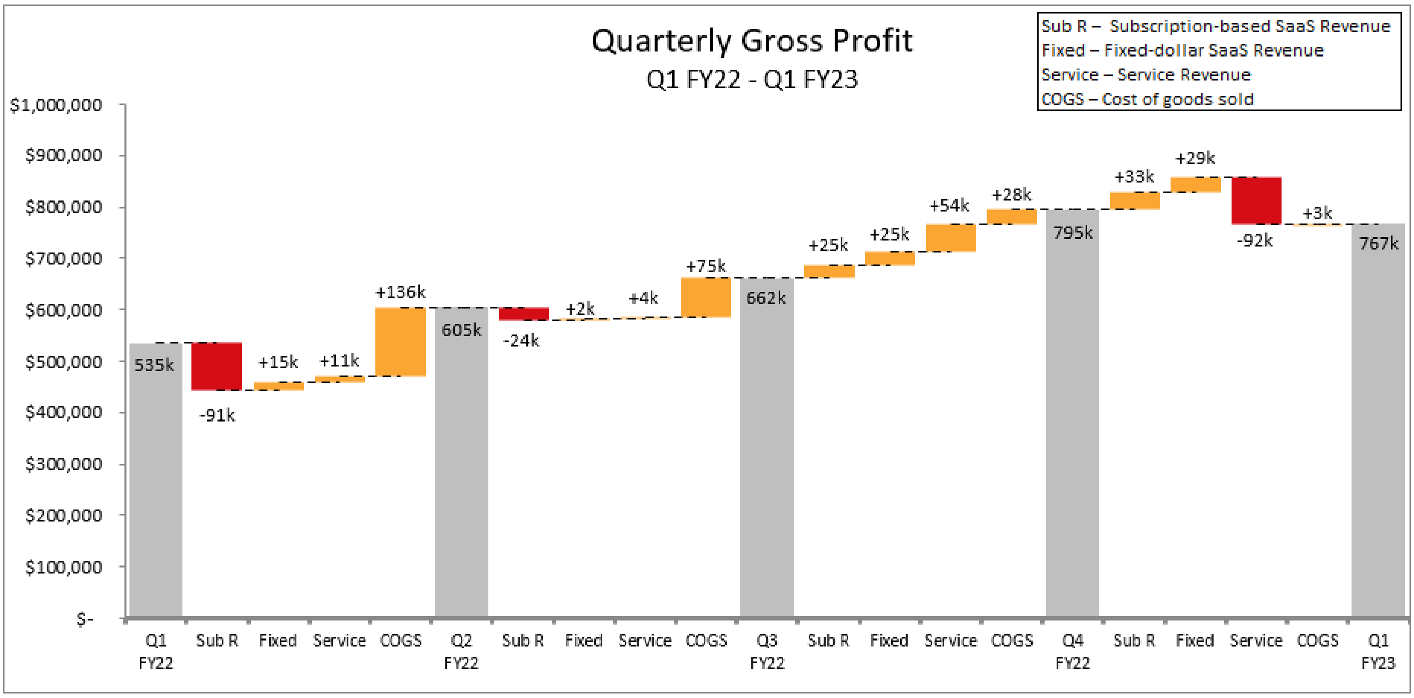
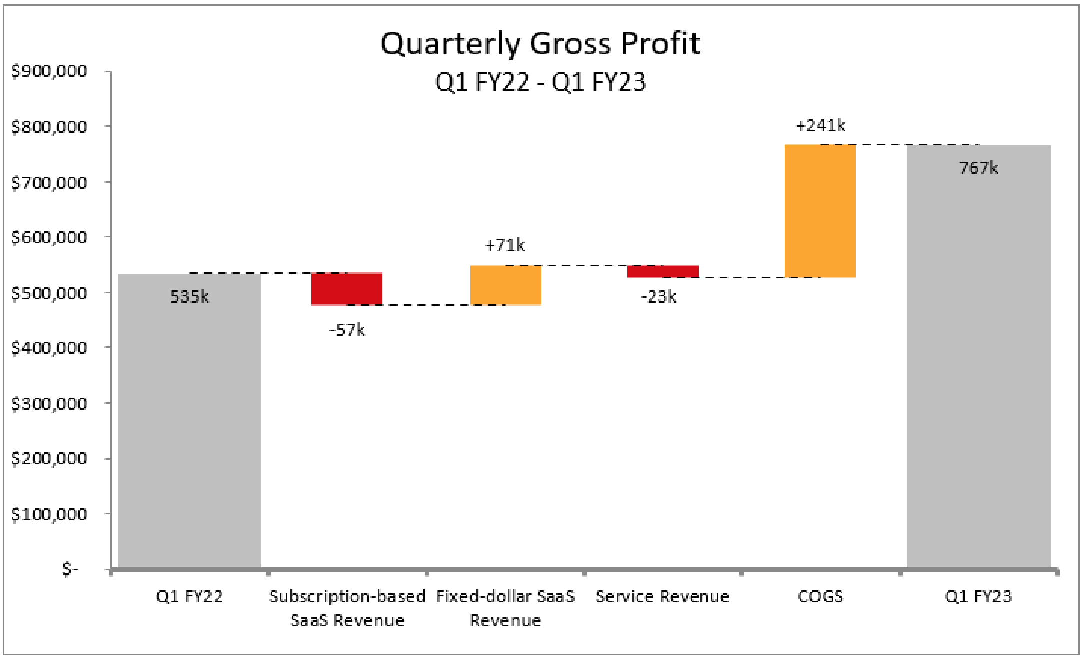
Below is a summary of the key impacts to quarterly Gross Profit over the past 12 months:



Below are the combined key impacts to quarterly Gross Profit over the past 12 months:



Included in COGS is the cost of telemetry, which is charged per vehicle.

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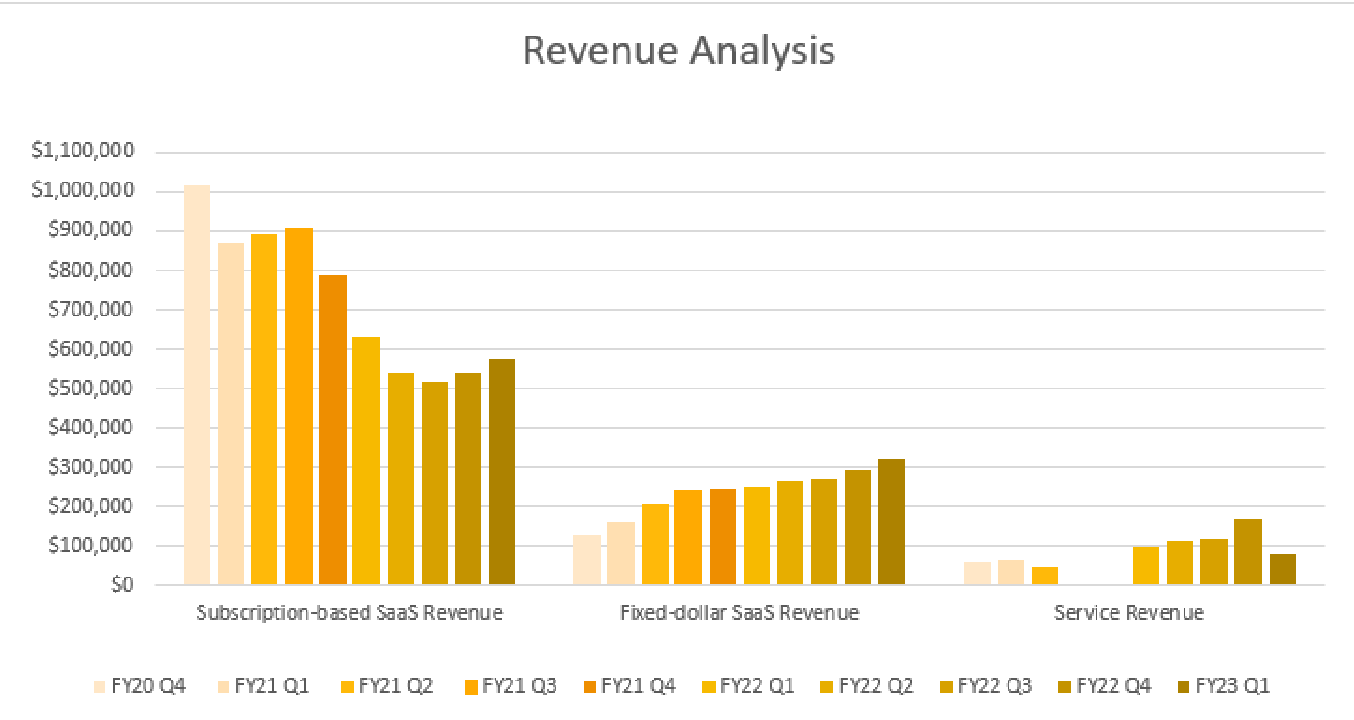
Revenue Analysis

Connexion's three main revenue sources are:

1. Subscription-based SaaS Revenue – includes the OnTRAC and Connexion Subscription Bases. Both OnTRAC and Connexion generate revenue which is linked to the maximum number of vehicles on the platform each month. In addition, the Connexion Platform generates a monthly fee per dealership. Each revenue stream has its own cost structure.
2. Fixed-dollar SaaS Revenue – typically linked to the maintenance of previously performed customisation work, including analytics, and some APIs.
3. Service Revenue – typically linked to one-off software customisation work.

All commercial revenue is USD-denominated. Notably, the second and third revenue categories above are fixed fees (both recurring and one-off, respectively), and not directly linked to any variable Subscription Base. As such, they serve to dampen some of the volatility caused by a fluctuating Subscription Base. Naturally, each revenue category has its own cost structure.

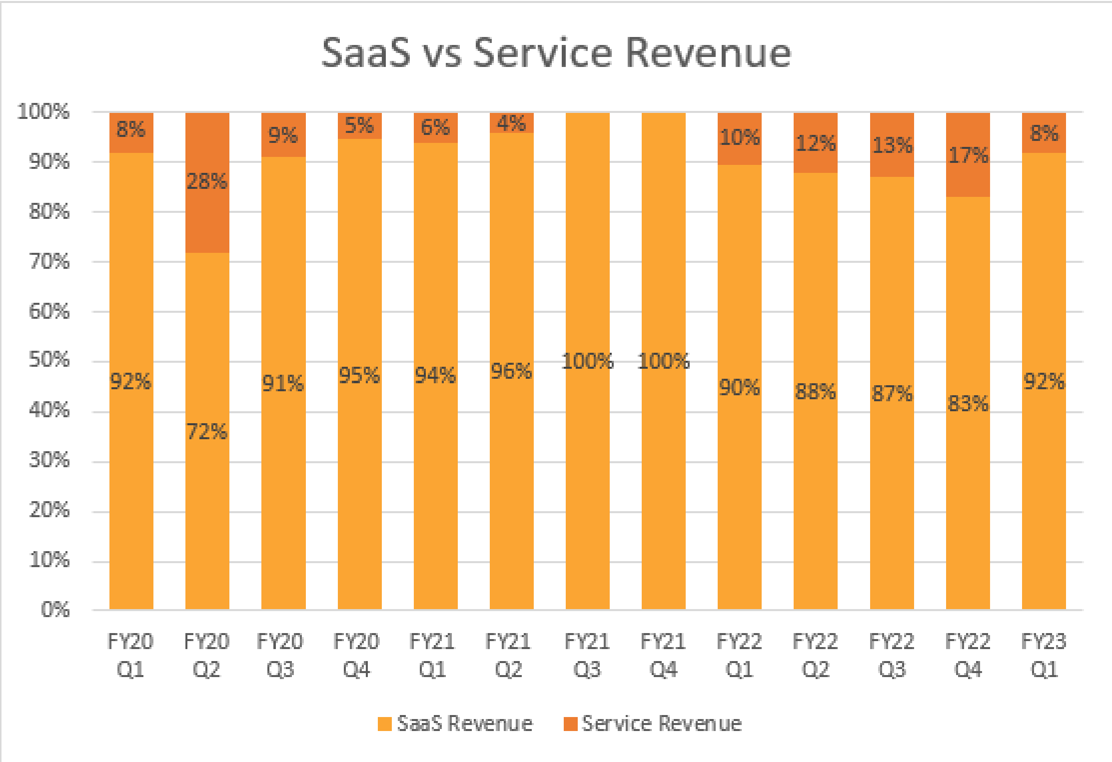
Below, we present the revenue categories from Q4 FY20. This quarter is selected as a key date for investors as this marked the start of significant impact from both the Covid pandemic and the global semi-conductor chip shortage:



Subscription-Based Revenue has increased 6% when compared to the prior quarter. Notably this is consecutive increases over the past two quarters since Q3 FY21.

Fixed-dollar SaaS Revenue has increased by 10% when compared to the prior quarter. From an annualised revenue of $1,172k in Q4 FY22 to annualised revenue of $1,289k in Q1 FY23. This reflects Connexion's ongoing product enhancement work.

Below, we present the split between Service revenue and SaaS revenue.



Corporate

During the Quarter, we continued to invest meaningfully in our human capital, expanding our team. Our hiring efforts continue, despite the challenge posed by the current market for talent. This investment supports both our OnTRAC and Connexion product roadmaps. Today, nearly half of our Team has joined only in the past eighteen months, reflecting our pace of expansion.

Naturally, our investment into Product and Sales & Marketing initiatives will continue to constrain profitability in the near term as we pursue what is a material long-term growth opportunity in the US.

Being in the early stages of our growth phase, our overriding priority is in deepening & expanding our customer relationships, rather than in optimising for top-line or bottom-line profitability. From a financial perspective, we will continue targeting growth in Gross Profit combined with a neutral bottom line.

To date, the current Management and Board have successfully demonstrated a disciplined approach to the management of Shareholder capital, and this will continue as the Company invests for growth.

Share Buyback

During the Quarter, Connexion repurchased 13,937,951 CXZ shares via its On-Market Share Buyback. As at the end of the Quarter, this brings the total number of shares repurchased since the inception of the buyback program to 23,937,951 at an average price of A$0.01 per share.

The logic behind this program was articulated most recently in Connexion's Q4 FY22 Quarterly Update.

Outlook

From our observations, we see OEMs and dealerships increasingly adopting software to:

1. Improve their customer's experience
2. Drive operational efficiency
3. Reduce risk

Connexion's software:

1. Delivers on each of the above, today
2. Has a large Userbase within which to iterate its product, and grow its market presence
3. Has only a small share of dealerships' total software spend, providing ample scope to grow

Connexion intends to continue growing its SaaS revenue streams via:

1. Proprietary feature enhancements valued by its existing Userbase of franchised dealerships
2. Commercial Partnerships bringing complementary functionality to this existing Userbase
3. Expansion of the Userbase itself to new OEMs and franchised dealerships

All numbers in this release are preliminary and unaudited. This announcement has been authorised for release to the ASX by the Board of Directors.

Ends

Issued by: Connexion Telematics Ltd
Authorised by: The Board of Connexion Telematics Ltd

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