

## Quarterly Update For the Quarter Ended 31 December 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
- Q2 Revenue of \$1,125k
- Q2 Gross Profit of \$891k
- Q2 Profit Before Tax of \$113k
- Q2 cash receipts delivered an Operating Inflow of \$76k

Connexion Telematics Ltd (“Connexion” or the “Company”) is pleased to provide an update on its activities for the quarter ended 31 December 2022 (“Q2 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 second Quarter of FY23 is best characterised by the following key trends:

1. A return to revenue growth, albeit off a low base, from income linked to vehicle inventories
2. Steady revenue growth from Connexion subscriptions
3. Steady revenue growth from feature-enhancement delivery
4. Increasing expenditure from reinvestment into our Team and Products

Taking the above into account, Connexion traded profitably throughout Q2 FY23, with a Net Profit Before Tax of \$113k, versus a Net Profit Before Tax of \$199k for Q1 FY23.

Gross Profit in Q2 FY23 was \$891k, being a 16% increase on the prior quarter’s Gross Profit of \$767k, which is an all-time high for Connexion.

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In Connexion's 2022 AGM Presentation we articulated why we view Gross Profit as the single best financial metric by which to judge our progress.

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 six 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, our initial guidance to Shareholders in May 2021 remains correct. Vehicle inventories relevant to Connexion's courtesy transportation software appear to be slowly recovering, although we remind Shareholders of two things:

1. For many reasons, we do not believe that CTP inventories will approach pre-Covid levels.
2. Our economics are largely driven by dealer subscriptions, not vehicle subscriptions.

As such, we do not intend to formally comment on vehicle inventory in future quarters.

### Wage Inflation

The various steps taken by Connexion to combat wage inflation appear to be having the desired effect. The Company suffered no employee attrition during the Quarter, and continues to grow the size of, and investment into, its Team.

In the prior quarter, we advised that *"Whilst the job markets most relevant to Connexion remain structurally undersupplied, these conditions appear to be stabilising"*. In Q2 FY23, the job markets most relevant to Connexion continued to stabilise in favour of employers, as a plethora of technology companies announced redundancies.

Notwithstanding this, broad-based inflation continues to run above central bank targets across both the Australian and US economies, and will threaten our overall cost base for some time yet.

### 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.

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## Customer Success Team

Our Customer Success Team increased during the Quarter with the addition of three full-time Customer Success Managers, starting in early January 2023. This area of investment is becoming increasingly important to our business as we work to establish a higher level of direct engagement with our dealer customers.

## 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 anticipated near-term revenue from these initial APIs is immaterial, the Company expects to benefit both strategically and economically over the long-term.

## 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, as recovery in courtesy fleet inventory remains anaemic.

## Platform Consolidation

During the Quarter, significant technical resources were allocated toward the consolidation of our two software platforms. These efforts are expected to continue for the remainder of FY23, before delivering operational efficiencies in FY24 and beyond. From a branding perspective, the OnTRAC and Connexion product names will continue.

## 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:

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- 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. Numerous dealerships signed up to the free trial during the Quarter, from which we anticipate a strong conversion rate, as we have seen with our earlier trial users thus far. Anticipated near-term revenue remains immaterial.
- Quickride: during the Quarter we increased our Product and Marketing collaboration with Quickride, working towards an MVP launch date in late January 2023. With shuttle being one of the three pillars of courtesy transportation, Quickride's shuttle management platform presents numerous logical integration points through which we believe we can unlock value for our mutual customers. Anticipated near-term revenue remains immaterial.

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 SaaS Revenue and Service Revenue increased for the Quarter. This will fluctuate based on the nature of product releases each quarter.

The Company recognised total revenue during the Quarter of \$1,125k, which included a 6-Quarter high of \$1,017k of SaaS Revenue. This led to an unaudited Gross Profit of \$891k for the Quarter – the highest in Connexion's history.

The Company recorded a quarterly unaudited Net Profit Before Tax of \$113k. Net Cash and Investments increased by \$35k, consisting of Operating Cash Inflow of \$76k and Financing Cash Outflow of \$262k.

The AUD:USD exchange rate fluctuated significantly during the Quarter before ending almost four cents higher.

Generally speaking, an increase in the AUD:USD has the following impact:

1. An immediate positive impact to our P&L via an increase in the USD value of our AUD-oriented balance sheet.
2. A sustained negative impact to our P&L via weakened 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.

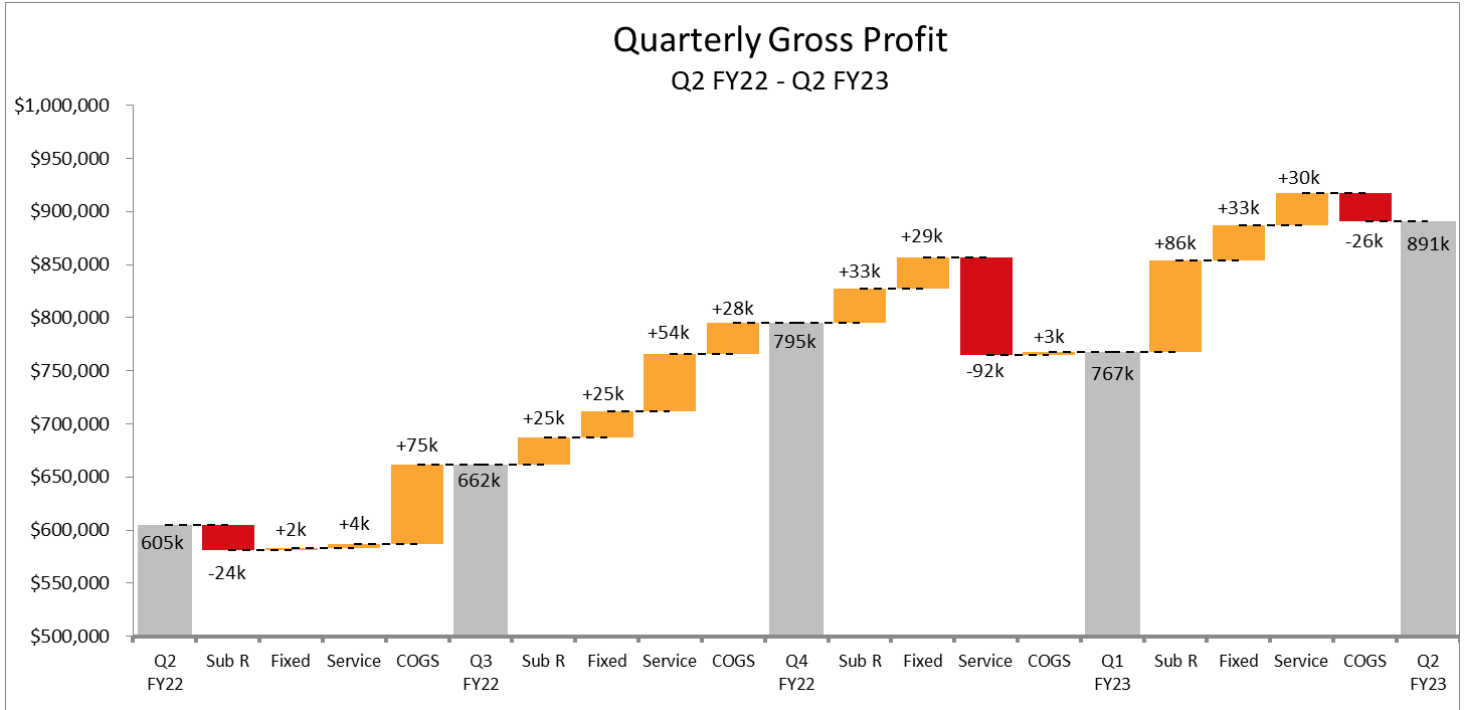
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Below features a summary of our key financial metrics:

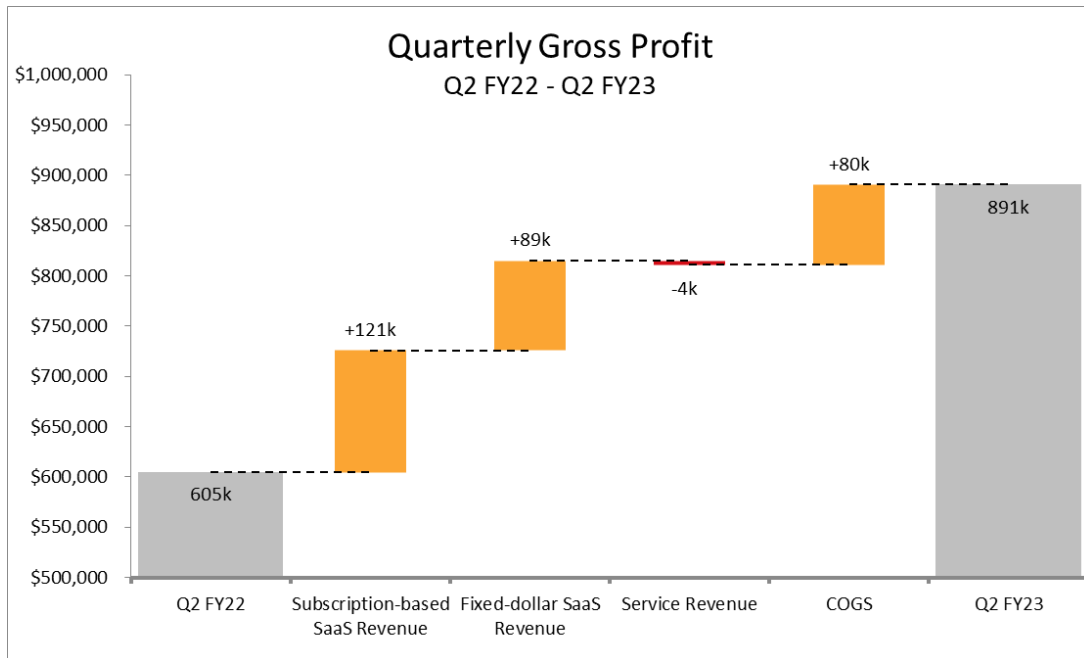


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Below is a summary of the key impacts to quarterly Gross Profit over the past 12 months:



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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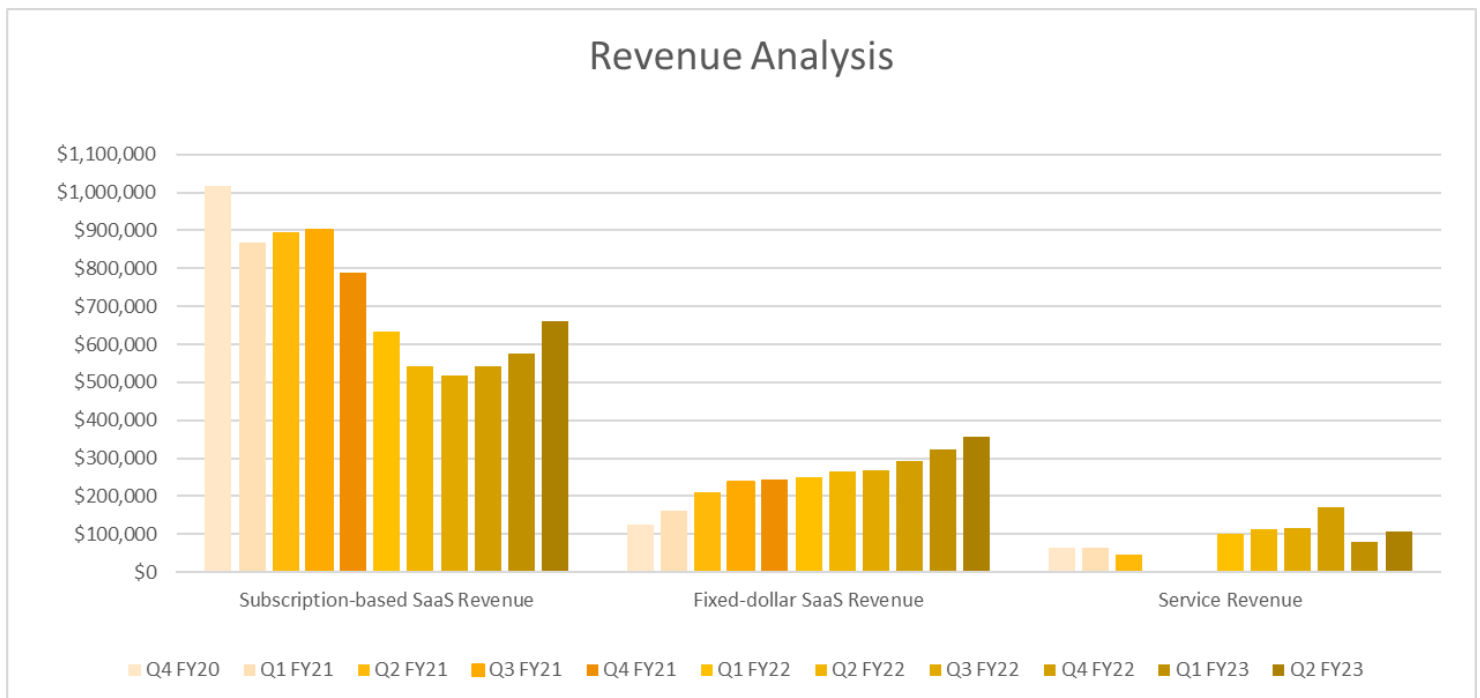
## Revenue Analysis

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:

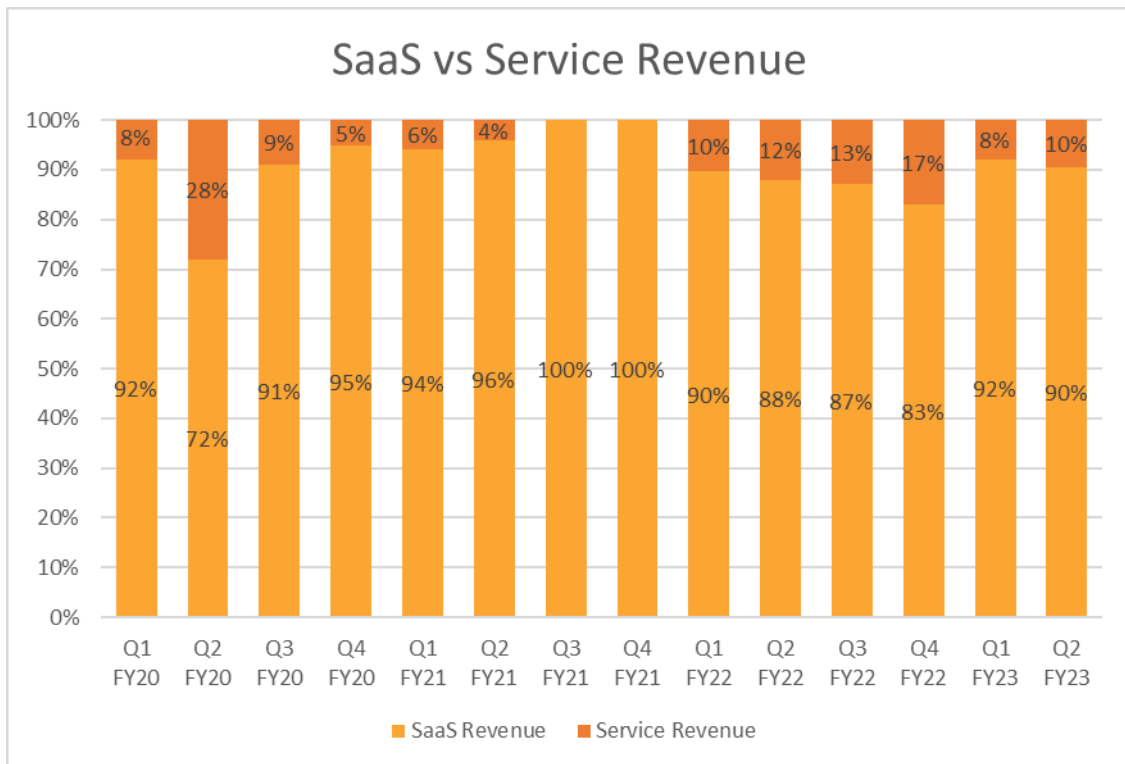


Subscription-Based Revenue has increased 15% when compared to the prior quarter. Notably this is consecutive increases over the past three quarters since Q3 FY22.

Fixed-dollar SaaS Revenue has increased by 10% when compared to the prior quarter. From an annualised revenue of \$1,289k in Q1 FY23 to annualised revenue of \$1,422k in Q2 FY23. This reflects Connexion's ongoing product enhancement work.

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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, circa 65% 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 37,633,778 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



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inception of the buyback program to 61,571,729 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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