CONNEXION

ASX Announcement
22 October 2021

Quarterly Update

For the Quarter Ended 30 September 2021

- **Ongoing enhancements made to both OnTRAC and CXZTRAC platforms**
- **Pleasing adoption of CXZTRAC amongst GM Dealers**
- **Continued progress made on Company strategic objectives**
- **Growing investment made in both Team and Product**
- **Transitioned presentational currency from AUD to USD**
- **Henceforth, all reported figures will be in USD unless otherwise stated**
- **Q1 Revenue of $985k**
- **Q1 Gross Profit of $535k**
- **Q1 unaudited Net Profit Before Tax of $84k**
- **Q1 cash receipts delivered unaudited positive Free Cashflow of $16k**
- **Cash and Liquid Investments remained constant at $3m**

Melbourne, Australia: Connexion Telematics Ltd ("Connexion" or the "Company") is pleased to provide an update on its activities for the quarter ended 30 September 2021 (Q1 FY22).

Summary

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

Consistent with the forward-looking commentary in the prior Quarterly Update, the first quarter of FY22 is best summarised as a continuation of the key trends outlined in prior quarters.

These trends include continued:

1. Revenue deterioration from lower global vehicle inventories (semiconductor chip shortage)
2. Revenue growth from CXZTRAC subscriptions
3. Revenue growth from feature-enhancement delivery
4. Expenditure growth from reinvestment into our Team and Products

Taking each of the above into account, Connexion delivered improved profitability over Q1 FY22, with a Net Profit Before Tax of $84k, versus a Net Loss Before Tax of $33k for the prior quarter.

Furthermore, the Company's Gross Profit over Q1 FY22 totalled $535k – a level not reached since Q2 FY20, prior to both COVID-19 and the global semiconductor chip shortage.

Vehicle Inventory

Whilst commercial confidentiality precludes us from sharing figures around our subscriptions, three months ago we highlighted to Investors that Dealers across most brands in the US (and globally) were seeing reductions in inventory of 30-80% over the course of a single quarter, with 50-60% falls being commonly cited numbers. Fast-forward one more quarter and the pace of decline continues, with many describing new vehicle inventory levels as akin to what was seen during World War II.

The intensity of such an environment has implications beyond the near term, with many Dealers now indicating an intention to continue operating with reduced staffing levels, even once supply resumes. In our view, the only way to execute this tactic successfully, is to leverage technology. We have observed this across many other industries, following periods of crisis.

Reliable forecasts for the resumption of normal vehicle supply are unavailable, although the Company notes that most manufacturers and market commentators currently expect this to occur gradually throughout 2022, but not before.

Notwithstanding a challenging environment, Connexion continues to advance its own initiatives, evidenced by its growing pipeline of customisation work and recurring revenues, the growing adoption of CXZTRAC, the development of Commercial Pilots and increased marketing efforts.

Connexion remains debt-free, generating recurring revenues with strong gross margins.

Operations

Feature Enhancements
As further modification and feature requests driven by our various Users lead to more platform enhancement work, Connexion's subsequent Fixed-dollar SaaS Revenues continue to increase along with the functionality of the platform.

The Company is confident of receiving further enhancement work revenue over time, as several customisations and feature requests for its software are ongoing.

Customer Success Team
The Customer Success Team continued with its mandate of developing a data-rich CRM to uncover the value of the Company's strategic asset, being its Distribution Network of ~22% of all franchised light-vehicle dealerships in the US.

Relationship Expansion
Throughout the quarter, meaningful progress was made growing relationships across the US Automotive industry, with OEMs and potential commercial partners alike.

APIs

Connexion now has APIs live across multiple Dealer Management System ("DMS") providers in the US, and an increasing number of other commercial partners. These initiatives include, but are not limited to, Commercial Pilots (referenced below) and other related divisions within General Motors.

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.

CXZTRAC

Designed as Connexion's OEM-agnostic platform, CXZTRAC was launched ahead of schedule in May for its second use-case, being a solution for GM and its Dealers to navigate the vehicle supply shortage. The platform was developed with the objective of generating sustained revenue even after normal levels of new vehicle supply resume.

Pleasingly, the adoption of CXZTRAC by GM Dealers during the Quarter was consistent with our expectations and previous commentary to the market. We see this adoption continuing in Q2 FY22.

Pilot Agreements

During the quarter, Connexion was pleased to execute Commercial Pilot Agreements ("Pilots") with US automotive software companies Tollaid LLC ("Tollaid") and Digital Dealership USA Inc ("Carsfast").

The Pilots follow Connexion's strategy of partnering with high-quality software providers servicing the US automotive industry with products complementary to OnTRAC & CXZTRAC.

Based in Dallas, Texas, Tollaid supplies an innovative range of digital tools used today by fleet managers, including dealerships, to manage their toll payments in real-time across 8 states in the US.

Today, a significant portion of Connexion's Dealers regularly contend with the challenge of manually processing and recovering customers' toll-charges following the return of a courtesy or rental vehicle.

Through integration with Tollaid's technology, OnTRAC & CXZTRAC Dealers stand to benefit from reduced net tolling expenses and reduced time to process and recover payments.

Based in Scottsdale, Arizona, Carsfast is a next-generation digital car dealership, offering buyers cars and credit directly from their phones. Carsfast eliminates friction from the car buying process, such as long forms, onerous negotiations, and the hours of input usually required to get a finance offer.

Through integration with Carsfast's technology, OnTRAC & CXZTRAC users gain access to new, highly qualified sales leads, along with the unique improvements to customer experience that come with digital retailing. Both benefits to Connexion's Dealers are expected to become increasingly sought-after following the eventual normalisation of Dealer inventory levels.

As the commercial model of both Pilots is linked to the number of vehicles in a Dealer's inventory, their integration has been reprioritised, with release scheduled for Q2 FY22.

The Pilots involve a range of risks, including technological risk and commercial adoption risk. There is no guarantee that the Pilots will lead to commercial success.

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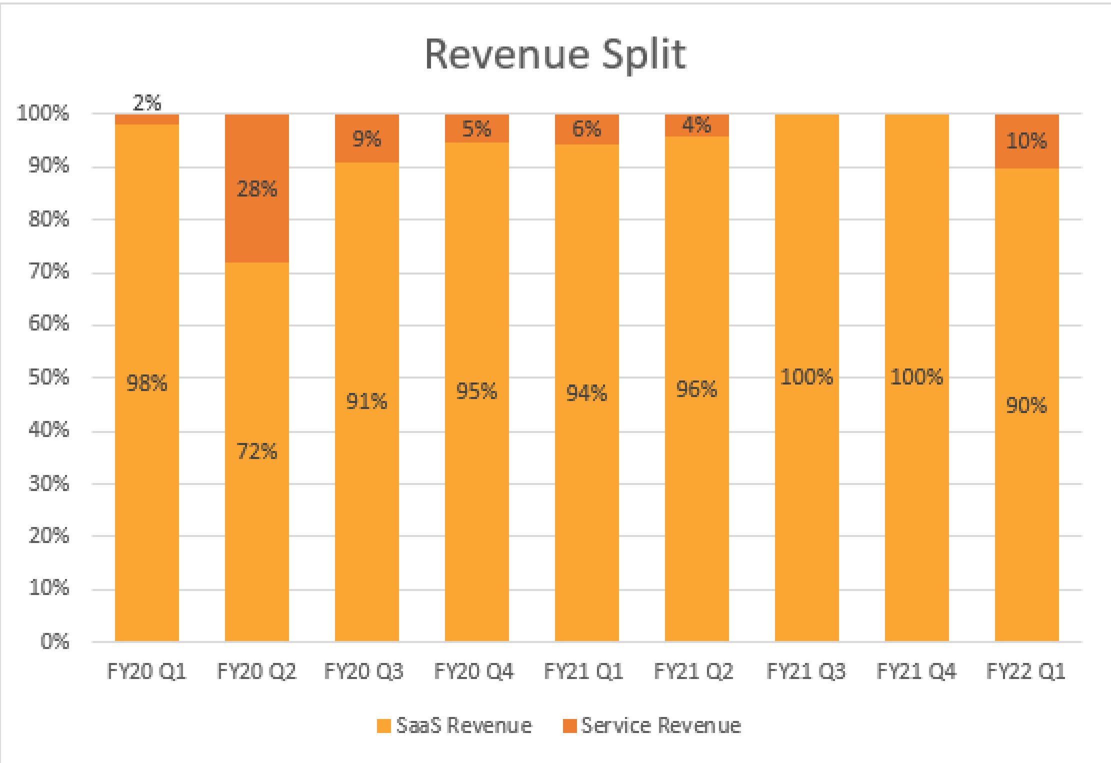
Revenue Analysis

In years prior, Connexion derived a large percentage of revenue from its “Services” business. This was a tactic successfully employed by the Company to repair its balance sheet without diluting Shareholders. Whilst the Services model offers the quickest route to profitability, it is rarely effective in creating a platform for meaningful and sustained growth. This is no secret, of course, with a plethora of material available online to espouse the benefits of a SaaS-driven model.

Whilst superior in almost every way, a true SaaS model is characterised by the return on each tranche of investment being relatively long-dated compared with a Services model (where staff costs and billable hours generally flex and match-off more easily). This results in the SaaS model requiring meaningful investment before the revenue “flywheel” emerges. However, once the flywheel gathers pace, the genuinely scalable nature of the model means growth can compound in ways that are virtually impossible for a Services business.

Following a period of concerted effort, Connexion now enjoys a very high percentage of SaaS-based revenue. When combined with our recent and ongoing investment initiatives, the Company is being methodically set up to grow at compound rates over time. The shift in model is deliberate and, we expect, will be worthwhile.

To be clear, Services activity is still very important for all B2B software companies, including ours, for many reasons – mostly to do with customer satisfaction and stickiness. We are simply sharing that it no longer constitutes the “main game”.

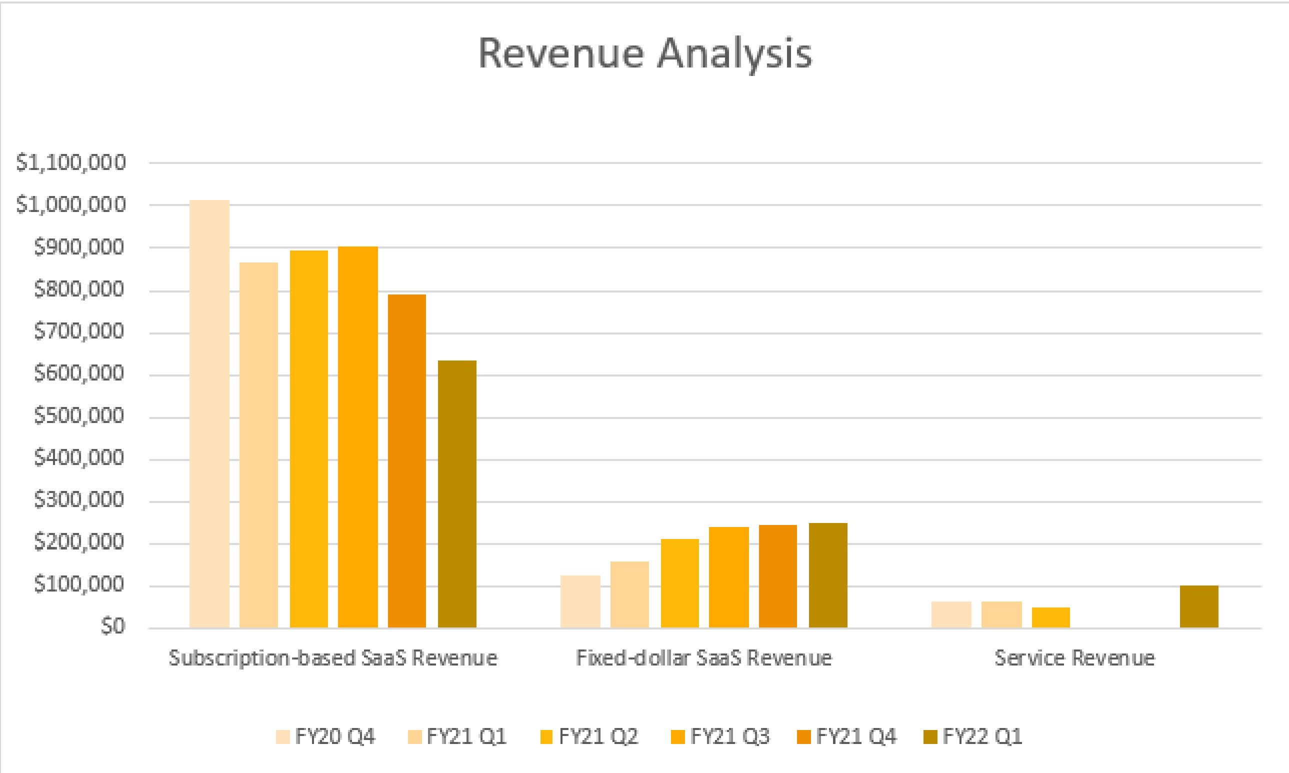


Looking in more detail, Connexion's three main revenue sources are:

1. Subscription-based SaaS Revenue – includes the OnTRAC and CXZTRAC Subscription Bases. OnTRAC revenue is linked to the maximum number of vehicles on the platform each month, whilst CXZTRAC generates a monthly fee per Dealer.
2. Fixed-dollar SaaS Revenue – typically linked to 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, and it is important to note the second and third revenue categories above are typically fixed fees (both recurring and one-off, respectively), and not directly linked to the 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:



Financial Position

The Company's financial position remains strong as both Fixed-dollar SaaS Revenue and Service Revenue increased during the quarter. The increase to both revenue streams was expected after the launch of CXZTRAC in the previous quarter, which utilised most resources. Service revenue is forecast to stay material into Q2.

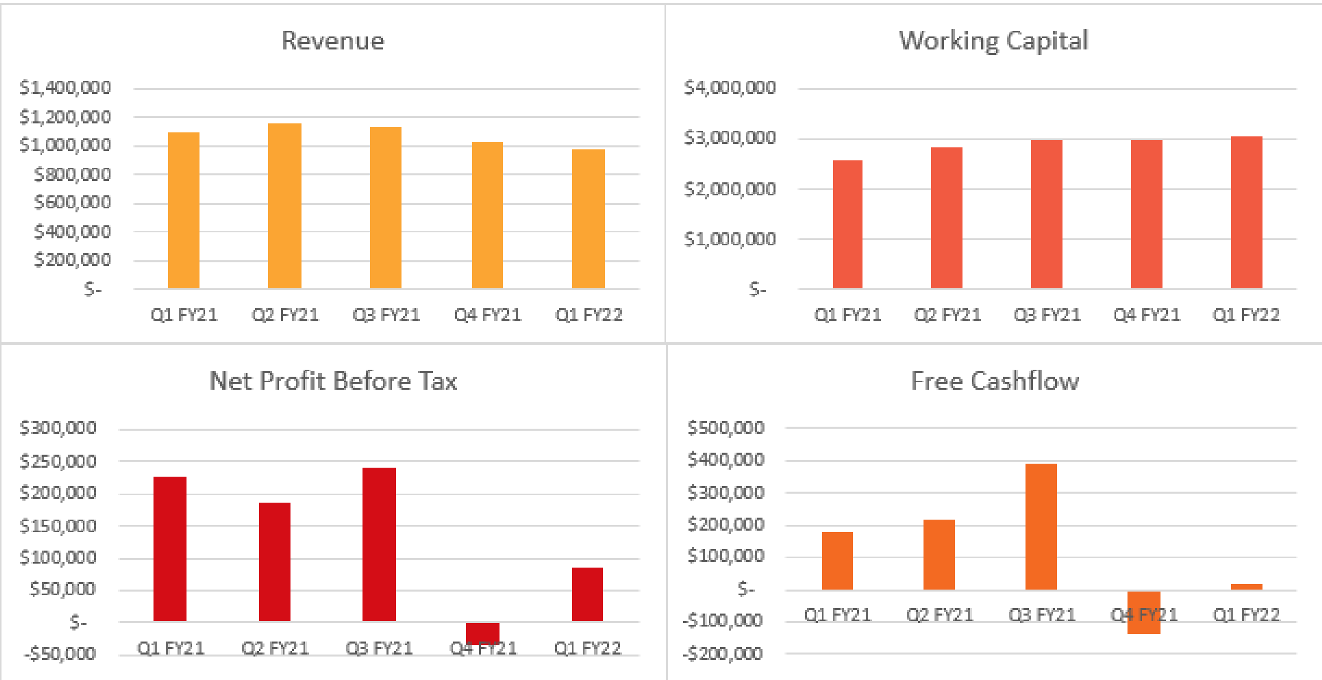
The Company's continued focus during the global semiconductor shortage is the challenge of minimising discretional spending whilst balancing growth opportunity and organisational capability enhancements. The Company is well placed to benefit should vehicle subscription numbers recover.

The Company recognised total revenue during the quarter of $985k, which included $101k of Service Revenue. This has led to an unaudited Gross Profit of $535k for the quarter, the highest in six quarters (Q2 FY20).

The Company recorded a quarterly unaudited Net Profit Before Tax of $84k. Working capital, consisting primarily of cash and short-term receivables, remained consistent while operating cashflow activities were positive. The AUD:USD exchange rate held steady during the quarter.

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

Below features a summary of our key financial metrics:



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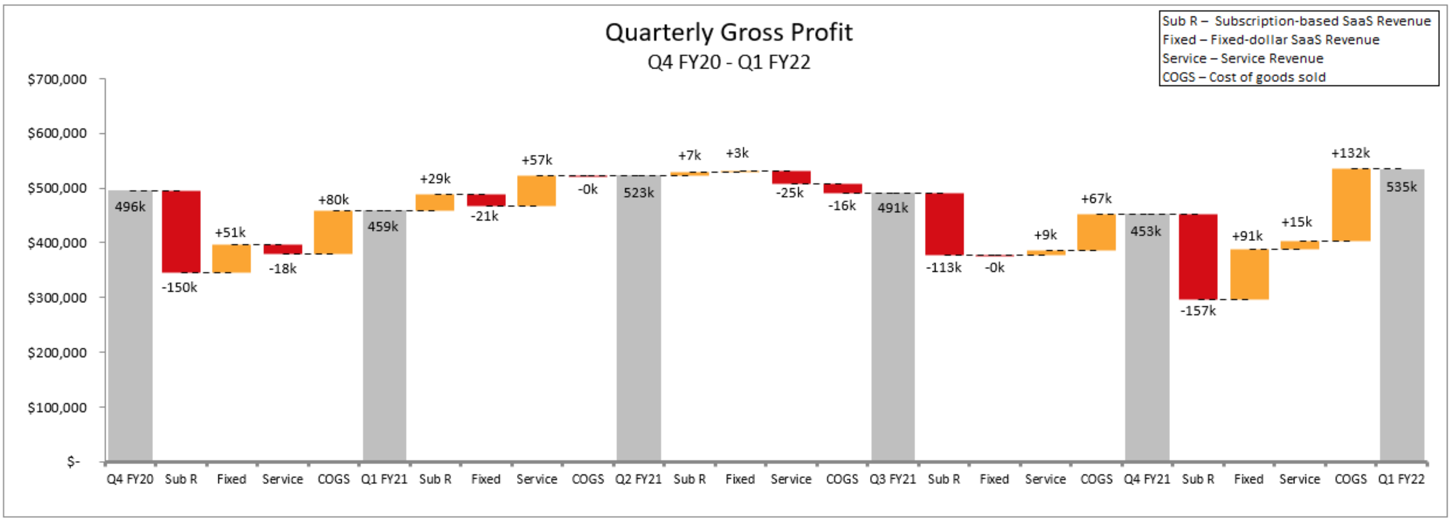
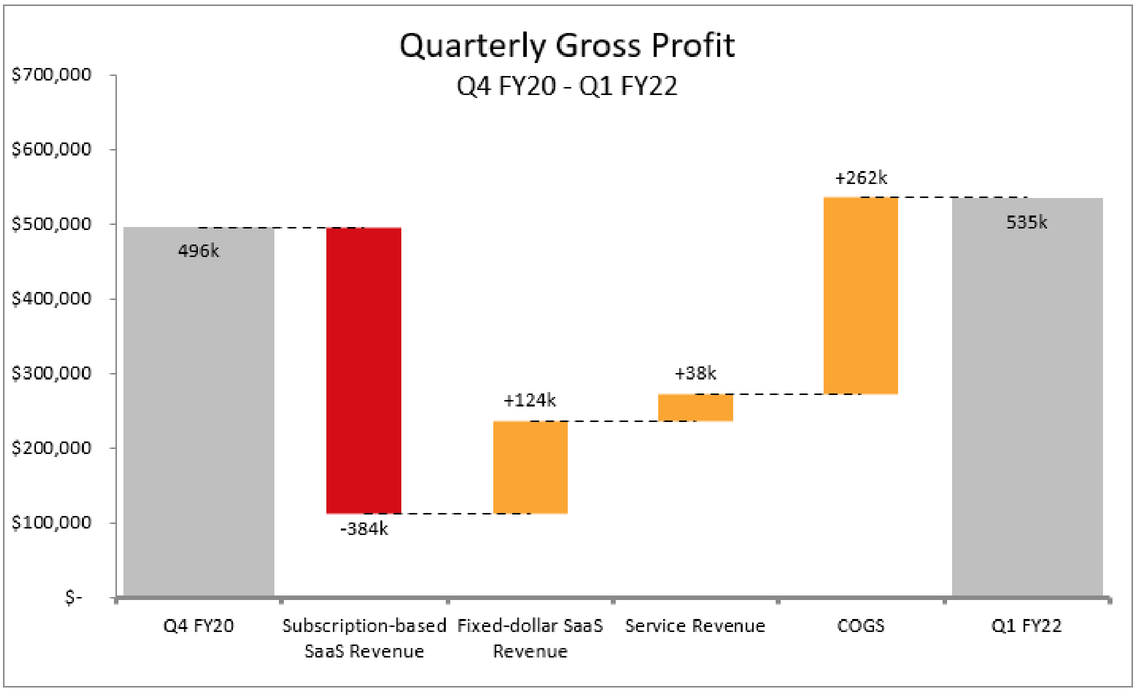
Below is a summary of the key impacts to Quarterly Gross Profit over the past 15 months:



Below are the combined key impacts to Quarterly Gross Profit over the past 15 months:



Over the past 15 months, the Company has adapted its operations according to external factors. Most notably, the global semiconductor shortage has directly and materially impacted Subscription Revenue and Gross Profit since Q4 FY21.

The Company demonstrated its resilience by generating greater Fixed-dollar SaaS Revenue and reducing Cost of Goods Sold where possible.

It is also worth noting that the impact from the decline in vehicles on OnTRAC is much larger than what is shown by the Subscription-based SaaS Revenue bar above, as our new CXZTRAC subscription revenue is included within this metric.

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Corporate

During the quarter, the Company continued to invest meaningfully in its human capital, onboarding multiple Full Stack Developers and Quality Assurance Testers. This investment is designed to support not only our GM-related product-roadmap, but also our OEM-diversification initiatives.

Naturally, the Company's investment in human resources will continue to impact its profitability in the near term as it pursues what is a material long-term growth opportunity in the US. To date, the current Management and Board have successfully demonstrated a highly disciplined approach to the management of Shareholder capital, and this will continue as the Company invests for growth.

Outlook

The Company expects to continue seeing a dampened number of vehicles on our platforms whilst the global semiconductor shortage remains in play. Most industry reports do not see a recovery before mid-2022. This is consistent with our commentary in the prior quarter.

Subscription numbers aside, Connexion expects to continue growing its SaaS revenue streams through platform feature enhancements valued by its large Franchised Dealership Network, along with its new CXZTRAC platform.

Beyond this core function, the Company is actively executing on previously referenced investment initiatives in pursuit of what is a material long-term growth opportunity in the US. The Tollaid and Carsfast Pilots represent the first formal examples of what the Company expects to be multiple Commercial Partnerships over time.

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

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Authorised by: The Board of Connexion Telematics Ltd

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