CONNEXION

ASX Announcement
21 April 2022

Quarterly Update

For the Quarter Ended 31 March 2022

- **CXZTRAC platform rebranded to Connexion platform**
- **Ongoing enhancements made to both OnTRAC and Connexion platforms**
- **Continued pleasing adoption of Connexion platform amongst GM Dealers**
- **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**
- **Q3 Revenue of $901k**
- **Q3 Gross Profit of $662k**
- **Q3 Profit Before Tax of $89k**
- **Q3 cash receipts delivered an Operating Inflow of $428k**

Melbourne, Australia: Connexion Telematics Ltd ("Connexion" or the "Company") is pleased to provide an update on its activities for the quarter ended 31 March 2022 (Q3 FY22).

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".

Consistent with the forward-looking commentary in the prior Quarterly Update, the third 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
2. Revenue growth from Connexion subscriptions
3. Revenue growth from feature-enhancement delivery
4. Expenditure growth from reinvestment into our Team and Products

Taking the above into account, Connexion delivered improved profitability throughout Q3 FY22, with a Net Profit Before Tax of $89k, versus a Net Profit Before Tax of $143k for H1 FY22.

Driving this was a Gross Profit in Q3 FY22 of $661k, being a 9% increase on the prior quarter's Gross Profit of $605k. In prior reports we articulated why we view Gross Profit as the single best financial metric by which to judge our progress. This is now the third consecutive quarter in which the Company has achieved its second highest quarterly Gross Profit in its history. This is a testament to the Team's continued sound execution. This quarter's financial result was only surpassed by a $784k Gross Profit in Q2 FY20, which included significant one-off items. With that said, given the Company is in the early stages of its growth phase, its overriding priority is in expanding and deepening its customer relationships, rather than in optimising for top-line or bottom-line profitability. Connexion will continue targeting a neutral bottom line for the foreseeable future.

Vehicle Inventory

Within the past three Quarterly Updates we have given as much insight as possible as to the extreme impact that the global semiconductor shortage has had on dealer inventory, including courtesy fleets, whilst remaining contractually compliant. Today we see no change in this negative trend, or to our prior expectation of a gradual recovery off an extremely low base at some point in 2022.

Our initial guidance to Shareholders in May 2021 that *"the Company does not expect a material change to its earnings"* due to the chip shortage has proven correct. Due to our offsetting OnTRAC and CXZTRAC products, the size and timing of any subsequent inventory recovery is not a topic that we mull over on a daily basis. Instead, we are preparing for both the anticipated opportunity and challenge of retaining the Connexion (previously "CXTRAC") platform subscriptions activated during OnTRAC's inventory downturn, as inventory levels recover.

The intensity of the dealer inventory contraction has implications beyond the near term, with many dealers likely to continue operating with both reduced inventory and staffing levels, even once vehicle supply resumes. In our view, the only way to execute this tactic successfully is to leverage technology. We have observed this across other industries, following periods of crisis.

Increasingly, Dealers are relying on software to drive operational efficiency, improve customer experience, and reduce risk. Connexion's platform delivers on all three fronts today, has a strong foothold in a market (automotive software) that is growing, and its share of dealers' software spend is low by any measure.

Operations

Wage Inflation

Severe wage inflation has been well documented globally now for quite some time, and only appears to be getting worse in white collar environments, and software in particular.

Connexion is not immune to these developments, and is increasingly challenged when it comes to 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 Commercial Partners.

Notwithstanding these external challenges, Connexion continues to grow the net size of, and investment into, its Team.

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 Revenue continues to increase along with the functionality of both core platforms.

Beyond its own increasing R&D spend, Connexion 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, progress was made growing relationships across the US Automotive industry, with OEMs and potential commercial partners alike. These efforts were complemented by more general brand-awareness initiatives and a refreshed Company website.

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.

Connexion Platform

Designed as Connexion's OEM-agnostic platform, Connexion was launched ahead of schedule in May 2021 for its secondary use-case, being a solution with which GM and its Dealers could better 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 Connexion by GM Dealers during the Quarter was consistent with our expectations and previous commentary to the market. We see this adoption continuing in Q4 FY22.

Commercial Partnerships

In recent Quarterly Updates we advised on our Strategic Alliance with Infomedia, together with our Pilots with Carsfast and Tollaid. Connexion is working with each of these parties, and others, to develop the beginnings of what is intended to be a vibrant software ecosystem.

A long-term opportunity that the Company believes to be significant to its future is the ability to attract, develop and retain a broad range of participants in its software ecosystem. Connexion anticipates managing this ecosystem via its proprietary Marketplace, which is undergoing development.

Dealers increasingly rely on software to drive operational efficiency, improve customer experience, and reduce risk. Connexion's platforms deliver on all three fronts today, have a strong foothold in a growing market (automotive software), and its share of dealers' software spend is low by all accounts.

With that said, the Strategic Alliance and Pilots 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.

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Revenue Analysis

This quarter we again take the opportunity to encourage Shareholders to distinguish between Services revenue and SaaS revenue when analysing our Company and others.

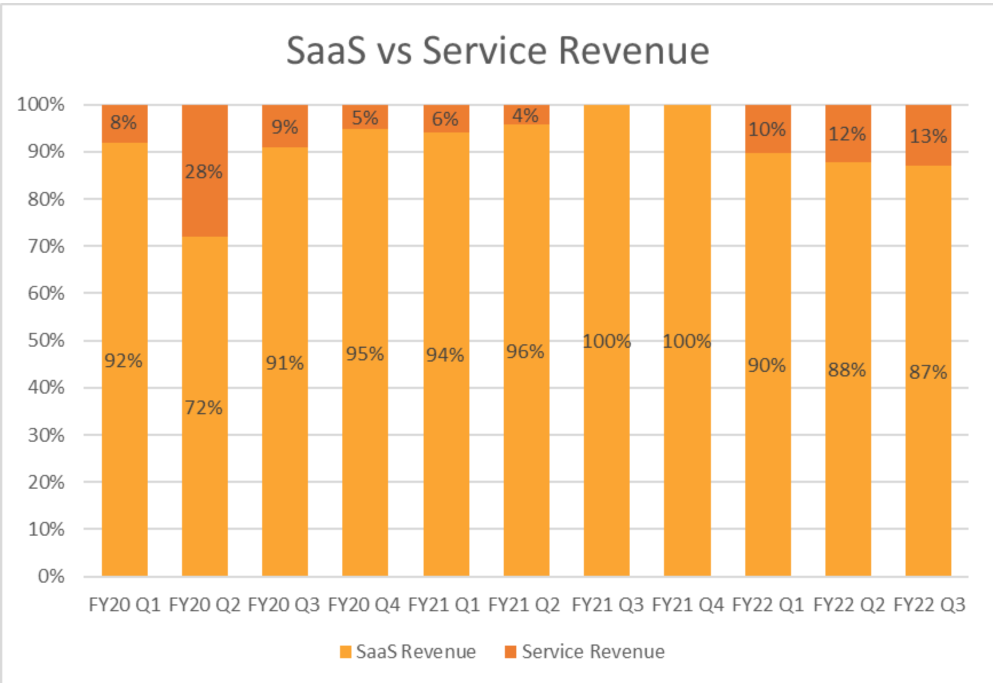
Some years ago, Connexion derived a large percentage of revenue from its “Services” business. This was a tactic successfully employed by the Company to repair its balance sheet without diluting Shareholders. Whilst the Services model offers the quickest route to profitability, it is rarely effective 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. As a result, the SaaS model requires 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 simply impossible for a Services business.

Whilst the past quarter is too short a timeframe upon which to place much weight, we do believe that it represents the early emergence of the flywheel concept described in prior quarterly updates. Increased internal investment is supporting increased Gross Profitability which, in turn, is supporting increased future internal investment.

Following a period of concerted effort, Connexion now enjoys a 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 virtually all B2B software companies, including Connexion. This is for many reasons, including key customer satisfaction and stickiness. We are simply highlighting that Services revenue does not constitute the “main game”, as Connexion instead focuses on developing its long-term revenue “flywheel”.

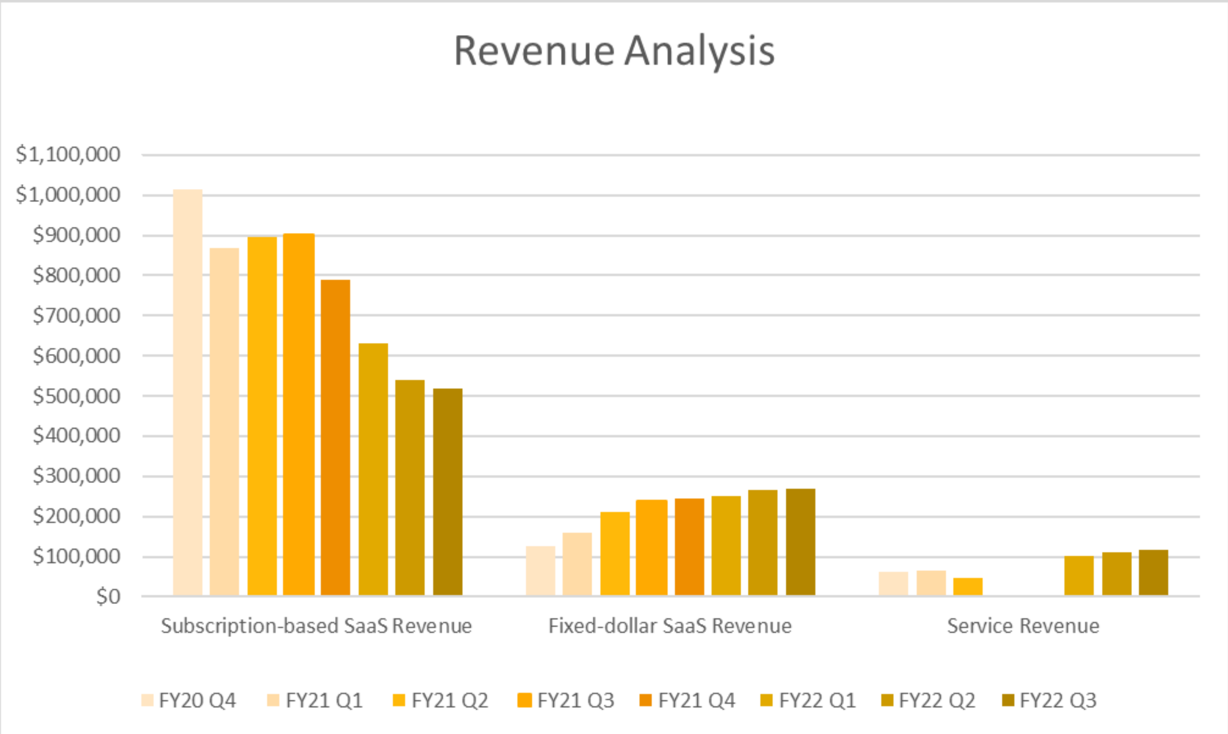


Looking in more detail, Connexion's three main revenue sources are:

1. Subscription-based SaaS Revenue – includes the OnTRAC and Connexion Subscription Bases. OnTRAC revenue is linked to the maximum number of vehicles on the platform each month, whilst the Connexion platform generates a monthly fee per Dealer. Each has a unique 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, 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 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:



Financial Position

The Company's financial position remains strong as both Fixed-dollar SaaS Revenue and Service Revenue increased for another consecutive quarter. The increase to both revenue streams was expected after the launch of CXZTRAC (now "Connexion") in Q1 FY22, which utilised most internal resources. Service revenue is forecast to remain material for the remainder of the financial year.

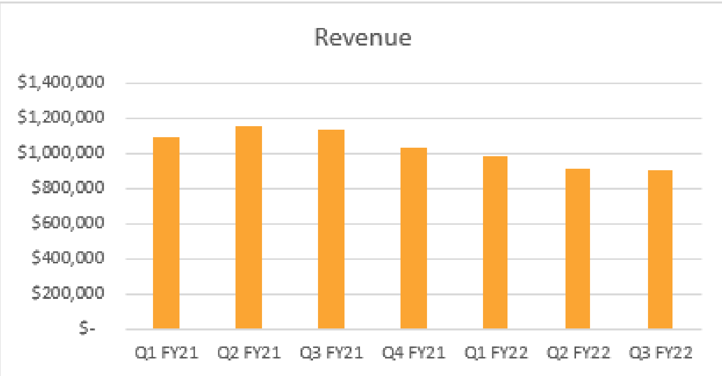
The Company's continued focus during the global semiconductor shortage is the challenge of managing discretional spending whilst balancing growth opportunity and organisational capability enhancements. The Company is well placed to benefit should vehicle subscription numbers recover.

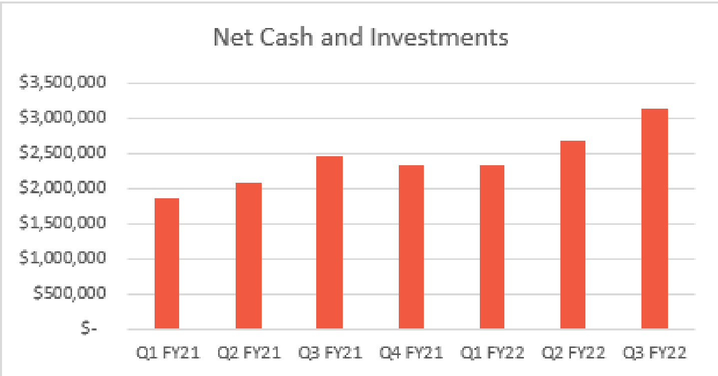
The Company recognised total revenue during the quarter of $901k, which included $116k of Service Revenue. This has led to an unaudited Gross Profit of $662k for the quarter - the highest in eight quarters (since Q2 FY20).

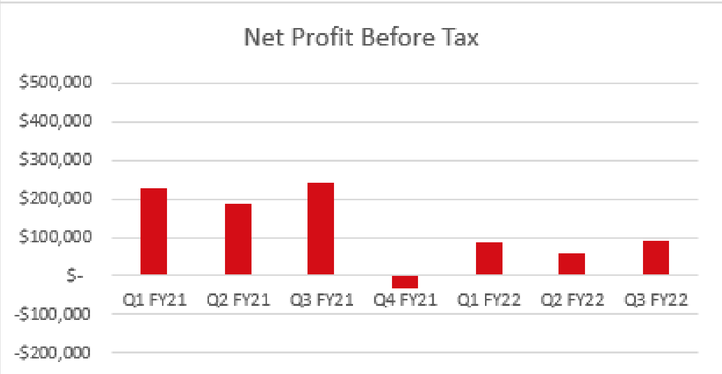
The Company recorded a quarterly unaudited Net Profit Before Tax of $89k. Net Cash and Investments increased to a record high as operating cashflow activities were also positive. Operating Cashflow is marginally greater compared to the previous period, relative to Net Profit Before Tax. This is due to General Motors paying within standard trading terms, which is partially offset by some previously Capitalised Development being fully amortised in Q2 FY22. The AUD:USD exchange rate fluctuated during the quarter before ending two cents higher.

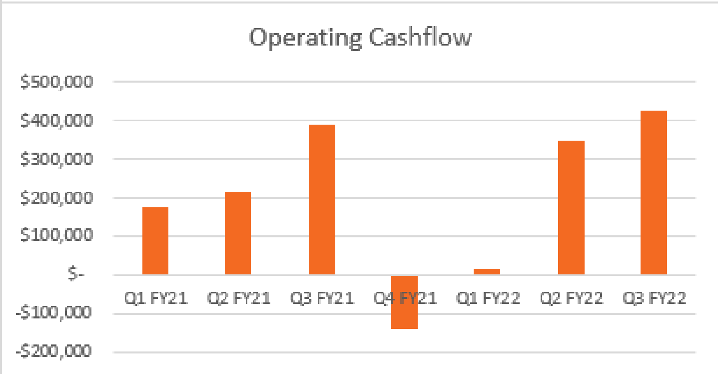
Both Board and Management continue to maintain a highly disciplined approach to costs, whilst reinvesting a growing portion of Gross Profit back into the business in the pursuit of long-term growth.

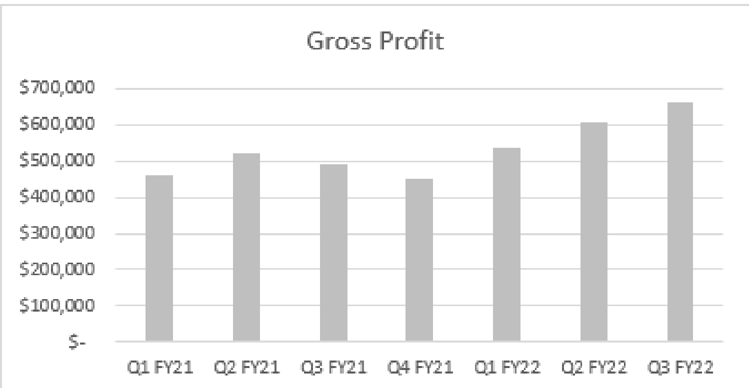
Below features a summary of our key financial metrics:











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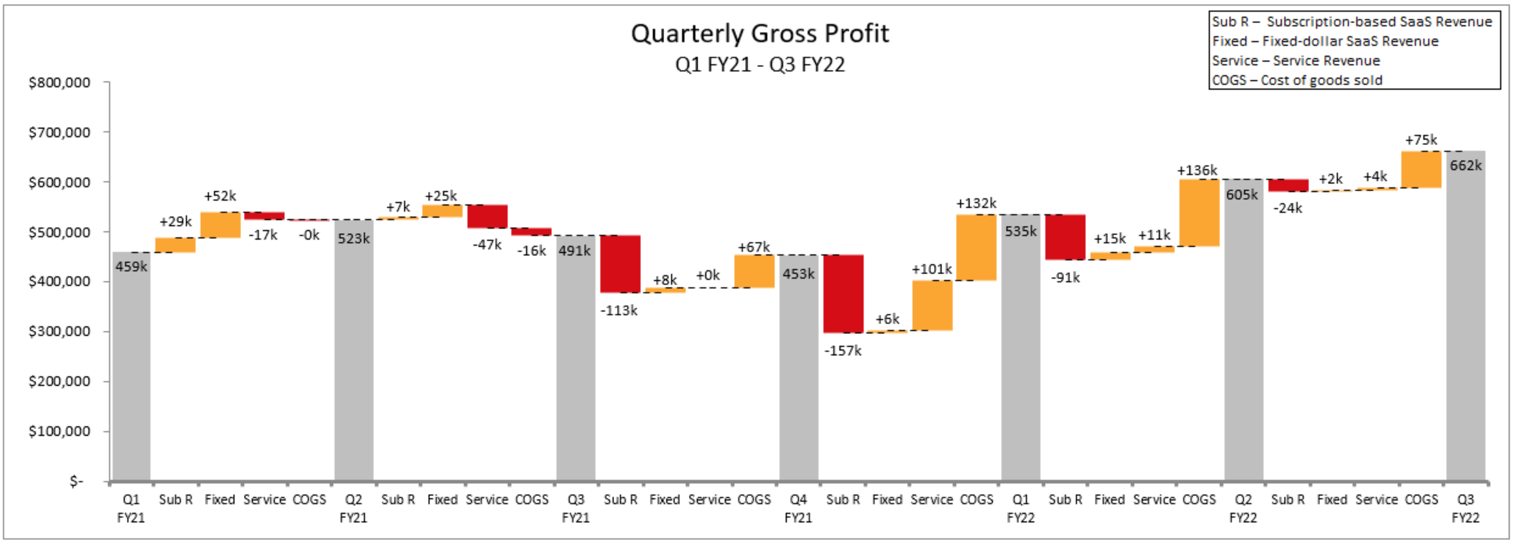
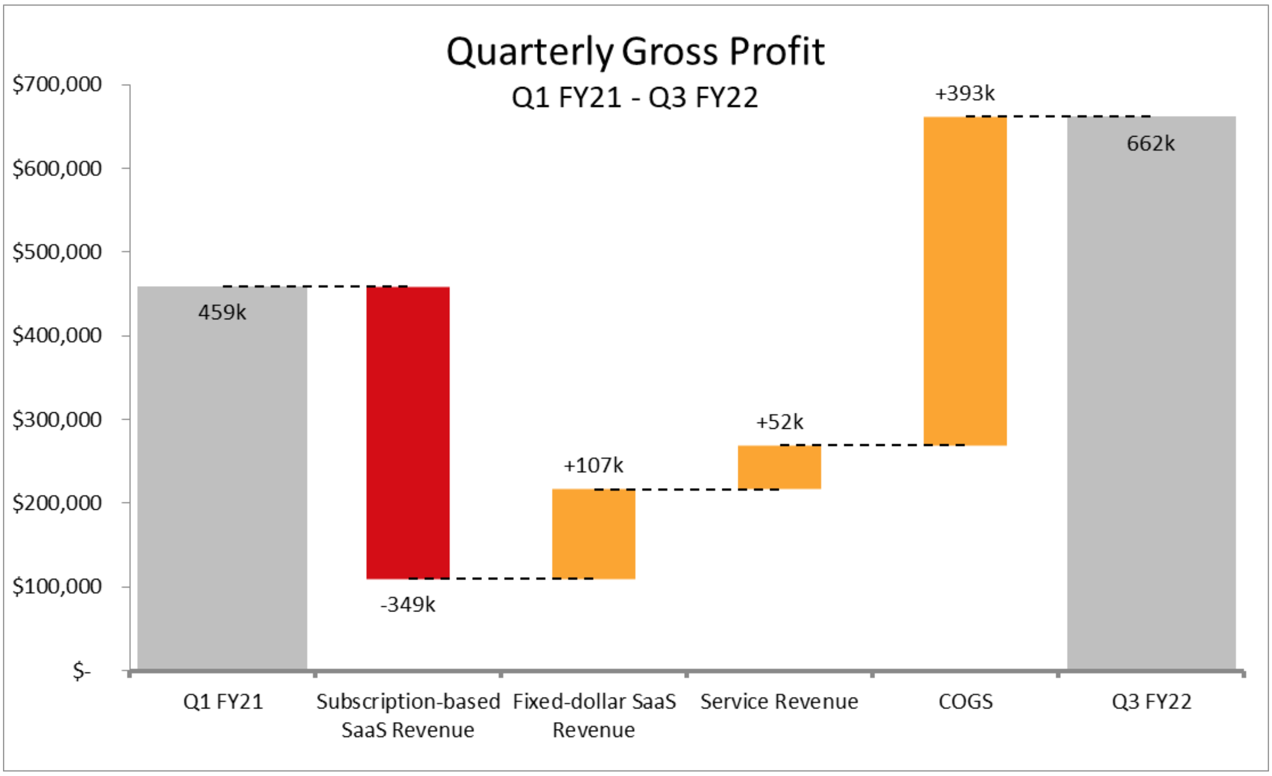
Below is a summary of the key impacts to Quarterly Gross Profit over the past 18 months:



Below are the combined key impacts to Quarterly Gross Profit over the past 18 months:



Over the past 18 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 Q3 FY21.

The Company demonstrated its resilience by generating greater Fixed-dollar SaaS Revenue and reducing Cost of Goods Sold ("COGS") where possible. Included in COGS is the cost of telemetry, which is charged per vehicle.

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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 Connexion subscription revenue is included within this metric.

Corporate

During the quarter, the Company continued to invest meaningfully in its human capital, expanding our team with another Business Analyst and Full Stack Developer. The hiring efforts continue, only constrained by the current market for talent. This investment is designed to support not only our GM-related product-roadmap, but also our OEM-diversification initiatives. Today, two thirds of Connexion's Team have joined only in the past eighteen months, reflecting our pace of expansion.

Naturally, the Company's investment in human resources will continue to constrain profitability in the near term as it pursues what is a material long-term growth opportunity in the US.

Given the Company is in the early stages of its growth phase, its overriding priority is in expanding and deepening its customer relationships, rather than in optimising for top-line or bottom-line profitability. Connexion will continue targeting a neutral bottom line for the foreseeable future.

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

Connexion expects to continue growing its SaaS revenue streams through feature enhancements that are valued by its large Franchised Dealership Network across both its OnTRAC and Connexion platforms.

Beyond this core function, the Company is actively executing on previously referenced initiatives in pursuit of what is a material long-term growth opportunity in the US. This long-term growth opportunity comprises a larger number of OEMs and Dealers as clients, along with participating in a greater share of Dealer's software spend and, finally, activating new and proprietary business models.

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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