CONNEXION

ASX Announcement
22 July 2022

Quarterly Update

For the Quarter Ended 30 June 2022

- **Ongoing enhancements made to both OnTRAC and Connexion platforms**
- **Continued pleasing 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**
- **Q4 Revenue of $1,006k**
- **Q4 Gross Profit of $795k**
- **Q4 Profit Before Tax of $180k**
- **Q4 cash receipts delivered an Operating Outflow of $200k**

Melbourne, Australia: Connexion Telematics Ltd ("Connexion" or the "Company") is pleased to provide an update on its activities for the quarter ended 30 June 2022 (Q4 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 fourth 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 Q4 FY22, with a Net Profit Before Tax of $180k, versus a Net Profit Before Tax of $89k for Q3 FY22.

CONNEXION

Driving this was a Gross Profit in Q4 FY22 of $795k, being a 20% increase on the prior quarter's Gross Profit of $661k, and an all-time record for Connexion.

Shareholders should note that included in these results is a higher than usual figure for non-recurring Services Revenue, as shown in our revenue analysis later in the update. Nevertheless, recurring revenues continued to grow during the period.

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. Q4 FY22 is now the fourth consecutive quarter in which the Company has grown its quarterly Gross Profit, and is testament to the Team's continued sound execution.

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. We intend to target a neutral bottom line (NPBT) for the foreseeable future as we fully expense meaningful growth-related activity.

Operations

Vehicle Inventory

Within the past four 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.

At the time of releasing this Quarterly Update, there is no change to either our initial guidance to Shareholders in May 2021, or the added context in subsequent Quarterly Updates.

Wage Inflation

Consistent with our update in the 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 these developments, and is 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, we continue to proactively grow the net size of, and investment into, our Team.

Feature Enhancements

As further modification and feature requests driven by our various Users lead to more platform enhancement work, our subsequent Fixed-dollar SaaS Revenue continues to increase along with the functionality of both core platforms.

Beyond our own increasing R&D spend, we are confident of receiving further enhancement work revenue over time, as several customisations and feature requests for our platforms are ongoing.

CONNEXION

Customer Success Team

Our 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 highly targeted marketing initiatives.

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 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 normal levels of new vehicle supply resume.

Pleasingly, the adoption of Connexion by GM dealerships during the Quarter was consistent with our expectations and previous commentary to the market. We see this adoption continuing in Q1 FY23.

Ford & Lincoln Approved Vendor Status

During the Quarter, Connexion was awarded Approved Vendor status for the Ford Motor Company's ("Ford") Ford Courtesy Transportation Program ("FCTP") and Lincoln Courtesy Transportation Program ("LCTP").

The Connexion platform is now available to Ford and Lincoln dealerships in the United States.

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

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

Furthermore, the process of marketing and selling directly to dealerships is still a relatively new one for us at Connexion, so there will be no shortage of learning and adapting as we go.

As such, whilst Ford's US dealership network is large at circa 3,000 dealerships, this will be a marathon, not a sprint, and there is no guarantee that we will generate any minimum amount of revenue from this endeavour.

We will of course leverage the capabilities we have developed in recent years to demonstrate to Ford just how much value and innovation we can bring to the table.

Foreshadowed for some time, our Sales & Marketing efforts are naturally increasing although, as a product-led organisation, our Connexion platform remains the star. We have an ever-growing pipeline of functionality and integrations to in development.

Notwithstanding the challenges above, Ford's approval of the Connexion platform is an important milestone as we enhance our direct-to-dealer relationships across the United States.

Commercial Partnerships

In recent Quarterly Updates we advised on our Strategic Alliance with Infomedia, together with our Pilots with Carsfast and Tollaid. We update as follows:

- Infomedia: progress is being made, although, for various reasons, it has been slower than we would have liked. We anticipate this improving following our Ford Approved status, as this complements Infomedia's prevalence amongst Ford dealerships in the US.
- Carsfast: pilot development has been deprioritised in response to the sustained inventory shortage being forecast to continue for some time. In short, paid assistance to sell vehicles is unlikely to be prioritised by dealerships for some time.
- Tollaid: we are now marketing a progressive, national rollout of Tollaid's Toll Management product. Toll Management software allows dealerships to improve operational efficiency, cost recovery and customer experience.

We are working with each of these parties, and others, to develop what is intended to be a vibrant software ecosystem.

A long-term opportunity that we believe to be significant to our future is the ability to attract, develop and retain a broad range of participants in our software ecosystem. We intend to manage this ecosystem via our proprietary Marketplace, which is undergoing development.

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

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.

CONNEXION

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 resources could be allocated to new product releases following the launch of CXZTRAC (now "Connexion") in Q1 FY22.

The Company recognised total revenue during the quarter of $1,006k, which included a 10-quarter high of $170k of Service Revenue. This led to an unaudited Gross Profit of $795k for the quarter - the highest in Connexion's history.

The Company recorded a quarterly unaudited Net Profit Before Tax of $180k. Net Cash and Investments decreased by $485k due to:

1. An Operating Cash Outflow of $200k
2. A fall in the AUD:USD of ~8% reducing the value of our AUD-oriented balance sheet by $187k
3. A Financing Outflow from our Share Buyback of $69k
4. A fall in investment portfolio of $29k

The main drivers of the Operating Cash Outflow in Q4 was due to:

1. Customers having previously paid for some customisations upfront, which were recognised as Service Revenue during the quarter.
2. The majority of the remaining Service Revenue recognised in the quarter remaining outstanding, yet within standard trading terms.

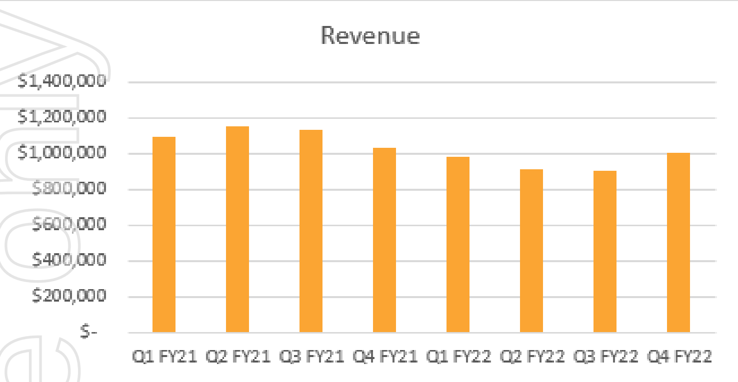
The AUD:USD exchange rate fluctuated significantly during the quarter before ending almost six cents lower. Generally speaking, a fall in the AUD:USD has the following impact:

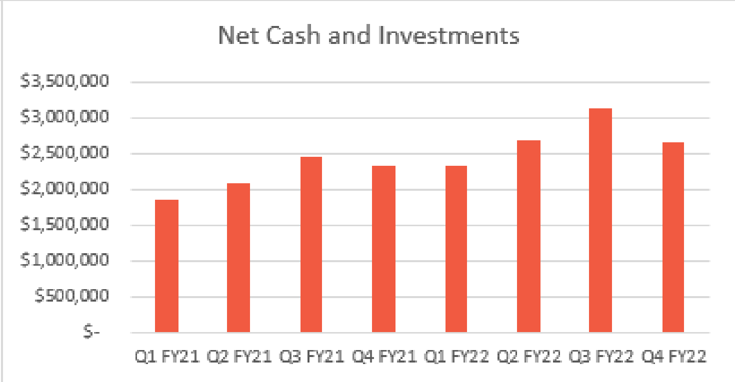
1. An immediate negative impact to our P&L via a reduction in value of our AUD-oriented balance sheet.
2. A sustained positive impact to our P&L via improved Operating Cashflow over time.

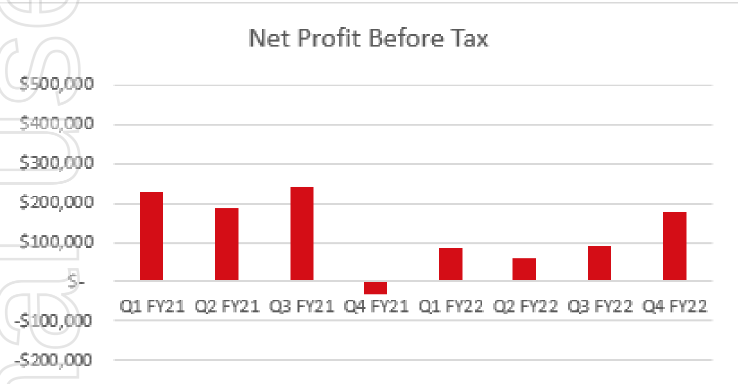
Both Board and Management continue to maintain a disciplined approach to costs, whilst reinvesting a growing portion of Gross Profit back into the business in the pursuit of long-term growth.

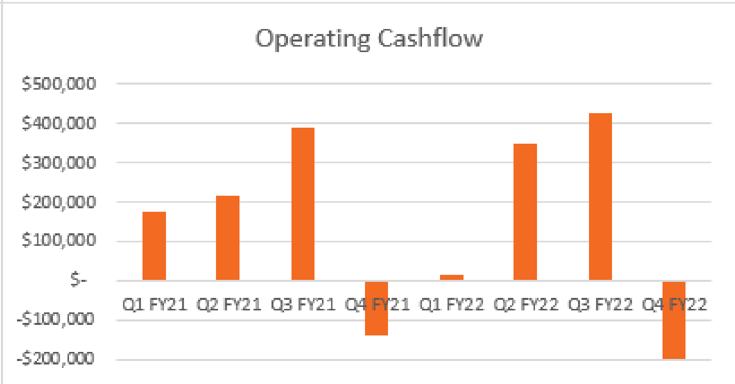
CONNEXION

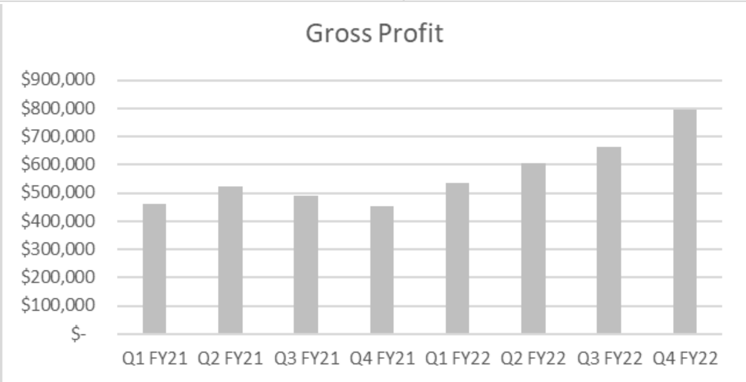
Below features a summary of our key financial metrics:



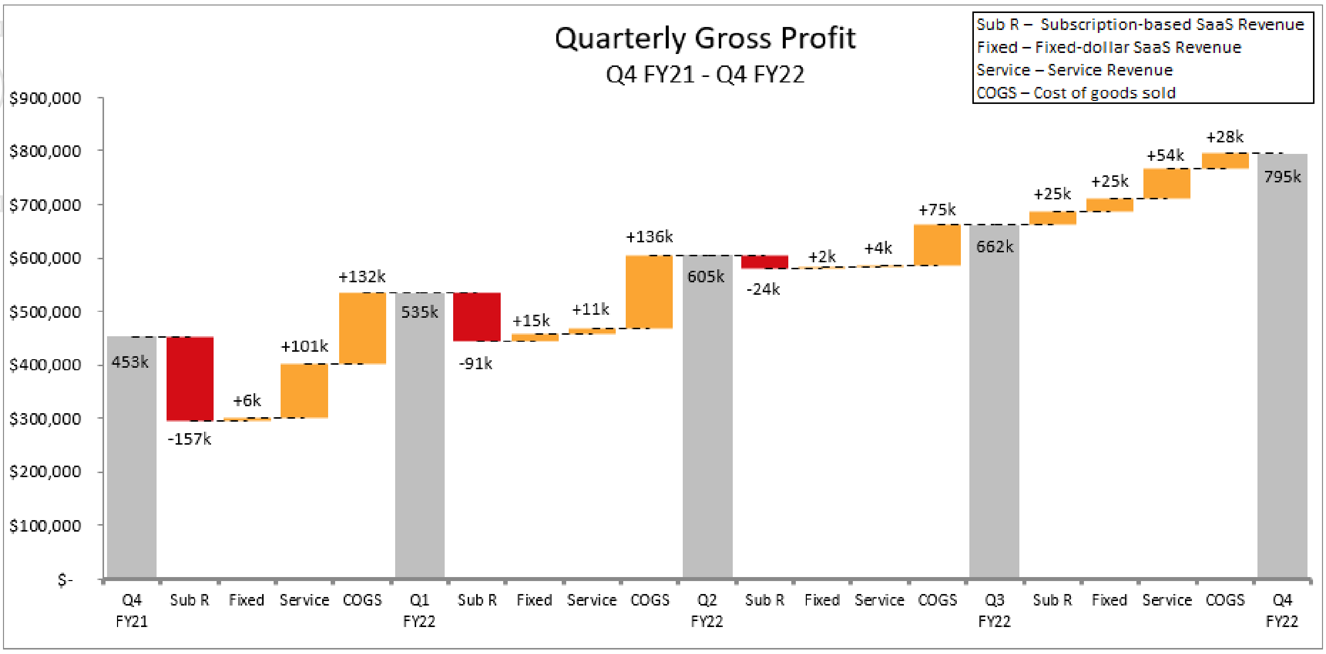




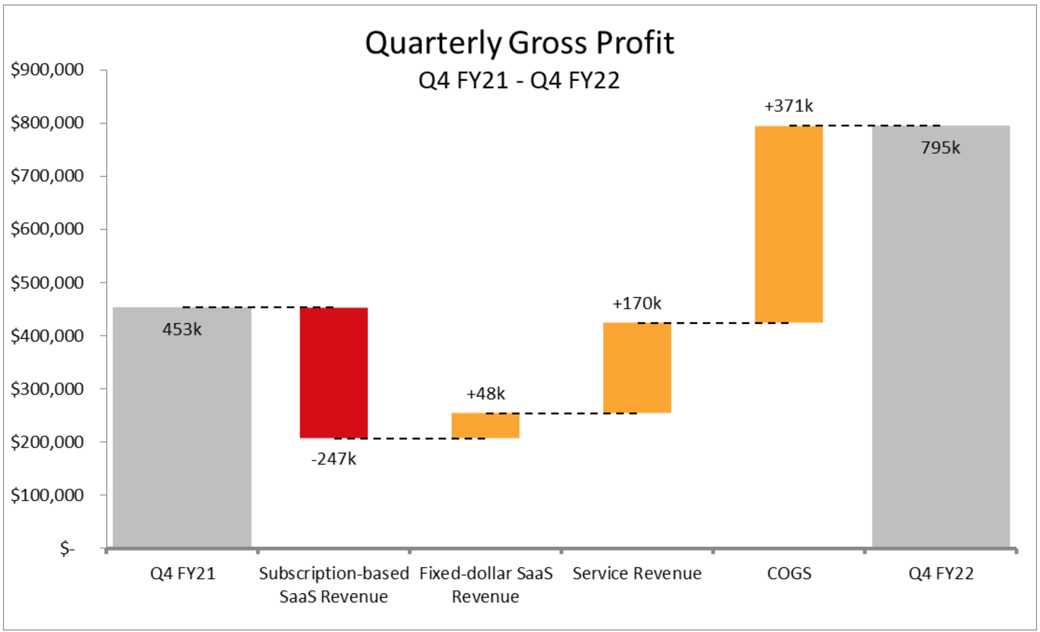




Below is a summary of the key impacts to Quarterly Gross Profit over the past 12 months:



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



Over the past 24 months, the Company has adapted its operations according to external factors, as discussed in previous reports. 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.

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.

Revenue Analysis

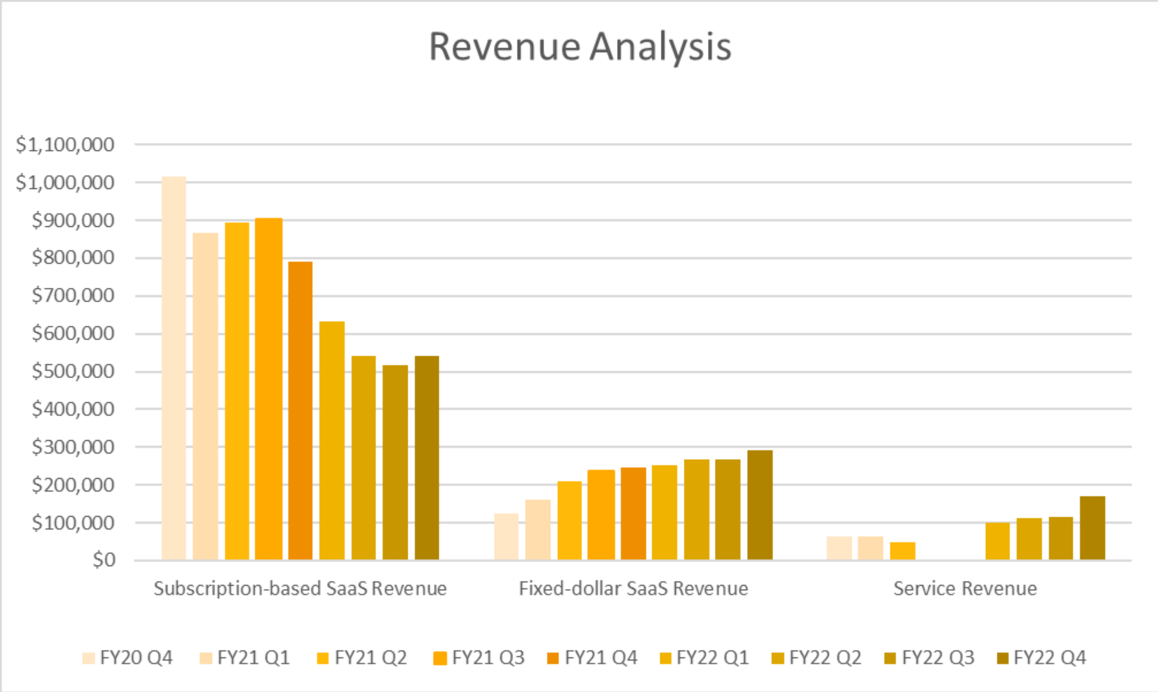
Connexion's three main revenue sources are:

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 dealership. 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.

CONNEXION

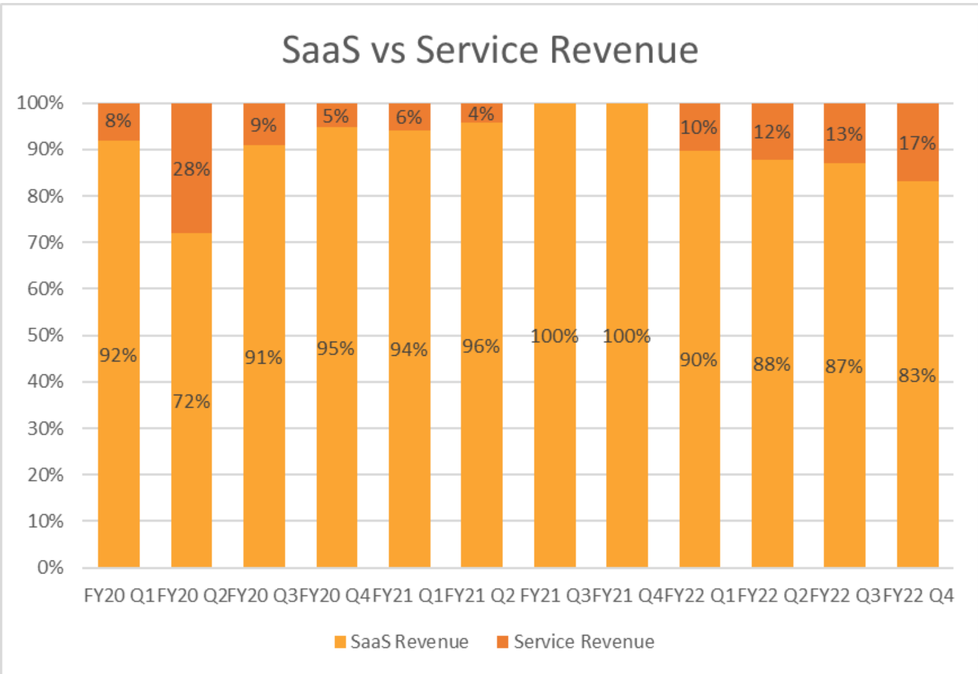
Below, we present the revenue categories:



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

In prior quarterly updates, we have described our focus on developing both our Subscription-Based and Fixed-Dollar SaaS revenue while maintaining active Service revenue.

The annualised quarterly fixed-dollar SaaS Revenue has increased from $503k in Q4 FY20 to $1,172k in Q422, an increase of 133% over 24 months.



Capital Management

During the quarter we announced a series of initiatives as part of our Listed Equity Strategy.

Share Buyback

Through years of sound management and execution, combined with supportive Customers and Users, Connexion is now in the fortunate position of being both well-funded and sustainably profitable.

The Directors of your Company have a duty to not only ensure sound operational and strategic management, but to also manage the Company's capital in the best interests of Shareholders. With this context, and the prevailing share price of CXZ in recent times, the Directors determined that a Share Buyback would enhance Shareholder value.

The Buyback consists of both an off-market, Minimum Holding Share Buyback and an On-Market Share Buyback of up to 20% of shares on issue, pending Shareholder approval. The actual purchase of any shares on-market will continue to depend upon external factors such as share price and volume available. There is no guarantee that any minimum number of shares will be bought back through this initiative, although we are doing our best.

Worth noting is that a thesis we ascribe to is one best described by Benjamin Graham: 'In the short run, the market is a voting machine but in the long run, it is a weighing machine'.

Applied to Connexion, we believe that over the long run (a multi-year period) it will be our operational performance that will determine the range of prices within which CXZ shares trade. However, over the short-term, a range of other factors including sentiment (either good or bad) can exert significant influence. Management's focus is a limited resource, and ours sits squarely on managing the business and communicating transparently with our Shareholders. By contrast, promotion to investors that aren't needed (given our funding) or attempts to influence a share price that is either too high or too low at any given point, is not a productive use of time. What is important, however, is having the ability to recognise and the willingness to act upon a share price that is either objectively high or low, relative to internal estimates. For that reason, we intend to be occasional, and dispassionate buyers and sellers of our Company's stock over time. For Shareholders unfamiliar with this philosophy of flexible, active capital management, we refer you to one of the greatest capital allocators in corporate history – Dr Henry Singleton.

Whilst we of course do not profess to have Dr Singleton's skill, we believe that adopting his underlying philosophy to capital management is most closely aligned with our commitment to creating Shareholder value.

Loan Funded Share Plan

Like most software companies, Connexion operates in a highly competitive market for talent. As a listed company, Connexion has a tool available to it that some of its competitors do not – equity incentives that can be valued easily, regularly, and transparently. To better align, attract and retain our permanent employees, we designed a Loan Funded Share Plan that allows Participants to benefit meaningfully from any potential upside in the CXZ share price over a five-year period, so long as they remain loyal to Connexion from an employment perspective. When considering Participant eligibility criteria and the timing of administration and selling restrictions, a Participant's total employment will almost certainly be over six years before realising value from the Plan, at which time Connexion and its Shareholders will have also realised meaningful value from the relationship. The Plan will initially result in the issue of a significant number of shares to employees, which is another reason why the

Share Buyback initiative referenced above is important.

In aggregate, the Listed Equity Strategy is carefully designed to improve Connexion's Earnings Per Share, Staff alignment and Staff loyalty.

We believe that this overall strategy is the most effective way to achieve these objectives, through leveraging both the Company's listed status and its Excess Capital, without taking undue risk.

Corporate

During the quarter, we continued to invest meaningfully in our human capital. Our hiring efforts continue, despite the challenge posed by the current market for talent. This investment is designed to support both our OnTRAC and Connexion product roadmaps. Today, over half of our Team have 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. For the foreseeable future, we will continue targeting growth in Gross Profit and a neutral bottom line.

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

From our observations, we see 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 test 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.

CONNEXION

Ends

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

Queries:
Aaryn Nania
Managing Director and CEO
E: aaryn.nania@connexionltd.com