

X2M Connect Limited (ASX:X2M)

ASX Announcement



Quarterly Activity Report and Appendix 4C

Quarter ended 30 June 2023

28 July 2023

X2M CONCLUDES FY23 WITH 56% GROWTH IN REVENUES AND 62% REDUCTION IN OPERATING CASH BURN

BUSINESS HIGHLIGHTS:

- Total revenues for FY23 were \$16.2 million¹, up 56% on the previous corresponding period (pcp)
- 4Q23 revenues of \$3.1 million¹, down 28% on the pcp (largely due to a strong 4Q22)
- Net cash flow from operating activities for 4Q23 of \$0.1 million¹
- Total operating cash burn for the year was \$2.3 million¹, down 62% on the pcp
- Connected devices at 30 June 2023 were 428,801, up 75% on the pcp
- Enterprise/government customers increased to 65, up 46% on the pcp
- Balance sheet strengthened with \$1.2 million received from Placement and Share Purchase Plan
- X2M well positioned for FY24 with already contracted revenues of \$4.7 million

Australian Internet of Things (IoT) technology company **X2M Connect Limited** (ASX:X2M) (“X2M”) is pleased to provide its Quarterly Activity Report and Appendix 4C for the period ended 30 June 2023 (4Q23).

STRONG GROWTH ACROSS KEY OPERATING METRICS

Total revenues for FY23 up 56%

X2M achieved total revenues for FY23 of \$16.2 million¹, up 56% on the pcp. This was driven by growth across our businesses in Asia, including a particularly strong result in South Korea which was up 69% to \$10.5 million in FY23 from \$6.2 million in FY22.

4Q23 revenues of \$3.1 million¹ were down 28% on the pcp. This primarily reflects the timing of revenues in South Korea and progression of the strategy in China.

- In South Korea, \$1.7m, or 17%, of annual revenues were delivered in 4Q23, in contrast to the pcp where \$2.6 million, or 42%, of annual revenues were delivered in 4Q22.
- The completion of our market entry strategy in China has led to a shift from low margin contracts to a focus on increasing margins. China revenues in 4Q23 were \$1.0 million compared to \$1.4 million in the pcp.

¹ Unaudited

X2M is well positioned for FY24 with already contracted revenues of \$4.7 million which represents 29% of the FY23 full year result.

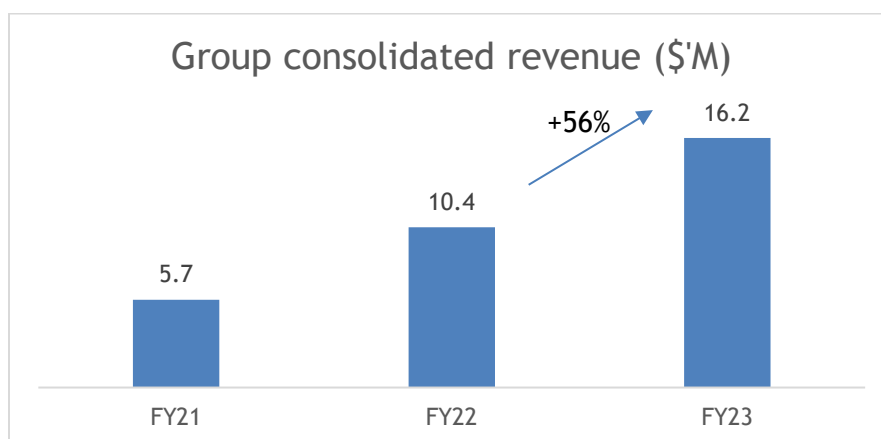


Chart 1: YOY growth in consolidated revenues

62% reduction in year on year operating cash burn

4Q23 delivered operating cash flow of \$0.1 million compared with an operating cash burn of \$1.0 million in 4Q22. Operating cash burn for the full year was \$2.3m compared with \$6.2m for the pc. The improved performance was driven by revenue growth, a better gross margin and well controlled operating expenses. The graph below shows the improvement in FY23 cash burn over FY22.

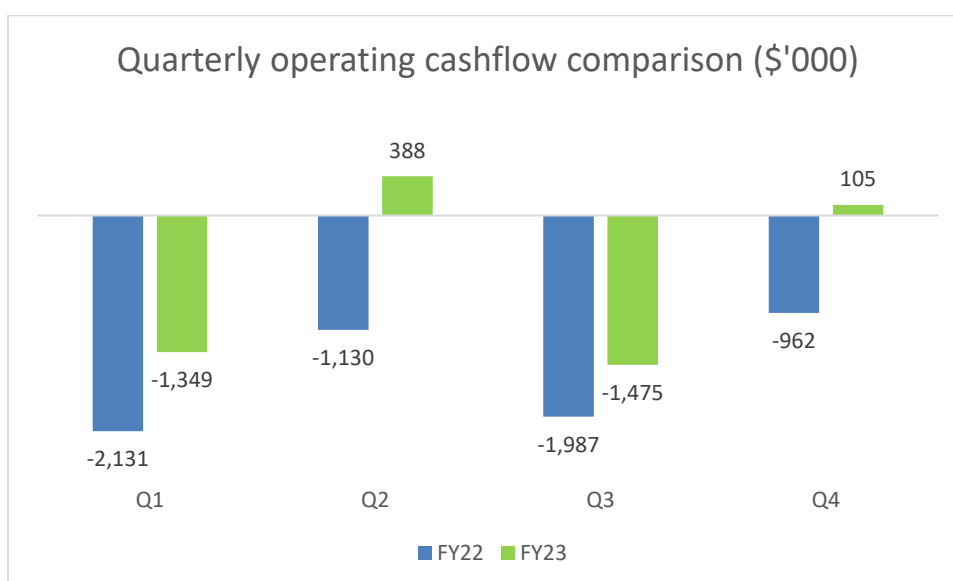


Chart 2: Quarterly cashflow comparison

46% year on year increase in Enterprise and Government customers

X2M's target market is the Enterprise and Government utility sector in the APAC region. As shown in the chart below, X2M's Enterprise and Government client base has continued to rise steadily, reaching 65 at 30 June 2023, up 46% on the pc. Importantly this customer group delivers a large addressable market for the Company.

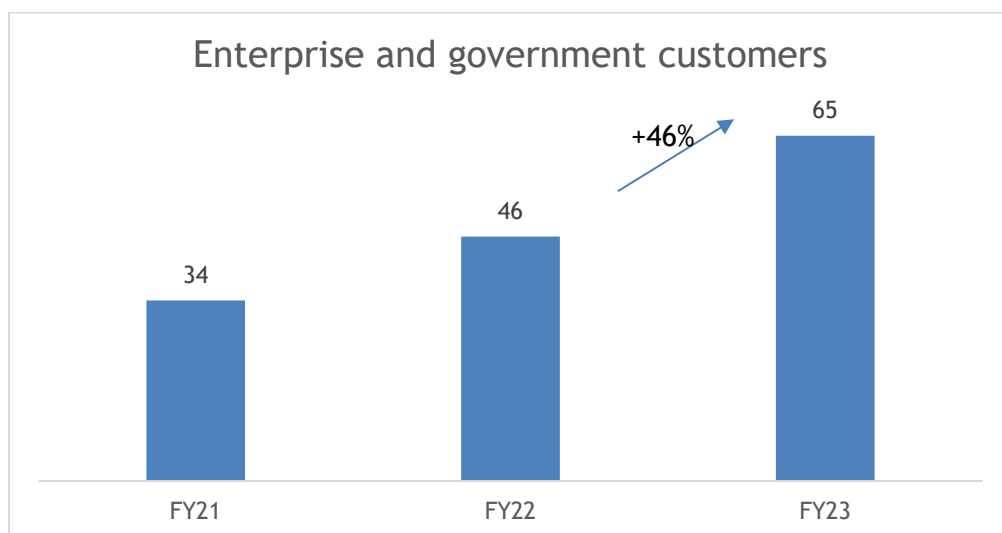


Chart 3: YOY growth in enterprise and government customers

Growth in enterprise and government customers, together with deeper penetration into the addressable market within X2M's existing customer base, drives growth in devices connected onto X2M's proprietary platform.

75% year on year increase in connected devices

A key focus area for the Company is the continued growth in the number of connected devices which provides the base for future recurring SaaS revenues.

Total connected devices at 30 June 2023 reached 428,801, an increase of 75% from 30 June 2022.

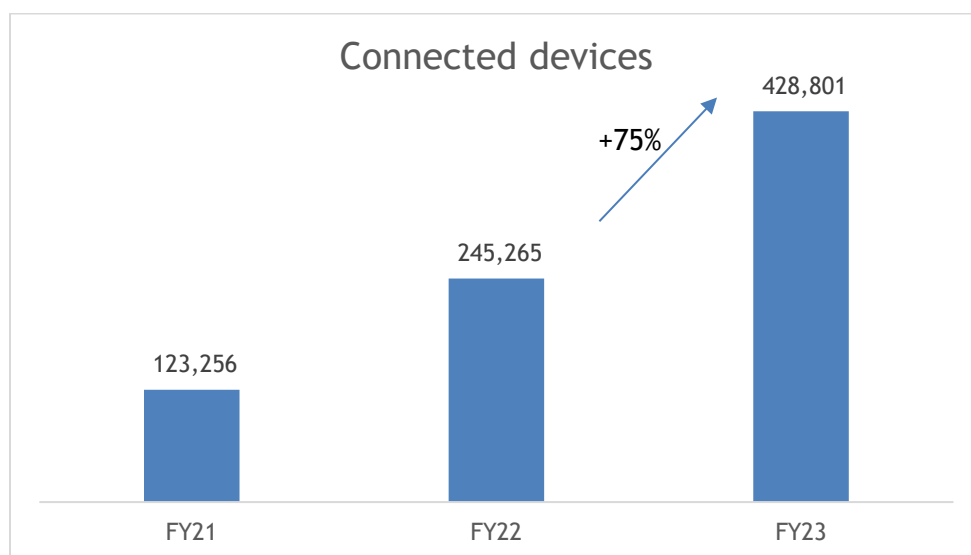


Chart 4: Growth in connected devices

X2M began reporting Annualised Recurring Revenue (ARR) this financial year. ARR is the monthly SaaS and maintenance revenue that is recorded in the last month of the reporting period and annualised by multiplying by twelve. SaaS and maintenance revenues arise from pure subscription services contracts and from subscription allocations in bundled contracts. For June 2023, the ARR is \$1.4 million².

² Unaudited

FINANCIAL AND CORPORATE 4Q23

Receipts from customers for the quarter were \$3.0 million, including \$0.9 million from Korean deployments and \$1.4 million deposits for new contracts.

Net cash flows from operating activities were \$0.1 million, compared to a net outflow of \$1.0 million in the pcq.

Net cash outflow from investing activities was \$0.5 million, mainly attributable to continued investment on capitalised development costs, offset by refunds of security deposits.

Net cash flows from financing activities were \$2.1 million, including \$1.2 million received on completion of the Placement and Share Purchase Plan, and a \$0.9M loan secured against the FY23 R&D refund.

Total cash at 30 June 2023 was \$1.79 million.

Related party payments in Appendix 4C section 6.1 of \$111K are director fees.

USE OF FUNDS

The Company prepared the Replacement Prospectus in relation to the Public Offer of 32m shares to raise \$8 million.

In section 6.16, the Company provided a proposed use of funds table.

Table 1 below shows the use of funds for the period from admission to the ASX on 20 September 2021 to 30 June 2022. This same table was included in the Quarterly Activity Report released to the ASX on 29 July 2022. The Company has fully utilised the funds from the IPO and therefore this same statement applies.

| Use of Funds | Total Allocated Funds (\$000's) | Funds Used 20 Sep 21 - 30 Jun 22 (\$000's) | Commentary |
|--------------------------------------|--|---|--|
| Customer acquisition | 1,300 | 1,206 | In line with expectations |
| Customer support | 1,200 | 1,467 | In line with expectations |
| Development, IT services and patents | 1,500 | 2,423 | Above expectations driven by additional resources engaged to support customer growth |
| Licensing & geographic expansion | 1,700 | 334 | Below expectations because of prioritisation of current markets |
| Mergers & acquisitions review | 300 | - | Below expectations |
| Administration | 1,750 | 1,805 | In line with expectations |
| Working capital | 1,100 | 1,309 | In line with expectations |
| Expenses of the Public Offer | 850 | 1,156 | Above expectations driven by legal costs |
| Total | 9,700 | 9,700 | |

Table 1: Use of funds

X2M CEO Mohan Jesudason said: “We are pleased with our results for the 2023 financial year. Revenue continued to grow at a steady pace, customer numbers and connected devices are up. A significant reduction in operating cash burn was a pleasing result and reflective of the Company’s focus on moving to profitability. With revenues of \$4.7 million already contracted for FY24, X2M is well positioned to continue executing its “Land and Expand” strategy.”

Ends

The Board of X2M has approved this announcement.

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About X2M Connect Group

X2M Connect Limited (ASX:X2M) is an Australian technology company that has developed and commercialised a patented proprietary Internet of Things (IoT) solution which delivers productivity improvements, cost savings and improved public safety to enterprise and government clients in the utilities sector.

X2M’s technology connects devices such as water, gas and electricity meters and other utility sensors to the internet, enabling data exchange and the remote control of these devices. X2M generates revenue from the sale of hardware and monthly subscription fees under Software as a Service arrangements.

X2M now has more than 428,000 devices connected to its IoT platform and distributed intelligence solution, providing real-time information and control to a steadily increasing customer base operating over multiple radio technologies.

X2M’s current focus is on servicing the utility sector in the Asia-Pacific region, where it has a significant number of government and enterprise customer relationships already in place. Going forward, X2M will look to continue its global expansion, with subsidiaries already operating in Japan, South Korea, Taiwan and, most recently, China.

To learn more about X2M click here: www.x2mconnect.com or follow us on [LinkedIn](https://www.linkedin.com/company/x2mconnect).

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

X2M Connect Limited

ABN

48 637 951 154

Quarter ended ("current quarter")

30 June 2023

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (12 months) \$A'000 |
|--------------------------------------|---|----------------------------|--|
| 1. | Cash flows from operating activities | | |
| 1.1 | Receipts from customers | 2,983 | 16,485 |
| 1.2 | Payments for | | |
| | (a) research and development | (52) | (320) |
| | (b) product manufacturing and operating costs | (1,405) | (12,337) |
| | (c) advertising and marketing | (9) | (125) |
| | (d) leased assets | (7) | (133) |
| | (e) staff costs | (920) | (4,833) |
| | (f) administration and corporate costs | (496) | (2,185) |
| 1.3 | GST/VAT received | (14) | (268) |
| 1.4 | Interest received | 1 | 5 |
| 1.5 | Interest and other costs of finance paid | - | (84) |
| 1.6 | Income taxes paid | - | - |
| 1.7 | Government grants and tax incentives | 1 | 1,376 |
| 1.8 | Other | 23 | 89 |
| 1.9 | Net cash from / (used in) operating activities | 105 | (2,330) |
| 2. | Cash flows from investing activities | | |
| 2.1 | Payments to acquire or for: | | |
| | (a) entities | - | - |
| | (b) businesses | - | - |
| | (c) property, plant and equipment | (9) | (11) |
| | (d) investments | - | - |
| | (e) intellectual property | (801) | (2,684) |
| | (f) other non-current assets | - | - |
| 2.2 | Proceeds from disposal of: | | |
| | (a) entities | - | - |
| | (b) businesses | - | - |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (12 months) \$A'000 |
|--------------------------------------|---|----------------------------|--|
| | (c) property, plant and equipment | - | - |
| | (d) investments | - | - |
| | (e) intellectual property | - | - |
| | (f) other non-current assets | - | - |
| 2.3 | Cash flows from loans to other entities | - | - |
| 2.4 | Dividends received (see note 3) | - | - |
| 2.5 | Other – Security deposits | 315 | (217) |
| 2.6 | Net cash from / (used in) investing activities | (495) | (2,912) |

| | | | |
|-------------|---|--------------|--------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | 1,241 | 5,211 |
| 3.2 | Proceeds from issue of convertible debt securities | - | - |
| 3.3 | Proceeds from exercise of options | - | - |
| 3.4 | Transaction costs related to issues of equity securities or convertible debt securities | (24) | (371) |
| 3.5 | Proceeds from borrowings | 947 | 2,197 |
| 3.6 | Repayment of borrowings | - | (782) |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other (provide details if material) | (77) | (280) |
| 3.10 | Net cash from / (used in) financing activities | 2,087 | 5,975 |

| | | | |
|------------|--|--------------|--------------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 94 | 1,020 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | 105 | (2,330) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (495) | (2,912) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | 2,087 | 5,975 |
| 4.5 | Effect of movement in exchange rates on cash held | (6) | 32 |
| 4.6 | Cash and cash equivalents at end of period | 1,785 | 1,785 |

| 5. | Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter \$A'000 | Previous quarter \$A'000 |
|-----|---|------------------------------------|-------------------------------------|
| 5.1 | Bank balances | 1,785 | 94 |
| 5.2 | Call deposits | - | - |
| 5.3 | Bank overdrafts | - | - |
| 5.4 | Other (provide details) | - | - |
| 5.5 | Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 1,785 | 94 |

| 6. | Payments to related parties of the entity and their associates | Current quarter \$A'000 |
|-----|---|------------------------------------|
| 6.1 | Aggregate amount of payments to related parties and their associates included in item 1 | 111 |
| 6.2 | Aggregate amount of payments to related parties and their associates included in item 2 | - |
| 6.3 | Aggregate amount of payments to related parties and their associates included in item 3 | - |

Note: if any amounts are shown in items 6.1, 6.2 or 6.3, your quarterly activity report must include a description of, and an explanation for, such payments.

| 7. | Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i> | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|-----|---|---|--|
| 7.1 | Loan facilities | 2,000 | 1,947 |
| 7.2 | Credit standby arrangements | - | - |
| 7.3 | Other (please specify) | - | - |
| 7.4 | Total financing facilities | 2,000 | 1,947 |
| 7.5 | Unused financing facilities available at quarter end | | 53 |
| 7.6 | <p>Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.</p> <p>\$2 million loan facility is with Brownvalley Family Trust which \$1.947 million was drawn down as at 30 June 2023. This was an advance secured against X2M's FY23 RDTI. The interest rate for the loan facility is 14% per annum. X2M must repay the loan, together with all interest accrued on the earlier of 30 June 2024 or 14 business days after receipt of an early repayment notice from the lender.</p> | | |

| 8. | Estimated cash available for future operating activities | \$A'000 |
|-----|---|----------------|
| 8.1 | Net cash from / (used in) operating activities (item 1.9) | 105 |
| 8.2 | Cash and cash equivalents at quarter end (item 4.6) | 1,785 |
| 8.3 | Unused finance facilities available at quarter end (item 7.5) | 53 |
| 8.4 | Total available funding (item 8.2 + item 8.3) | 1,838 |

8.5 **Estimated quarters of funding available (item 8.4 divided by item 8.1)**

N/A

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 28 July 2023

Authorised by: By the Board of X2M Connect Limited
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.