

ASX RELEASE

VECTION TECHNOLOGIES QUARTERLY UPDATE AND APPENDIX 4C

Real-time software company Vection Technologies Ltd (**ASX:VR1**) (**Vection Technologies** or the **Company**) presents the following report for the quarter ended 31 March 2020.

Highlights:

- **Cash at bank of over \$1.5M following settlement of the Mindesk acquisition (ASX:28 April 2020)**
- **Quarterly cash inflows from sales activities of ~\$899k, progressing strongly despite the global economic downturn related to the shutdowns**
- **Year to date receipts up by ~42% over the full FY19 period**
- **Quarterly cash receipts from customers up by ~35% compared to the previous year's corresponding period, despite the European shutdowns commenced early March 2020**
- **Divisional focussed treasury strategy underway to ensure a robust framework for future growth, with smart-capital funding initiatives totalling up to ~\$3M**
- **Strategic consolidation and discontinuation of non-core operations in the Asian region underway to ensure cost minimisation across the Company's divisions**
- **Key strategic initiatives underway across the Company's three building blocks:**
 - **Technology: significant investment in the acceleration of the Company's stated objective of building a 360° product suite for Industry 4.0**
 - **Partnerships: acceleration of key strategic partnerships with Tier-1 industrial and technological companies**
 - **Growth: acceleration of commercial initiatives, specifically across the healthcare and automotive sectors with global adoption potential**

Quarter Overview:

During the quarter ended 31 March 2020, the Company continued the implementation of its overarching strategy aligned with its three stated building blocks (technology, partnerships and growth) to continuously deliver on its growth strategy towards the creation of a 360° product suite for Industry 4.0.

Following the acquisition of Mindesk during April 2020, the Company has cemented a robust cash balance (~\$1.5M) to support its ongoing core-operations and its geographical growth strategy in the E.U., North America and Australia during the calendar year 2020.

Vection Technologies remains committed to the achievement of continued incremental growth across its software product suite to ensure compounded value creation for all stakeholders.



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Quarter Overview: Technology

During the quarter, the Company focussed on advancing its stated strategy of building a 360° software suite for Industry 4.0, investing significant resources towards its R&D initiatives:

- FrameS R&D activities:** the Company continued significant investments towards further development of its FrameS proprietary real-time platform, launching version number 1.6 boasting a range of new key features (and CAD integrations) requested by its clients. The development team is focussing on the development of the 1.7 version (FrameS 20) which will bring to market the highly anticipated Augmented Reality (AR) feature, further expanding the platform's market potential.
- Smart Factory R&D activities:** the Company worked closely with world leading high-tech industrial packaging leader GD, to develop the Smart Factory PoC, a real-time 3D and AR platform to improve workforce productivity and efficiency, critical for GD to transform human processes and accelerating skill development and streamlining training systems for the smart factories of the future. This solution has now been implemented and the Company will focus on making this solution available to clients globally.
- FrameS Dental R&D activities:** the Company entered into an agreement to develop a healthcare training focussed customised version of FrameS (**FrameS Dental**) with dental technician expert D&D. FrameS Dental is an interactive and modern educational tool, enabling ultra-realistic, real-time dentistry and dental laboratory skill formation, training and simulation, as Virtual Reality simulators are becoming an essential component of modern education over conventional learning (ASX: 9 January 2020). FrameS Dental represents a scalable global platform addressing the requirements of professionals world-wide.
- Healthcare R&D activities:** the Company developed the eHealth application with Studiofarma Srl, software subsidiary of eHealth multinational leader CompuGroup Medical SE (**CGM**) to be integrated in CGM's complete line of pharmacy specific management software (ASX: 14 January 2020). This initiative is strategically positioned to bring to market a platform for global adoption potential.
- Logistics R&D activities:** Vection Technologies completed the first stage of development of its Augmented Reality (**AR**) powered "Optimised Picking" software. (ASX: 29 January 2020)

Quarter Overview: Partnerships

During the quarter, the Company advanced its strategy to consolidate its relationships and expand its market presence with existing technology and industrial partners while accelerating new strategic partnerships with key technology and industrial partners across Tier-1 regions:

- Altea Federation:** the Company accelerated its activities with its key strategic distributor Altea Federation to ensure the achievement of its KPI net target revenues of \$400k within December 2020.
- MUNER:** Vection Technologies partnered with the Motorvehicle University of Emilia Romagna (**MUNER**) to introduce its real-time virtual and augmented reality solutions in MUNER's engineering courses for virtual reality remote collaborative design, prototyping and development. (ASX: 16 March 2020)

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- **Siemens:** The Company's subsidiary Mindesk entered into a partnership agreement with Siemens Software Industry Inc. (**Siemens**) and joined the Frontier Program to introduce new Siemens NX and Siemens Solid Edge Computer Aided Design (**CAD**) Virtual Reality (**VR**) solutions based on Mindesk's software technology. (ASX: 30 March 2020)

Quarter Overview: Growth

During the quarter, the Company focussed on further developing its existing distribution and direct sales network to establish Vection Technologies as the B2B real-time software leader:

- **3D In-Store Fashion Configurator:** the Company entered into an agreement to develop a white label version of Vection Technologies' proprietary 3D In-Store Fashion Configurator for MYR, a software company focussed on revolutionising the fashion and apparel industry. (ASX: 6 January 2020)
- **Altea Federation:** the Company accelerated its strategic initiatives with its partner Altea Federation to enhance the continued sales growth for its real-time product suite and reinforcing Altea Federation's strong commitment to reach its minimum net revenue target of ~\$400,000 by December 2020 and its minimum net revenue target of \$1,700,000 by December 2022 (ASX: 20 January 2020).
- **Volvo Car Italy:** the Company continued its commercial initiatives with Volvo Car Italy, with its holographic AR marketing solution adopted for the European showcase preview of Volvo XC40 SUV first fully electric car on 23 January 2020. (ASX: 23 January 2020)
- **GCITU:** the Company commercialised its FrameS Training solution to the Italian General Confederation of Independent Trade Unions (**GCITU**), an Italian autonomous trade union confederation with 1.5 million members. (ASX: 5 February 2020)
- **Mindesk acquisition:** the Company announced the only-scrip acquisition of HTC backed, Mindesk Inc (**Mindesk**), the developer of the first Software as a Service (**SaaS**) real-time 3D design platform that combines CAD with VR and graphic engines. Mindesk represents the logical next step in Vection Technologies' overall evolution to a recurring SaaS revenue business model, ensuring further differentiation and growth across commercial CAD software for the Architecture, Engineering and Construction (**AEC**) industries. (ASX: 2 March 2020)

Company Financial Overview:

Following settlement of the Mindesk acquisition, the Company retains total cash at bank of ~\$1.5M. This strong financial position enables Vection Technologies to continue its strategic core-business operations in addition to research and development and market expansion activities.

Quarterly cash inflows from sales activities of ~\$899k highlight the Company's ability to achieve strong commercial outcomes during this global uncertain time. The total cash inflows from sales activities consist of \$658k from receipts from customers and ~241k from advances on invoices from its commercial bank facilities. Year to date (July to March) receipts from customers of over \$2.2M represent a ~42% increase over the full FY19 period (~\$1.5M). March quarter receipts from customers of \$658k represent a ~35% increase compared to the previous year's corresponding period.

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The Company has advanced initiatives to access smart capital to secure a stronger cash position across each of the Company's international subsidiaries to ensure a robust framework for future growth during this uncertain time. A summary of these activities is detailed below:

- European Commission Grant: ~\$0.5M, non-repayable (pending);
- Italian Government Loan: up to ~\$2.0M, 30% non-repayable and 70% repayable after 10 years at nil interest (pending);
- Commercial Loan: ~\$0.2M, 10% interest repayable in 12 months (granted);
- Commercial Loan: ~\$0.2M, short-term at commercial interest rates (pending);
- Research & Development grant: ~\$0.3M fiscal incentive (pending).

The aggregate amount of payments to related parties and their associates included in the current quarter cash flows from operating activities totalled ~\$19,000. These payments consisted of Directors' fees and salaries paid to directors. All payments were on normal commercial terms.

Outlook

Vection Technologies will continue its strong proactive commercial and operational activities to ensure continuity of its growth objectives for all stakeholders, while focussing on its core real-time technologies product development initiatives, underpinned by its three stated building blocks (technology, partnerships and growth).

In particular, the Company will focus on:

- Accelerating its strategy towards wider adoption of its proprietary real-time software suite within the E.U., with global adoption potential generated by the shutdowns specifically in the healthcare and automotive sectors;
- Accelerating its Australian market development via strategic partners and distributors;
- Accelerating its North American market development via the Mindesk acquisition;
- Accelerating its proactive commercial initiatives for its FrameS Trade Platform globally;
- Further expanding and consolidating its global sales infrastructure and footprint to further advance its client outreach;
- Executing key strategic partnership with Tier-1 industrial and technological partners globally;
- Launching new products and third-parties software integrations towards its stated objective of building a 360° product suite;
- Discontinuing its non-core South-East Asian operations and consolidating its Indian subcontinent operations; and
- Advancing its smart capital initiatives strategy to secure a stronger cash position (above the ~\$1.5M current cash at bank) across each of the Company's international subsidiaries to ensure a robust framework for future growth.



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About Vection Technologies:

Vection Technologies Ltd (ASX:VR1) is a multinational software company that focuses on real-time technologies for industrial companies' digital transformation. Through a combination of our 3D, Virtual Reality, Augmented Reality, Industrial IoT and CAD solutions, Vection Technologies helps companies and organisations to innovate, collaborate and create value.

For more information please visit the Company's websites:

vection.com.au
mindeskvr.com

ASX release authorised by the Board of Directors of Vection Technologies Ltd.



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Appendix 4C

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

Name of entity

VECTION TECHNOLOGIES LIMITED

ABN

93 614 814 041

Quarter ended ("current quarter")

31 March 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	658	2,211
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(190)	(1,012)
(c) advertising and marketing	(46)	(91)
(d) leased assets	(79)	(79)
(e) staff costs	(253)	(933)
(f) administration and corporate costs	(347)	(1,170)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(12)	(12)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	182
1.8 Other (provide details if material)	(2)	(2)
1.9 Net cash from / (used in) operating activities	(271)	(906)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	(64)
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(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 (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	(64)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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	-	-
3.5	Proceeds from borrowings	450	847
3.6	Repayment of borrowings	(185)	(325)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	264	521
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	345	797
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(271)	(906)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(64)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	264	521
4.5	Effect of movement in exchange rates on cash held	12	2
4.6	Cash and cash equivalents at end of period	350	350

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	350	345
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)	350	345

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 | 19 |
| 6.2 Aggregate amount of payments to related parties and their associates included in item 2 | - |

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

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7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<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>		
7.1 Loan facilities	639	566
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	639	566

7.5 **Unused financing facilities available at quarter end** 73

7.6 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.

Invoice financing facility, 3.8% interest payable on balance advanced, the facility is unsecured and proposed to be expanded as the Company progresses its commercial strategy and platform adoption.
Commercial loan: (\$191k) 10% interest, 12 months repayment

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(271)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	350
8.3 Unused finance facilities available at quarter end (Item 7.5)	73
8.4 Total available funding (Item 8.2 + Item 8.3)	423
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	1.6

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

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: The Company is implementing several initiatives to ensure synergies and operational cost reductions including the consolidation and discontinuation of its non-core Asian operations and the integration of Mindesk. The Company anticipates that these initiatives will generate significant cost reductions and revenue generation benefits.

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: The Company has finalised the acquisition of Mindesk on 28 April 2020, adding \$1.2M to its treasury. As the Company progresses its commercial activities it will also expand its invoice advance facilities, providing for greater cash management flexibility. The Company is also owed ~\$150k by the Agency Group, which is expected to be received in the next quarter. In addition, the Company also holds ~\$70k in securities in the Agency Group which were granted in lieu of payments, the Company will dispose of this holding in due course.

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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: Following settlement of the acquisition of Mindesk on 28 April 2020, the Company retains a cash balance of ~1.5M. In addition to this, the Company intends to progress its commercial activities, gain access to grants and funding facilities (ASX: 6 April 2020), collect \$150k from the Agency and monetise a further \$70k from securities and receive payment on the over \$1 million in outstanding debtors with varying due dates.

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.

30 April 2020

Date:

By the Board

Authorised by:
(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.

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