

X2M Connect Limited (ASX:X2M) ASX Announcement



Quarterly Activity Report and Appendix 4C Quarter ended 30 June 2022

29 July 2022

X2M concludes FY22 with 82% growth in revenues

Investment Highlights:

- Q4 revenues of \$4.3 million¹, up 169% on previous corresponding period (pcp)
- Total revenues for the year ended 30 June 2022 were \$10.4 million, up 82% on pcp
- Connected devices at 30 June 2022 were 245,265, up 99% on pcp
- Enterprise/government customers increased to 46, up 35% on pcp
- X2M is well positioned for FY23 with contracted revenues already at \$9.6 million

Australian Internet of Things (IoT) technology company X2M Connect Limited (ASX:X2M) (“X2M” or “the Company”) is pleased to provide its Quarterly Activity Report and Appendix 4C for the period ended 30 June 2022 (Q4 FY22) along with the following operational updates.

Continued strong growth across key operating metrics

169% year on year growth in Q4 revenues

The Company achieved revenues of \$4.3 million in Q4 FY22, up 169% on the previous corresponding period. This was an exceptional result. Total revenues for FY22 were \$10.4 million, up 82% on pcp.

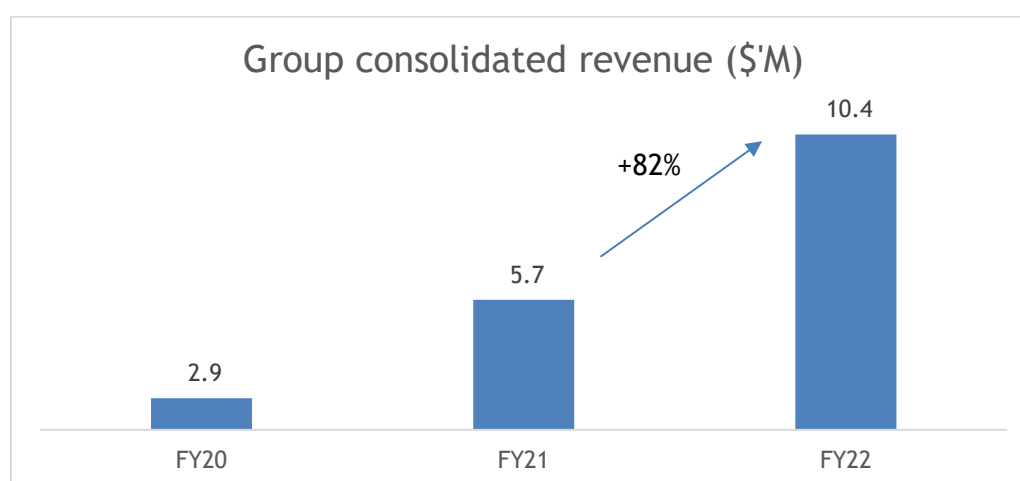


Chart 1: YOY growth in consolidated revenues

¹ All FY22 Financial results are in Australian dollars and unaudited.

35% year on year increase in Enterprise and Government customers

X2M's target market is the Enterprise and Government utility sector in the APAC region. The current base of X2M's Enterprise and Government customers delivers a total addressable market of approximately 26 million households.

As shown in the chart below, X2M's Enterprise and Government client base has continued to rise steadily, reaching 46 in Q4 and representing a 35% year on year increase.

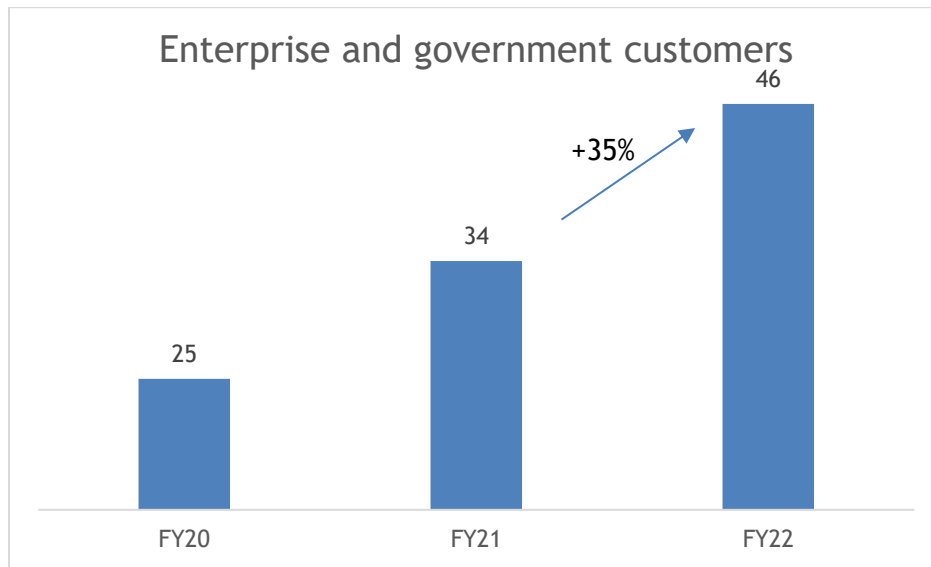


Chart 2: YOY growth in enterprise and government customers

99% year on year increase in connected devices

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

The rise in connected devices is driven by the Company's core Enterprise and Government customers.

Total connected devices at 30 June 2022 reached 245,265, an increase of 35% from 31 December 2021 and 99% from 30 June 2021.

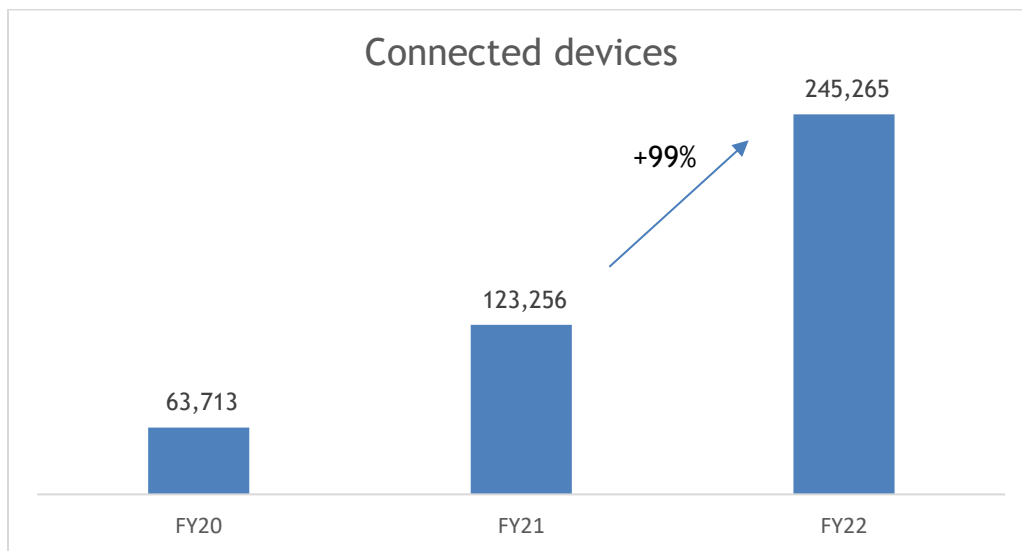


Chart 3: Growth in connected devices

Business development progresses

During the June quarter, X2M continued to secure contract wins in South Korea, with a combined value of approximately \$2.51 million. X2M will provide remote water monitoring and control services (including its proprietary IoT platform, end devices and 12 months of remote meter monitoring) to new and existing customers. Winning a number of these tenders in quick succession shows X2M's leadership position in the South Korean market. This also aligns with the Company's long-term strategy to secure customers with large numbers of households that will drive future subscription revenues.

X2M also continued to grow its China footprint during the quarter, delivering additional orders from existing customer Chongqing LianQing Instrument Company. This increased the China revenues for FY22 to \$3.3 million. This provides further proof that the stated China market growth strategy is working. Over time, the successful execution of the growth plan is expected to impact favourably on customer growth and margin metrics.

Japan continued to deliver strong growth in connected devices with more than 31,000 devices added to the platform during the quarter. This represents 16% growth in the quarter and 133% growth on the pcp.

Taiwan continues to contribute as the incubation hub for new commercial deployments, particularly in the energy management area. In June 2022, X2M's Taiwan subsidiary secured a second energy management order from the Taiwan Government's Electronics Testing Center (ETC). This approximately A\$0.12 million contract for solar and battery energy management follows on from an initial ETC order received in late 2021.

On 30th May 2022, X2M announced its entry to the Australian energy management market. X2M believes that there are future opportunities to extend its energy management model to property developers and other clients.

Financial and corporate

Receipts from customers for the quarter were \$4.1 million, including \$1.1 million from Korean deployments, \$0.9 million deposits for new contracts and \$1.5 million in China on delivery of water quality sensor orders.

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Net operating cash outflows were \$1.0 million. Cash outflows included \$3.2 million in payments for product manufacturing and operating costs, some of which were paid in advance to secure component parts for future already contracted deployments.

Net cash outflow from investing activities was \$0.6 million, mainly attributable to continued investment on capitalised development costs.

Total cash at 30 June 2022 was \$1.02 million.

Related party payments in Appendix 4C section 6.1 of \$43K represents 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.

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 very pleased with our achievements in FY22 and in particular the last quarter. They prove that our growth strategy is working. The Company enjoyed growth in all operating jurisdictions. With \$9.6 million revenues already contracted for FY23, X2M is well-positioned to continue executing its strategic objectives and looks forward to providing the market with further updates on its progress.”

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. The Company generates revenue from the sale of hardware and monthly subscription fees under Software as a Service arrangements.

X2M now has more than 245,000 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 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](#).

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 2022

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	4,122	12,073
1.2 Payments for		
(a) research and development	(122)	(356)
(b) product manufacturing and operating costs	(3,233)	(9,614)
(c) advertising and marketing	(34)	(77)
(d) leased assets	(5)	(163)
(e) staff costs	(1,198)	(5,673)
(f) administration and corporate costs	(661)	(2,361)
1.3 GST/VAT received	99	(68)
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(1)	(4)
1.6 Income taxes paid	(14)	(14)
1.7 Government grants and tax incentives	11	351
1.8 Other	74	(304)
1.9 Net cash from / (used in) operating activities	(962)	(6,210)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(26)	(40)
(d) investments	-	-
(e) intellectual property	(636)	(1,659)
(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 – Deposits on office leases	13	(115)
2.6	Net cash from / (used in) investing activities	(649)	(1,814)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	8,000
3.2	Proceeds from issue of convertible debt securities	-	500
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(134)	(695)
3.5	Proceeds from borrowings	535	1,035
3.6	Repayment of borrowings	-	(1,431)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	(50)	(196)
3.10	Net cash from / (used in) financing activities	351	7,213

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,241	1,953
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(962)	(6,209)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(649)	(1,813)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	351	7,214
4.5	Effect of movement in exchange rates on cash held	39	(125)
4.6	Cash and cash equivalents at end of period	1,020	1,020

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	1,020	2,241
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)	1,020	2,241

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	43
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	500	500
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	500	500
7.5 Unused financing facilities available at quarter end		-
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.		
<p>The loan facility is with Innovation Structured Finance Co., LLC serviced via Radium Capital and is an advance on the Company's R&D Tax Incentive (RDTI) for the period between 1 July 2021 and 31 May 2022. The interest rate for the loan facility is 15% per annum. Repayment is timed to coincide with receipt of X2M's FY22 RDTI refund. An advance of \$500,000 was received in June 2022 and a further advance of \$250,000 was received in July 2022.</p>		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(962)
8.2 Cash and cash equivalents at quarter end (item 4.6)	1,020
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	1,020

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

1.06

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: The current level of net operating cash flows reflects X2M's first full year as a listed company and its investments in business development, which have delivered revenue growth in FY22 of 82% vs pcp. The company expects that net operating cash flows will improve during FY23 as the company continues to grow and build scale.

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: X2M recently announced a non-renounceable accelerated institutional and retail offer to raise up to \$3,970,000 before costs to support its growth strategy. As announced on 27 July 2022, the Institutional Entitlement Offer was well supported by eligible institutional and sophisticated investors raising \$2.26 million before costs with a number of shareholders taking up their full entitlements. The institutional shortfall was oversubscribed and taken up by a combination of existing and new institutional and sophisticated shareholders. X2M believes that the retail component of the Entitlement Offer will likely be successful.

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: Yes as stated above

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: 29 July 2022

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.