

Connexion Telematics Ltd
(ASX: CXZ)

Delivering Fleet Telematics to the US Automotive Market

February 2021

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Company Information

Share price as at 27 January 2021	\$0.015
Price Target (\$ per share)	\$0.047
Issued capital:	
Ordinary shares (M)	880.2
Options (M)	0.0
Performance rights (M)	0.0
Fully diluted (M)	880.2
Market capitalisation (\$M)	13.2
12-month Share Price Low/High	\$0.009/\$0.038

Board and Management

Robert Downey: Chairman (Non-Executive)
Aaryn Nania: Managing Director & CEO
Peter Torre: Company Secretary & Non-Executive Director
Simon Scalzo: Non-Executive Director
Greg Ross: Non-Executive Director
Tasso Koutsovasilis: Chief Operating Officer
Richard Jarvis: Chief Financial Officer

Largest Shareholders

	%
Zurich Bay Holdings	2.3
Robert Galbraith	2.0
Rocsange Pty Ltd	1.7
National Nominees Limited	1.6
Tan Ching Khoon	1.4

Top 10 Shareholders

15.2

Source: CXZ

Share Price



DELIVERING FLEET TELEMATICS TO THE US AUTOMOTIVE MARKET

Connexion Telematics Ltd (ASX: CXZ) ("Company") is an Australian based company delivering proprietary technology solutions to automotive OEMs and light vehicle dealerships in the US. The Company has delivered OnTRAC for General Motors (GM), a SaaS solution for GM's Courtesy Transportation Program (CTP) in the US. The Company has undergone a significant restructure and recapitalisation over the last few years to refocus the Company and unlock value for shareholders. CXZ is now well positioned to expand the business in the automotive sector.

KEY POINTS

Restructure and Recapitalisation: In early 2017, the Company undertook a strategic review which saw the Company focus its attention on the fleet telematics opportunity, primarily in the US. As part of the review, the Company also significantly reduced corporate and administrative costs. The Corporate and Administrative Expense in FY18 was reduced 81.3% to \$1.2 million from \$6.4 million in FY17. Since that time, the cost reduction program in combination with the award of the OnTRAC contract has seen the Company grow its revenue, operate on a profitable basis and strengthen its balance sheet.

OnTRAC Fleet Management Solution: CXZ designed, developed, delivered and maintains the OnTRAC solution for GM for the management of the Courtesy Transportation Program (CTP) in the US. The solution was delivered in December 2018 and launched in January 2019. The award and delivery of OnTRAC was a significant milestone for the Company and the successful implementation has seen strong uptake with circa 4,000 franchised light vehicle dealerships ("Dealers") using the software on a daily basis, delivering strong revenue growth since its launch. The initial three-year contract is up for renewal in July 2021. The Company is developing CXZTRAC, a white label version of the software for sale outside GM.

SaaS Revenue Model: Both OnTRAC and CXZTRAC are cloud-based solutions delivered via a SaaS model, providing the Company a recurring revenue stream. This model is highly scalable as has been demonstrated by the OnTRAC solution. While revenue is mostly recurring, it is largely variable, dependent on the number of CTP vehicle subscriptions in any given month. The COVID-19 pandemic has resulted in a decline in vehicle sales which has been reflected in a reduced number of registered CTP vehicles over the last three quarters.

Customer Diversification Required: The delivery of OnTRAC was a significant milestone for CXZ, however, the Company has a single major customer at this stage on a short-term contract. OnTRAC subscriptions are unlikely to grow above the highest monthly vehicle units reached prior to the COVID-19 pandemic at ~70,000. The Company will need to expand its customer base to reduce customer risk as well as contribute meaningful revenue growth for the business. This is expected to be a key focus in the short-term.

CEO Appointed & Board Bolstered with New Appointments: CXZ has appointed Aaryn Nania as CEO after taking on the role of Acting CEO after the resignation of Guy Perkins in July 2020. Mr. Nania has undertaken a significant amount of due diligence to identify the areas of strength and weakness for the business in order to devise a growth strategy for the business. The Company has also strengthened the Board with the appointment of two Independent Non-Executive Directors, Simon Scalzo and Greg Ross. Both Directors have significant experience in the automotive and software markets from which CXZ will derive great benefit.

US BDM will be a Key Appointment: The Company is seeking to appoint a US BDM in the near-term. This will be a key appointment for the company with the BDM expected to be responsible initially for driving sales of the CTP fleet management solutions to other OEMs, a key part of the Company's short-to-medium term growth strategy.

Price Target: Our base case scenario for the Company provides a price target of **\$0.047** per share. This represents a 213.3% upside to the share price at 27 January 2021. The price target is based on a DCF model and assumes the Company will be able to grow its revenues through additional CTP contract wins on the back of the appointment of a US BDM in 3Q FY21. We expect these additional contracts to commence in FY23. CXZ has successfully turned its fortunes around since 2017, however, there are a number of uncertainties with respect to revenue growth given it will be dependent on the ability of the Company to retain the GM CTP contract as well as secure additional CTP contracts and grow the product offering to manage non-CTP vehicles. As such there remains risk around the future earnings potential of the Company. Whilst there are risks, we view the Company to be in a position to take advantage of growth opportunities.

Profit & Loss (\$M)				
	FY19A	FY20A	FY21F	FY22F
Sales Revenue	3.56	8.20	6.48	7.33
Cost of Sales (COS)	1.41	4.52	3.18	3.21
Gross Profit	2.14	3.68	3.30	4.13
Other Income/Revenue	0.41	0.23	0.00	0.00
Expenses	1.54	1.36	1.72	1.80
EBITDA	1.01	2.55	1.58	2.32
Depreciation & Amortisation	0.23	0.50	0.59	0.60
EBIT	0.51	2.05	0.99	1.72
Tax	0.00	1.15	-0.30	-0.52
NPAT	0.47	3.20	0.69	1.21

Average number of shares on issue

Basic (M)	821.1	858.5	880.2	880.2
Diluted (M)	842.8	908.0	880.2	880.2

EPS

Basic (cents per share)	0.06	0.37	0.08	0.14
Diluted (cents per share)	0.06	0.35	0.08	0.14

Balance Sheet (\$M)				
	FY19A	FY20A	FY21F	FY22F
Cash and cash equivalent	0.94	2.44	3.85	5.55
Trade and other receivables	1.61	1.82	1.42	1.61
Inventory	0.00	0.00	0.00	0.00
Total Current Assets	2.59	4.30	5.31	7.20
Property, plant and equipment	0.01	0.01	0.02	0.02
Capitalised development costs	0.79	0.30	0.00	0.00
Deferred tax assets	0.00	1.20	1.20	1.20
Other	0.00	0.00	0.00	0.00
Total Non-Current Assets	0.80	1.48	1.22	1.22
Total Assets	3.39	5.78	6.53	8.42
Trade and other payables	1.56	0.83	0.65	0.73
Borrowings	0.00	0.00	0.00	0.00
Current tax liabilities	0.00	0.00	-0.07	-0.13
Other liabilities	0.05	0.09	0.09	0.09
Total Current Liabilities	1.61	0.91	0.66	0.69
Trade and other payables	0.00	0.00	0.00	0.00
Borrowings	0.00	0.00	0.00	0.00
Employee benefits	0.00	0.02	0.00	0.00
Other	0.00	0.00	0.00	0.00
Total Non-Current Liabilities	0.00	0.02	0.00	0.00
Total Liabilities	1.61	0.93	0.66	0.69
Net Assets	1.78	4.85	5.87	7.73

Cashflow				
	FY19A	FY20A	FY21F	FY22F
Operating cashflow	0.84	1.50	1.49	1.70
Investing cashflow	-0.48	-0.01	0.00	0.00
Financing cashflow	0.34	0.00	0.00	0.00
Movement in cash	0.70	1.49	1.49	1.70

Ratios				
	FY19A	FY20A	FY21F	FY22F
Revenue Growth	50.8%	112.7%	-23.2%	13.2%
EBITDA Growth	-23.6%	153.3%	-38.2%	47.5%
NPAT Growth	42.5%	586.6%	-78.3%	74.2%
EBITDA Margin	25.4%	30.2%	24.3%	31.7%
NPAT Margin	11.8%	38.0%	10.7%	16.5%
EPS Growth (basic)	-22.3%	556.6%	-78.9%	74.2%
Return on Equity	43.5%	97.6%	12.9%	17.7%
Return on Assets	21.1%	69.8%	11.3%	16.1%

Multiples (Share price at \$0.015)

	FY19A	FY20A	FY21F	FY22F
P/E	28.3x	4.1x	19.1x	10.9x
P/S	3.7x	1.6x	2.0x	1.8x
Dividend Yield	0.0	0.0	0.0	0.0

Key Base Case Price Target Assumptions

	FY21F	FY22F	FY23F	FY2024
OEM CTP Contracts	1	1	3	3
US Franchised Dealer Market Share	22%	22%	52%	52%
Average Monthly Subscriptions OnTRAC	61,500	71,000	72,000	72,000
Average Monthly Vehicle Subscriptions for Subsequent CTP Contracts	0	0	60,000	60,000
Total Average Monthly Subscriptions	61,500	71,000	132,000	132,000
Subscription Price per Vehicle for CTP Solution (\$USD)	6.08	6.08	6.08	6.08
Total CTP Subscription Revenue (\$AUDM)	5.74	6.91	12.84	12.84
AUD/USD	0.75	0.75	0.75	0.75
Gross Profit Margin (%)	50.9%	56.3%	55.7%	55.7%

DCF Inputs

Risk-Free Rate	1.0%
Risk Premium	7.0%
Beta	1.38
WACC	10.7%
Terminal Growth	2.0%

FY21 Relative Valuation Using Peer Group Multiples

P/S	\$0.097
P/E	\$0.05
EV/EBITDA	\$0.05

SWOT ANALYSIS

STRENGTHS

- ◆ The Company now has a track record of successfully designing, developing and maintaining proprietary Enterprise-grade software for a leading automotive OEM.
- ◆ Securing the CTP contract with GM in 2018 has seen strong revenue growth over the past two financial years. This, combined with the cost reduction program implemented in 2017, has seen the Company become cashflow positive and profitable with a clean balance sheet.
- ◆ CXZ's product is a B2B software solution for a sector known for its supplier stickiness for suppliers that are performing. While this bodes well for the renewal of the GM CTP contract and growth within GM, it highlights the challenges the Company will face acquiring contracts.
- ◆ Automotive dealers are under increasing pressure to improve both the efficiency of their operations and the customer experience. Increasingly, technology is the tool used to achieve both of these objectives, which is what CXZ's solutions are designed for.
- ◆ The SaaS model is scalable and once the solution is live, vehicles can be onboarded quickly as was shown by the launch of OnTRAC which saw a monthly average of 70,000 vehicle subscriptions shortly after launch.
- ◆ The company appears to have a good working relationship with one of the largest automotive manufacturers in the world, being General Motors. The Company has captured a ~22% share of the US light vehicle dealership market through this relationship. This distribution network is a good launching pad from which to secure contracts with other OEMs as well as increase revenue through further integrating its solutions into the GM ecosystem.
- ◆ The use of OnTRAC is mandated by GM for Dealers seeking to participate in the CTP. This greatly reduces marketing costs with the OEM effectively selling the product on CXZ's behalf.

WEAKNESSES

- ◆ The Company has experienced significant instability of its management team in recent years with the Company appointing its third CEO in as many years. Stability of the management team to implement the growth strategy to propel the business forward will be imperative for success. We believe Mr. Nania is well placed to implement the growth strategy for the business.
- ◆ The Company exhibits material FX sensitivity stemming from US dollar denominated revenue and Australian dollar denominated fixed costs. This sensitivity is expected to fall over time as the business grows, but nevertheless remains high at present. In time, the Company may benefit from a shift to formal USD reporting to better reflect the nature of its operations.
- ◆ While the revenue model offers a recurring revenue stream, most of the revenue is variable and to some extent driven by the vehicle sales of GM. The impact of this variability and the sensitivity of the revenue model to a single client has been highlighted by the COVID-19 pandemic. We note that much of the operating costs associated with OnTRAC subscriptions is also variable, therefore costs rise and fall in line with vehicle subscriptions. Diversifying revenue streams and the customer base will be important for the Company.

OPPORTUNITIES

- ◆ With the Company servicing the CTP program for one of the largest automotive OEMs in the US, the Company has a strong platform from which to grow the business with opportunities to solidify and grow the OnTRAC solution within GM as well as provide solutions to other OEMs through CXZTRAC.
- ◆ The Company has the opportunity to participate in the growing fleet telematics market. CXZ also has the opportunity to take advantage of the potential increased importance of fleet management as the structural changes in the automotive sector continue to disrupt.
- ◆ The Company's current GM pricing is reflective of both a likely volume-based discount owing to the size of GM's CTP, and what was initially an unproven product. With respect to potential new OEM sales, the Company may benefit from improved pricing power.

- ◆ Deepening relationships within key Dealer Groups as a trusted supplier are showing signs of fostering prospective product sales at a direct-to-Dealer level. The Company's user base of 4,000 Dealers across the US represents a large captive audience to which premium features and complementary products can be sold.
- ◆ Once solidified in the US market, there is the opportunity to expand into other geographic markets such as Europe and Asia.

THREATS

- ◆ The Company currently has one customer, General Motors (GM). While this is one of the biggest car manufacturers in the world there is always significant risk with a single customer given revenues are gone in the event the customer exits the relationship and it can also give the customer a degree of pricing power. The company is currently seeking to expand its customer base to address the customer concentration risk of the business.
- ◆ There is significant competition in the fleet telematics market with some of the Company's competitors being larger and well-resourced.
- ◆ The OnTRAC contract is due for renewal in July 2021. While we view the risk of GM not renewing the contract as low, there remains the potential that GM will not renew the contract. This would leave CXZ in a vulnerable position with little to no revenue if this were to occur.

COMPANY OVERVIEW

COMPANY HISTORY

CXZ listed on the ASX in June 2014 raising \$3.3 million through the IPO. The capital raised through the IPO was used to acquire the Company's first commercial product, MiRoamer - a next-generation internet radio product that allowed users to pick up radio stations from broad geographies, including international stations.

Shortly after listing, the Company launched Flex, a cloud-based, integrated fleet management system, which could be customised to meet the clients' requirements. Flex was able to track a range of real time and historical data including vehicle locations, distance travelled, fuel consumption, battery life, engine performance and speeds travelled. It is also able to monitor driver behaviour and send alerts to vehicle owners and fleet managers. The Company had a number of small distribution contracts for Flex in Australia, Europe and the US.

In 2015, the Company established a presence in the US and appointed Junior Barrett who was previously an executive at General Motors (GM). This appointment was key to the commencement of the relationship between CXZ and GM.

In 2016, the Company announced it would be supplying GM with Commercial Link, a vehicle management software application for small businesses based on CXZ's Flex product. Following an underwhelming take-up rate, the Company was not meeting its projected growth targets despite expanding the team to achieve them and the business model was unsustainable. For example, in the 2015 AGM presentation, Management forecast revenue of \$3 million in FY16 and \$20 million in FY17. The Company significantly missed these targets, reporting sales revenue of \$0.57 million and \$1.06 million in FY16 and FY17, respectively. These small revenue increments came as the Corporate and Administrative expenses exploded to \$7.3 million in FY16.

In 2017, a group of investors represented by the current Board, took an activist role and removed the Founding Board and Management. A strategic review followed, which saw the Company remove non-core functions and focus its attention on the fleet telematics opportunity in the US, primarily through fostering its relationship with GM. As part of the review, the Company also significantly reduced corporate and administrative costs. Flex was rebranded CXZ Telematics and Commercial Link was later brought in-house by GM in early 2020 after lackluster sales.

The 2017 restructure saw a number of Board changes and the appointment of Junior Barrett as CEO, however, by September 2017 Mr. Barrett had resigned and David Connolly, an Executive Director took over as CEO. Through disciplined focus on execution and cost-control, the Company reported its maiden annual profit in FY18.

The Company secured its first CTP contract with an OEM in August 2018, when the Company was awarded the contract for the design, development and delivery of application programs and support infrastructure to automate the General Motors (GM) Courtesy

Transportation Program (CTP). A fully customised fleet management solution called OnTRAC was delivered to GM in December 2018 with the official launch in January 2019. The initial contract is for a three year period and is set to expire in July 2021. GM have the option to extend the initial contract for a further two years. Discussions with management suggest they are confident that the contract will be renewed

In August 2019, Guy Perkins was appointed CEO to lead the Company’s growth outside of GM, however, his tenure was short with the Company announcing his resignation in May 2020. Non-Executive Director and co-founder of Lucerne Investment Partners and a prior strategic investor in the Company, Aaryn Nania, took on the role as Acting CEO and has recently been appointed as CEO.

BUSINESS MODEL

The Company currently generates revenue through two streams:

1) The CTP fleet management solution operates as a SaaS model, in which the Company generates revenue on a monthly basis according to the peak number of vehicles registered on the platform in any given month. While revenue is recurring, it is variable. This represents the majority of CXZ’s revenue. The Company is currently developing a white label version of OnTRAC called CXZTRAC for non-GM clients.

2) CXZ also generates revenue through ongoing development work, customising the platform to the specific needs of GM and its Dealer network. Through building its relationship directly with Dealers, the Company will be seeking to leverage these relationships to enhance its product range.

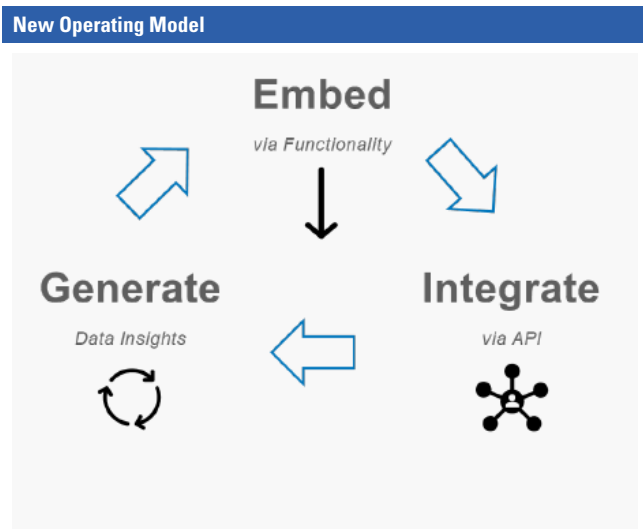
As the sales model currently stands, the Company sells its product to the OEM which then distributes the solution through the Dealer network. This business model limits the requirement for marketing spend given the OEM is effectively selling the product for CXZ. Furthermore, the debtor is the OEM, which has a much stronger credit rating than the individual Dealers. While this model may result in longer lead times for contract wins, there are some significant benefits from having the OEM as the customer.

Moving forward, the Company will not only be targeting OEMs for sales of CXZTRAC but leveraging the relationships with its existing user base of Dealers through providing additional services such as lot management and rental platform management solutions, as highlighted in the below graphic. These additional solutions will likely be able to be managed through OnTRAC/CXZTRAC with some additional development work required.



Source: CXZ

At the AGM in November 2020, the Company unveiled the operating model that the Company will implement moving forward. The new operating model will seek to further integrate the technology solutions into OEMs Dealer infrastructure as well as utilise the data insights that the Company generates more effectively to create additional value for the customer.



Source: CXZ

Embed

The Company will be seeking to further embed their fleet telematics solution into the GM infrastructure, primarily through feature enhancements to improve the user and consumer experience. As well as generating incremental gross margin, feature enhancements improves product stickiness and customer loyalty.

Embedding the fleet telematics solution will also incorporate diversification of the product to non-CTP vehicles, such as broader lot management or rental services provided by Dealers. The ability to expand the service offering further embeds the product into the infrastructure of the Dealer.

Integrate

The Company will be seeking to integrate its OnTRAC/CXZTRAC into the broader ecosystem. The Company has commenced this process by trialing an API data feed with two Dealer Management Service (DMS) providers, CDK and Tekion. The data feeds seek to improve functionality by eliminating double entry for Dealers, improving both the user and customer experience. As well as generating incremental gross margin, integration improves product stickiness and customer loyalty.

CDK (NASDAQ: CDK) is the largest DMS provider in the US, servicing 45% of US franchised light vehicle dealerships. CXZ intends to not only foster relationships with DMS providers to generate an additional revenue stream in the near-term but ultimately leverage these relationships for sales opportunities down the track.

In addition to DMS providers, there are a range of other participants in the industry that the Company can integrate its products, such as insurance providers. Insurance providers are proponents of fleet telematics as it can provide a clearer picture for correctly determining insurance premiums. For example, the Company has developed a positive working relationship with PDP Group, the insurer of GM's CTP vehicles, by delivering meaningful value through OnTRAC. These relationships form one of the "prongs" in the Company's multi-pronged approach to future OEM sales.

Generate

The Generate aspect of the operating model is nascent, generating only nominal revenues at present. Unlike the other two aspects of the operating model, the Company is yet to utilise the data that it generates in a meaningful way for customers, enabling it to become a material revenue stream. The company is working directly with Dealers to explore ways in which the data that it generates can be leveraged to create additional value and therefore generate additional potential revenue streams.

ONTRAC

OnTRAC is the solution designed and developed for GM for the efficient management of the Courtesy Transportation Program (CTP). OnTRAC is powered by GM's OnStar hardware that is embedded into every GM vehicle. The delivery of OnTRAC to GM was a significant milestone for the Company being the first material contract to be secured and delivered to an automotive OEM.

GM CTP INITIATIVE

The GM CTP is an internal incentive program whereby Dealers that are enrolled in the program are allocated an allowance of courtesy vehicles for their customers. The CTP fleet can be used for service customers, multi-day test drives or rented out by the Dealer providing an additional income stream. The vehicles remain in the Dealer's CTP fleet for 90 days or 7,500 miles, then they can be sold. GM pays the dealer per demonstrator vehicle for time and mileage use by qualified customers. GM also pays the Dealer an incentive when the vehicle is added to the platform and when it is removed after achieving time and mileage. These incentives are managed through OnTRAC.

The CTP initiative forms part of GM's Essential Board Elements, used to improve levels of customer service, brand loyalty and acts as a marketing tool for GM, whereby customers can test drive the latest GM models. Prior to the commencement of the CTP, Dealers were using third party rental companies to source loaner vehicles. This meant customers were often driving competitors vehicles. The CTP has been an effective marketing and sales tool for GM.

GM's CTP currently has over 4,000 Dealers enrolled, representing ~22% of the franchised light vehicle dealerships in the US. GM allocates approximately 10% of its annual vehicle sales to the CTP initiative.

THE ONTRAC SOLUTION

OnTRAC provides an efficient management solution for the CTP. Dealers that are enrolled in the program are required to use OnTRAC. The solution was designed specifically for the needs of GM.

OnTRAC supplies a range of tools to the OEM and the Dealer including:

- ◆ **Telemetry** - Telemetry is the automatic recording and transmission of data from a remote source to an IT system. With respect to OnTRAC, real time and historical data feeds regarding the CTP vehicles is provided to the Dealer and GM through the system including information such as vehicle locations, distance travelled, fuel consumption, battery life, engine performance and speeds travelled. OnTRAC provides a simple user interface and dashboard to provide information to the user.
- ◆ **Reporting** - The system generates reports and information regarding the status of the CTP fleet at any given time. The user can quickly access detailed pre-generated reports for accounting, incentive, audit and management purposes.
- ◆ **Analytics** - The system provides data and analytics regarding the CTP fleet to efficiently run the fleet. The system will allow the user to see those vehicles that will be exiting the system and the maintenance requirements for the vehicles in the fleet.
- ◆ **Contracts** - OnTRAC provides easy access to and management of the contracts required to be completed and filed for the loaning out of vehicles in the CTP fleet.

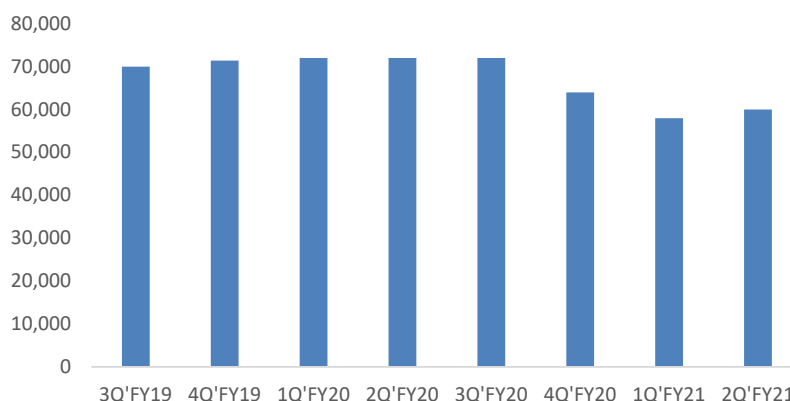
GM have contracted CXZ to provide feature enhancements to the OnTRAC platform and offer these as a Premium solution to a select number of Dealers. The additional features include capabilities such as e-signature, the ability to remotely lock and unlock vehicles in the fleet and SMS customer notification for vehicle pickup. CXZ receives fixed monthly fees for the additional features provided for the Premium product.

OnTRAC Subscriptions

OnTRAC operates as a SaaS model, whereby CXZ generates monthly revenue based on the peak number of vehicles registered with OnTRAC during the month. Given the use of OnTRAC is mandated by GM for Dealers that want access to the CTP initiative, take up has been strong with a monthly average of over 70,000 vehicles registered with OnTRAC in the first quarter of its launch.

The below graphic details the average monthly vehicles registered with OnTRAC for the respective quarter. Average monthly registrations peaked at 72,000. Subscriptions have been lower than the peak number in the last three quarters with vehicle sales and vehicle production being impacted by the COVID-19 pandemic. The company believes it has seen a bottoming out of the decline in OnTRAC registrations with a moderate recovery since August. However, the US has been particularly hard hit by the pandemic and whether or not there is further fallout is yet to be known.

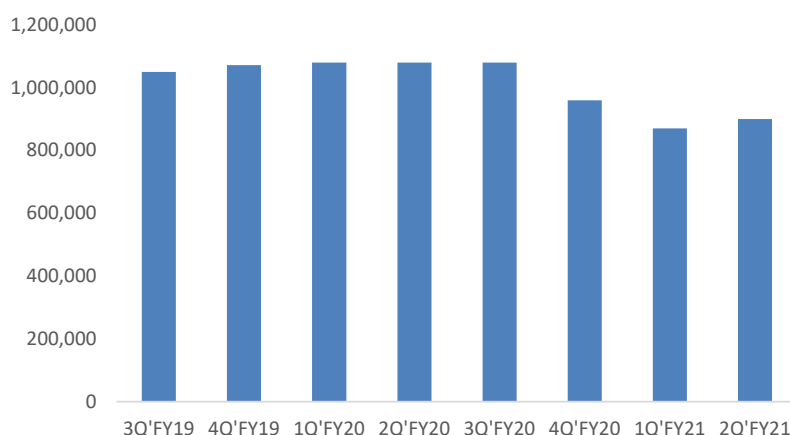
Average Monthly OnTRAC Subscriptions Since Launch



Source: CXZ/IIR

Using the average monthly data provided by the Company on a quarterly basis, we have provided the quarterly revenue generated by the OnTRAC platform. We note that this does not incorporate revenue from the additional recurring revenue generated from enhancements to the OnTRAC solution.

Quarterly OnTRAC Revenue (USD)



Source: CXZ/IIR

WHERE TO FROM HERE?

Since the restructure and recapitalisation of the business in 2017, the current Management and Board have been focused exclusively on executing the restructure and securing and delivering the GM CTP contract. With the Company now generating a recurring revenue stream and positive cashflow, it is now time for the company to focus on its growth strategy.

SHORT-TERM

The Company has found itself in the position of delivering fleet telematics for the OEM with the largest retail network in the US, with over 4,000 Dealers. This provides a significant springboard from which to grow the business. The natural short-term strategy and the low hanging fruit for the Company will be obtaining contracts for the CTP initiatives of other OEMs in the US. While this may be low hanging fruit, gaining these contracts is by no means easy. The appointment of a US BDM will assist with this sales process, however, given the heterogeneity of fleet management and telemetry services the Company will have to show an advantage for an OEM to unwind the current solutions provider for the CXZ solution. We

anticipate the immediate focus will be on those OEMs who do not currently have a digitally managed CTP. In our view, the benefits that can be derived from a CTP managed digitally at a reasonable cost can be easily conveyed.

As discussed above in the Company Overview, the Company will be targeting Dealers and not just OEM sales. Not all OEMs have an internal CTP initiative, with many Dealers utilising external rental companies to provide loaner vehicles to customers. Furthermore, not all CTPs require mandatory use of specific software (as GM does with OnTRAC). As such there is an opportunity to sell the benefits of CXZTRAC directly to Dealers. However, from a sales and marketing standpoint, securing a contract with the OEM is a far more effective rollout strategy for Dealer take-up.

MEDIUM-TO-LONG TERM

Beyond the acquisition of new CTP contracts, the Company will seek to generate additional revenue streams by expanding its fleet management product offering to non-CTP vehicles.

In the Business Model Section above, we discussed the Company's strategy of integrating OnTRAC/CXZTRAC into the broader ecosystem. This will be important to long-term revenue growth, particularly as the automotive industry is currently enduring significant structural change from everything to the underlying product and its autonomy to the retail model and the way people use vehicles. Generating strong long-term partnerships with OEMs and Dealers will be important so that the Company is included in potential changes to operating models as companies adjust to deal with structural changes.

In addition to integrating its products into the ecosystem, we believe it will be important for the Company to expand CXZTRAC beyond CTP vehicles. There are a limited number of vehicles in CTP fleets in any given year and a number of competitors in the market, therefore if the Company was to continue to only offer fleet management services for these vehicles the level of revenue growth is capped. As such, it will be important for the Company to expand into non-CTP vehicles such as lot management or rental services for long-term growth.

We view there to be significant opportunity for the Company as the fleet telematics market continues to grow. We see the potential changing nature of the way consumers use light vehicles as a service as opposed to owning them exclusively as providing opportunities to participate in what will be increasingly important fleet management capabilities. However, with the growth in the fleet management market there is a growing number of competitors that are seeking to take their share. The ability to foster strong relationships with strategically important players will be key to sustaining and growing a presence long-term.

THE US LIGHT VEHICLE MARKET

There are 15 automotive OEMs in the US. The four largest OEMs by number of vehicles sold are: (1) General Motors; (2) Ford; (3) Toyota; and (4) Fiat Chrysler. GM is the leader of new vehicle sales in the US with a ~17% market share since 2017. The four largest OEMs by vehicle sales accounted for almost 60% of new vehicle sales in 2019.

Vehicle sales have not been immune to the impact of COVID-19, with disruptions to not only consumer demand but to the ability of manufacturers to produce vehicles due to lock downs. 1H'2020 new vehicle sales were down 23.6% on 1H'2019 according to the National Automobile Dealers Association (NADA). NADA forecasts 2020 new vehicle sales of 14.1 million units for 2020 after a better than expected recovery in light vehicle sales in the third quarter. This would equate to a 17.6% decline on 2019 sales. CXZ believes the impact has moderated, however, the ongoing impacts will depend on the state of the virus in the US and the ability for an effective vaccine to be widely distributed, a process which is currently underway.

US New Vehicle Sales (million units)								
OEM	2017	Market Share (%)	2018	Market Share (%)	2019	Market Share (%)	1H2020	Market Share (%)
General Motors	3.00	17.5%	2.95	17.1%	2.89	16.9%	1.10	17.2%
Ford	2.51	14.7%	2.42	14.1%	2.41	14.1%	0.92	14.3%
Toyota	2.43	14.2%	2.43	14.1%	2.38	13.9%	0.59	9.2%
FCA	2.04	11.9%	2.22	12.9%	2.21	12.9%	0.81	12.6%
Honda	1.64	9.6%	1.60	9.3%	1.61	9.4%	0.43	6.8%
Nissan	1.59	9.3%	1.49	8.7%	1.35	7.9%	0.89	13.9%
Volkswagen	0.34	2.0%	0.35	2.1%	0.36	2.1%	0.25	3.8%
Other	3.57	20.8%	3.74	21.8%	3.90	22.8%	1.43	22.3%
Total	17.13		17.22		17.11		6.43	

Source: NADA

According to Statista, there are 18,314 franchised light vehicle dealerships in the US. GM has the largest retail network with over 4,000 Dealers in the US. Many automotive OEMs realise the marketing opportunity and have opted to provide customers with their own branded vehicles for the loaner car service, as opposed to using rental companies who may provide competitor vehicles for use by the customer. However, it appears that while some OEMs outside of GM have a preferred CTP fleet management provider, Dealers are not mandated to use a particular solution to participate in the CTP. This provides a sales opportunity for CXZ to supply their CTP fleet management solution directly to Dealers. As an example, the Company believes there are a number of non-GM Dealers using OnTRAC for the GM CTP vehicles due to the fact that they are multi-brand franchises. These Dealers must use OnTRAC regardless to access their GM CTP incentives. The Dealer may wish to achieve software consolidation by extending use to their non-GM vehicles. Importantly, these multi-brand franchises may champion the product, assisting with the OEM sales campaign.

US Franchised Light Vehicle Dealerships		
OEM	Number of Dealerships	% of US Dealerships
General Motors	4,093	22.3%
Ford	3,000	16.4%
Toyota	1,200	6.6%
FCA	2,500	13.7%
Honda	800	4.4%
Nissan	1,082	5.9%
Volkswagen	650	3.5%
Other	4,989	27.2%
Total	18,314	

Source: Various websites

GM allocates approximately 10% of their annual sales to the CTP fleet. If we were to apply this figure to total US vehicle sales for 2019, the CTP vehicle allocation for the total market would be 1.71 million vehicles. However, we note that not all OEMs allocate the same ratio of cars to their CTP as GM and some use third party rental car providers. The ability of CXZ to secure a contract to manage the CTP fleet of other OEM's in the US in a similar fashion to that of GM would provide a significant boost to revenue. For example, if the company were to secure contracts with Ford and FCA on similar terms to the GM contract this would add a further ~60,000 monthly vehicle subscriptions and almost double revenue. Operating leverage would then see a much more meaningful impact to NPAT margins, under this scenario.

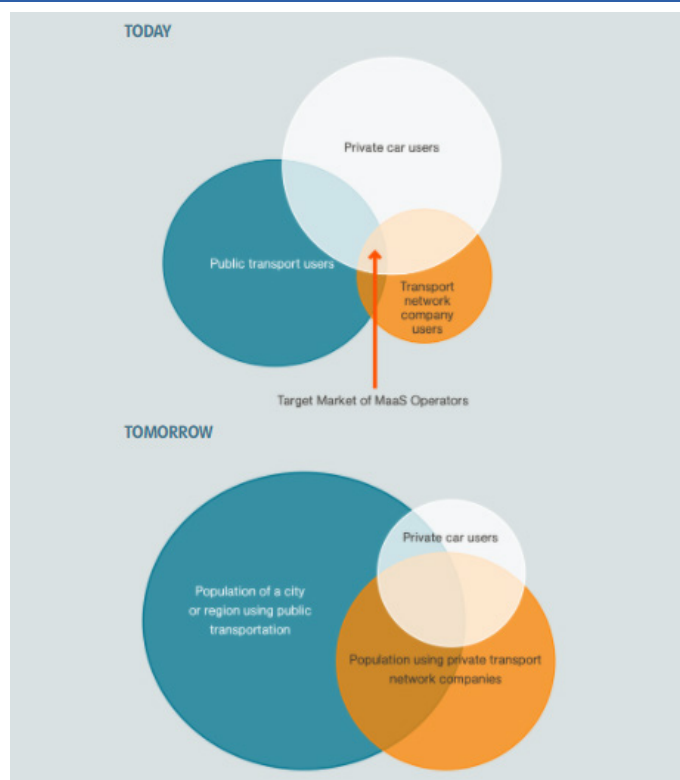
MEDIUM-TO-LONG TERM DISRUPTORS TO THE AUTOMOTIVE SECTOR

Digital disruptors are changing the traditional retail model. Online sales platforms and new entrants introducing direct to consumer sales is putting pressure on the traditional retail model. OEMs and Dealers are having to utilise software to improve the efficiency of their operations and improve customer retention through an improved service offering. OEMs will likely have to invest and partner with technology companies to provide a seamless online to offline customer experience. This may see a change to the business model and may result in Dealer consolidation. In the event, there is consolidation of Dealers, we do not envisage this impacting the subscription levels for a product such as OnTRAC, given cars will still need to

be serviced and loaner cars required to be managed. In the event of Dealer consolidation, the efficient management of the loaner fleet will be even more important as individual Dealers deal with a greater number of customers. The Company’s most active relationships are with the larger Dealer Groups, being the ones most likely to acquire than be acquired.

In addition to the disruptions to the retail model, the sector is expected to move to a Mobility as a Service (MaaS) model, whereby a large portion of movement is facilitated by ride share services. The changing nature of vehicle use is highlighted by the below graphic provided by AusTrade. With the MaaS sector on the rise, this too may change the sales and operating models for OEMs and Dealers. Dealers may become car rental and service hubs for ride share services. Again, we believe this presents an opportunity for fleet telematics as the need for fleet management capabilities is heightened in this scenario.

Growth in MaaS



Source: AusTrade

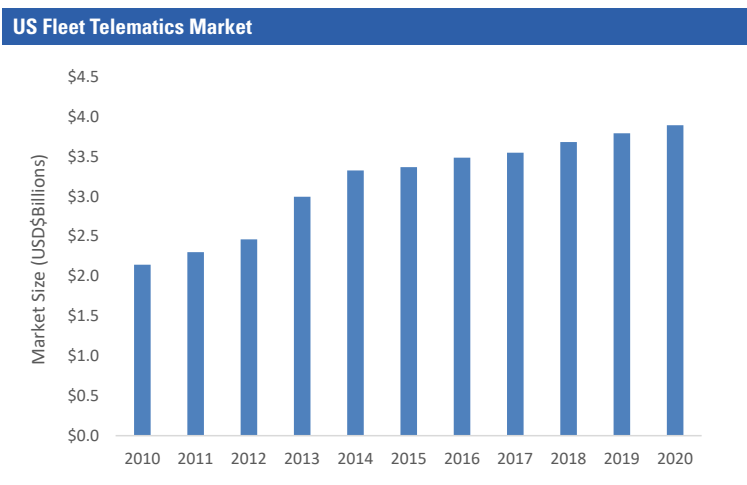
Automotive OEMs are very aware of the changing use of vehicles from private use to ride share services. This was highlighted by Toyota in their 2020 SEC Filing of their financials where they reiterated their connected car strategy which is being implemented by an in-house connected company, Toyota Connected Inc, established in April 2016. Toyota’s connected strategy is based on three pillars: (1) Connect all cars, which it is doing through the installation of on-board data communication models in its cars. This is similar to the OnStar hardware installed in GM vehicles; (2) Create new value and business revolution; and (3) Create new mobility services through the Mobility Service Platform (MSPF). Toyota began partnership considerations with Uber Technologies back in May 2016 as part of its ride sharing collaboration initiative and has partnered with other service providers for testing and development, including the development of its Smart Key Box to remotely lock and unlock car share vehicles.

INTERNET OF THINGS (IOT) IN THE AUTOMOTIVE SECTOR

IoT in the Automotive industry is rapidly changing the sector and the way we drive with automobiles fast becoming a sensor-laden IoT device with considerable on-board computing power and communication systems. There are three broad areas that IoT in the Automotive sector is dedicated to: (1) Telematics - vehicle location, driver behaviours, engine diagnostics and vehicle activity; (2) Vehicle to Everything (V2X) - communicating with the surrounding environment; and (3) Infotainment - technology inside the vehicle for the occupants use. The increased use of IoT in cars is resulting in software players, such and CXZ, becoming more and more prevalent in the automotive sector.

The global Telematics Solutions Market, which is the market CXZ participates in, is expected to be valued at USD\$29.9 billion in 2020, according to MarketsandMarkets, and is projected to reach USD\$62.6 billion by 2025. In addition to manufacturers and rental companies using telematics to monitor and manage its fleets of vehicles, a key driver of growth in the telematics market has been regulations imposed by governments around the world. For example, European countries have mandated the eCall system, which uses telemetry to send immediate help in the event of a car accident or other emergency on the road.

Of the Telematics Solutions market, the Fleet Telematics market in the US has grown 81.5% over the last decade, with the market estimated to be USD\$3.9 billion in 2020. The market is expected to continue to grow as the Automotive sector moves into the MaaS phase with the adoption of ride share services expected to become the primary mode of light vehicle transport over the medium-to-long term. The growing use of fleet telematics and the changing nature of the Automotive industry provides a significant opportunity for CXZ over the long-term if they can embed and integrate their technology solutions into the infrastructure.



Source: IBIS World

COMPETITIVE LANDSCAPE

CXZ has a number of direct competitors at both an OEM and Dealership level, both within and outside of CTP.

CTP COMPETITORS

There are four direct competitors for CTP fleet management that we have identified, tabled below. Dealerware was acquired by Audi in 2017 as part of the acquisition of rental car service provider, Silvercar Inc. Audi is part of the Volkswagen Group of brands, an umbrella which covers 12 vehicle brands. While it is not out of the question, we do not envisage GM acquiring CXZ and its IP due to conflicts of interest, particularly for audit purposes.

We would not expect the major OEMs to use Dealerware given they are owned by a competitor and it is fair to assume that OEMs are not keen on sharing their data with competitors. As such we view TSD Mobility Solutions, ARS Loaner and Spireon to be the key competitors for CXZ with respect to CTP contracts. As we have already discussed, the Automotive sector is resistant to change if suppliers are performing. This will make it a challenge for CXZ to take contracts from competitors, however, competitor software while preferred is not mandatory for use by many OEMs Dealer networks providing a sales channel for the Company's CXZTRAC.

An internet search suggests that other providers are charging substantially more, and in many cases double, for their subscriptions than CXZ is charging for OnTRAC. We note that this is primarily due to the fact that GM has the largest Dealer network, use of OnTRAC is mandated at a Dealer level and CXZ did not have a strong negotiating position as they were competing for their first OEM CTP contract. This suggests CXZ has the potential to offer attractive pricing when tendering for other OEM CTP contracts yet also charge a greater vehicle subscription price than is currently being charged for the OnTRAC solution.

CTP Competitors		
Company Name	Public/Private	OEMs and Brands Serviced*
TSD Mobility Solutions	Private	Hyundai, Lexus, Toyota, Subaru, Volkswagen
ARS Loaner	Private	FCA, Ford, Honda, Mercedes Benz, Volkswagen
Dealerware	Private (owned by Audi)	Jaguar, Land Rover, Mercedes, Audi
Spireon	Private	Ford
Connexion Telematics	Public	GM

*The Dealers of these brands and manufacturers are not necessarily mandated to use the software, with the exception of OnTRAC for GM Dealers.

CONNECTED FLEET MANAGEMENT TECHNOLOGY PROVIDERS

The fleet management market is highly competitive. Below we provide a list of some of the fleet management competitors in the connected car market. This is by no means an exhaustive list, however, provides some indication as to the competition that CXZ will face when entering new markets. The greatest advantage that CXZ has over its competitors at this stage is that is already integrated with the largest Dealer network in the US through its GM contract. This relationship appears to be strong with the Company delivering enhancements for the CTP program as well as providing enhancements for specific Dealers as well. This provides a significant advantage in selling new products given it already has access to ~22% of the franchised light vehicle dealership market in the US.

Competitors in the space range from small to large companies and both public and private. For example, Accenture is a large global company listed on the New York Stock Exchange with a market capitalisation of \$156 billion and significant resources. The competitive advantage that CXZ has over larger companies is that it is cost competitive given its small and lean corporate overheads. The advantage that larger companies have over CXZ is the level of resources that they have at their disposal for product development and sales and marketing.

Connected Fleet Management Technology Providers			
Company Name	Public/Private	Market Cap	Number of Employees
Accenture	Public (NYSE: ACN)	\$156.1B	4,500+
ARI Fleet Management	Private	na	2,000+
Fleetmatics (now Verizon Connect)	Private	na	3,500+
Inseego	Public (NASDAQ: INSG)	\$1.93B	819
Nextrak	Private	na	128
Omnitracs	Private	na	1,100
Samsara	Private	na	1,744
SmartDrive	Private	na	725
Teletrac Navman	Private	na	650
Thingtech	Private	na	19
Zubie	Private	na	25
Connexion Telematics	Public (ASX: CXZ)	\$13.2	9

ASX-LISTED PEER COMPARISON

We have compiled a peer group of automotive software providers listed on the ASX to see how CXZ compares from a valuation perspective. The peer group includes companies of a range of sizes as can be seen in the below table. From a market cap perspective, WiseTech Global Limited (ASX: WTC) is the largest company in the peer group with Collaborate Corporation Limited (ASX: CL8) being the smallest as at 27 January 2021.

CXZ is trading at very low multiples compared to the median of the peer group. As at 27 January 2021, CXZ was trading at a P/E multiple of 4.1x, well below the median of 68.4x. From an EV/EBITDA perspective, CXZ was trading at 4.2x compared to the peer group median of 28.9x. We view the market to be valuing CXZ at a discount due to the single major customer risk and the upcoming renewal of its major contract. We expect the market to re-rate the company in the event the contract is renewed.

Peer Comparison									
Company Name	ASX Code	Market Cap (\$M)*	EV (\$M)	FY20 Sales (\$M)	EBITDA (\$M)	NPAT (\$M)	P/E Ratio*	P/S Ratio*	EV/EBITDA
Altium Limited	ALU	3,995.8	3,902.7	189.1	68.2	30.9	129.4	21.1	57.2
Carsales	CAR	4,804.5	5,182.8	395.6	179.3	114.7	41.9	12.1	28.9
Collaborate Corp	CL8	9.0	8.4	1.2	-3.4	-5.4	na	7.5	na
EROAD Limited***	ERD	409.5	439.7	81.2	27.1	1.0	409.5	5.0	16.2
GetSwift	GSW	62.5	29.4	25.0	-31.1	-31.3	na	2.5	na
Infomedia	IFM	714.8	611.6	94.6	25.1	18.6	38.5	7.6	24.4
Orcoda	ODA	24.4	22.9	1.7	-2.4	-6.9	na	14.3	na
Tymlez Group Limited**	TYM	14.6	14.0	0.2	-6.0	-3.7	na	60.2	na
Wisetech	WTC	11,002.4	10,777.1	429.4	101.2	160.8	68.4	25.6	106.5
Yojee	YOJ	197.7	193.4	0.7	-5.0	-6.2	na	302.3	na
Median							68.4x[#]	13.2x	28.9x[#]
Connexion Telematics Limited	CXZ	13.2	10.2	8.2	2.6	3.2	4.1x	1.6x	4.2x

*As at 27 January 2021.

**This represents the 2H'CY2019 and 1H'CY2020 as TYM have a December year-end.

***March year-end.

#The median peer group multiples do not include those companies that reported a loss.

Source: IRESS/IIR

PRICE TARGET & INVESTMENT VIEW

We have assigned a value of **\$0.047 per share** to CXZ. This represents a 213.3% upside to the share price at 27 January 2021. The valuation is based on a DCF model over a five-year period. The valuation incorporates a number of assumptions regarding the growth of the business that may not come to fruition.

The Base Case for CXZ and the basis for our price target involves the renewal of the current OnTRAC contract with GM plus additional OEM CTP contracts being secured in FY23. There is no certainty of the Company securing additional OEM CTP contracts nor certainty regarding the commercial arrangement that may occur in the event additional contracts are secured, however, with the Company's track record of delivery with GM and the expected appointment of a US BDM with the focus on OEM sales we believe this to be a reasonable inclusion in the base case scenario.

We have assumed that the GM CTP contract will be renewed under the same pricing as the initial contract. We note that given the performance of OnTRAC to date, the Company may have an opportunity to negotiate the price upwards, although given the decline in car sales experienced in 2020 we are taking a conservative view on this. We have also applied the same pricing level as is currently being received by GM to the additional CTP contracts we are forecasting to be secured. As noted earlier in the report, we believe there is an opportunity for the Company to increase its pricing towards market rates.

We have not made any assumptions about the growth or consolidation of new light vehicle sales in the US by GM and other OEMs. The OnTRAC/CXZTRAC subscription levels are influenced by vehicle sales therefore increased or decreased vehicle sales would likely impact the outcome.

The Base Case assumes some incremental revenue contribution from API agreements, however, given the API data feeds with the Dealer Management System (DMS) providers are at the trial stage and commercial terms have not been determined, we have assumed a negligible contribution to revenue. Any meaningful contribution from APIs provide potential upside to the Company's revenues.

As highlighted earlier in the report, the Company is heavily exposed to FX movements in the US dollar and Australian dollar. We have made some assumptions as to the FX rate over the forecast period, however, changes to this input will have an impact on the forecast financials.

Base Case Key Inputs				
	FY21	FY22	FY23	FY24
OEM CTP Contracts	1	1	3	3
US Franchised Dealership Market Share	22%	22%	52%	52%
Average Monthly Subscriptions OnTRAC	61,500	71,000	72,000	72,000
Average Monthly Vehicle Subscriptions for Additional CTP Contracts	0	0	60,000	60,000
Total Average Monthly Subscriptions	61,500	71,000	132,000	132,000
Subscription Price per Vehicle for CTP Solution (\$USD)	6.08	6.08	6.08	6.08
Total CTP Subscription Revenue (\$AUDM)	5.74	6.91	12.84	12.84
AUD/USD	0.75	0.75	0.75	0.75
Gross Profit Margin (%)	50.9%	56.3%	55.7%	55.7%

DCF Inputs	
Risk-Free Rate	1.0%
Risk Premium	7.0%
Beta	1.38
WACC	10.7%
Terminal Growth	2.0%

While we have used a DCF methodology to value CXZ, we have provided the valuation of CXZ by applying the median peer group multiples to our FY21 forecasts. We note that IIR view the median peer group P/E and EV/EBITDA multiples to be elevated with the market ascribing a high price for potential future earnings.

Valuation Using Median Peer Group Multiples		
	Peer Group Multiple	Valuation
P/S	13.2x	\$0.097
P/E	68.4x	\$0.05
EV/EBITDA	28.9x	\$0.05

Base Case Forecast Financials					
	FY21	FY22	FY23	FY24	FY25
Revenue	6.48	7.33	13.27	13.27	13.27
EBITDA	1.58	2.32	5.55	5.51	5.48
EBITDA Margin (%)	24.3%	31.7%	41.8%	41.6%	41.3%
EBT	0.99	1.72	4.75	4.71	4.68
NPAT	0.69	1.21	3.33	3.30	3.27
NPAT Margin (%)	10.7%	16.5%	25.1%	24.9%	24.7%

As mentioned above, we have taken a conservative approach to the pricing of the additional CTP contracts we are expecting the company to secure for our Base Case scenario. If we were to assume that the additional CTP contracts were priced at the lower end of the current market rate of ~US\$10 per vehicle, this would substantially increase revenue from FY23 onwards and improve the forecast NPAT as shown in the below table.

Base Case Forecast Financials With Market Rates					
	FY21	FY22	FY23	FY24	FY25
Revenue	6.48	7.33	17.03	17.03	17.03
EBITDA	1.58	2.32	7.62	7.58	7.55
EBITDA Margin (%)	24.3%	31.7%	44.7%	44.5%	44.3%
NPAT	0.71	1.21	4.77	4.75	4.72
NPAT Margin (%)	10.9%	16.5%	28.0%	27.9%	27.7%

SCENARIO ANALYSIS

There are a number of unknowns in relation to the future revenues of CXZ given growth is dependent on the number of contracts that the Company can secure and the nature of those contracts. We have provided a Bullish and Bearish scenario below, showing the potential impact of business growth or stagnation. Given the variable nature of the Company's revenue model, any variability in the assumptions provided will impact earnings.

Bullish Case

The Bullish Case expands on the Base Case and assumes the company expands its product offering to non-CTP vehicles through lot management for the GM dealership network. We have assumed this would commence in 2H'FY22 with an incremental take-up of the expanded lot management solution over the forecast period. We have assumed that the lot management solution would be an expansion of the existing OnTRAC solution with the company offering a combined solution with dealerships paying an additional monthly fee for the lot management solution for non-CTP vehicles. We view this as a natural progression for CXZ product offering in the short-to-medium term.

The bullish case derives a valuation of \$0.066 per share.

Bullish Case Key Input Additions				
	FY21	FY22	FY23	FY24
Average % of GM Dealers Signed On for Non--CTP Vehicles	0.0%	5.0%	12.0%	18.0%
Average Number of Dealers	0	200	460	700
Monthly Price per Dealer (US\$)	\$250	\$250	\$250	\$250
COGS	0%	50%	50%	50%

Bullish Case Forecast Financials					
	FY21	FY22	FY23	FY24	FY25
Revenue	6.48	7.73	15.11	16.47	18.63
EBITDA	1.87	2.30	6.25	7.06	8.64
EBITDA Margin (%)	28.8%	29.8%	41.3%	42.9%	46.4%
EBT	1.28	1.54	5.45	6.26	7.84
NPAT	0.90	1.08	3.81	4.38	5.49
NPAT Margin (%)	13.8%	14.0%	25.2%	26.6%	29.5%

Bearish Case

The Bearish Case assumes the status quo for the company. This case assumes the renewal of the GM contract under the same terms as the current contract with no other CTP contracts secured nor expansion into non-CTP vehicles. We note that this scenario expects little to no revenue growth and the long-term prospects of the business would be questionable as the automotive industry undergoes significant structural change.

Under the bearish case our model assigns a value of \$0.024 per share.

Bearish Case Forecast Financials					
	FY21	FY22	FY23	FY24	FY25
Revenue	6.48	7.33	7.43	7.43	7.43
EBITDA	2.07	2.38	2.40	2.37	2.33
EBITDA Margin (%)	31.9%	32.5%	32.3%	31.8%	31.4%
EBT	1.48	1.62	1.60	1.57	1.53
NPAT	1.04	1.14	1.12	1.10	1.07
NPAT Margin (%)	16.0%	15.5%	15.1%	14.8%	14.4%

CAPITAL STRUCTURE

The Company has a simple capital structure. As at 27 January 2021, the Company had 880.2 million shares on issue and a market cap of \$13.2 million.

Share Capital Issued as at 18 December 2020

Ordinary Shares on Issue	880.2 million
Options	0.0
Performance Rights	0.0

RISKS

- ◆ **Structural Change in the Automotive Industry:** There are a number of likely disruptions to the Automotive sector which will likely change the traditional operating models of OEMs and Dealers. These changes present a risk to CXZ's revenue model, however we note that the changes also open up potential growth opportunities for the Company. The Company is aware of these risks and is seeking to diversify its revenue stream as well as integrate its products into the broader ecosystem to mitigate these risks.
- ◆ **Foreign Exchange Risk:** The Company's head office and development team is located in Melbourne, Australia yet the product is currently distributed in the US. As such, the Company will be impacted by foreign currency movements, particularly movements between the USD and AUD.
- ◆ **Competition Risk:** The connected car market is expected to grow at a rapid rate over the next decade which has seen the space become quite competitive. While there are barriers to entry for new products, larger players in the space have the resources to provide discounted services to improve market share which we view as one of the biggest risks for CXZ at present.
- ◆ **Customer Concentration Risk:** The Company currently has a single major customer. While the customer is significant in being one of the biggest automotive OEMs in the US, in the event that GM does not renew the OnTRAC contract, the majority of the Company's revenues would cease following a transitional period. While we view the risk of GM not renewing the contract to be low, the risk remains. Further to this, with only a single customer CXZ potentially becomes a price taker. Given the low cost of the OnTRAC solution and the negligible cost to GM we would be surprised if GM tried to squeeze CXZ on the OnTRAC subscription price. There may be an opportunity for CXZ to increase the OnTRAC subscription rate upon the negotiation of a new contract.
- ◆ **Vehicle Sales Risk:** The number of vehicles allocated to CTP fleets is typically driven by the number of vehicle sales. As such, contraction in vehicle sales will likely have an adverse impact on subscription numbers and earnings. We note that growth in vehicle sales will likely have a positive impact on subscription numbers.
- ◆ **Key Personnel Risk:** As a small company with a small team, CXZ faces disruption should it lose talent through staff turnover. To date, staff turnover has been minimal, but nevertheless remains a risk.
- ◆ **Licence Agreement Risk:** Continued access to OEM telemetry data is integral to the Company's products. OEM data is typically supplied under a data licencing agreement (DLA) and a DLA may licence use of data across a broad territorial area with several markets. Loss of a DLA, including by termination or non-renewal, may result in loss of revenues at the market level and in turn may adversely impact on the Company's operations and financial performance.
- ◆ **Product Outage Risk:** The Company relies on significant information technology infrastructure and systems as well as the uninterrupted and efficient operation of these technologies. The Company's software systems (including those provided by third party technology vendors) are at risk of damage or interruption from a number of sources, including natural disasters, power losses, computer systems failures, internet and telecommunications or data network failures, operator negligence, improper operation by or supervision of employees, physical and electronic losses of data and similar events, computer viruses, penetration by hackers seeking to disrupt operations or misappropriate information and other breaches of security. These events may cause one or more of Connexion's software systems to become unavailable. Interruptions to the Company's

software systems would adversely impact its operations and could result in business interruption, loss of revenue and customers, damaged reputation and a weakened competitive position in the market.

BOARD AND MANAGEMENT

Robert Downey - Chairman (Non-Executive): Mr. Downey is a qualified solicitor who has practised mainly in areas of international resources law, corporate law and initial public offerings as well as mergers and acquisitions. He has extensive experience as an advisor, founder and director of various ASX, TSX and AIM companies. Mr. Downey is currently a partner at Dominion Legal.

Mr. Torre is the principal of Torre Corporate – a specialist corporate advisory firm which provides corporate secretarial services to a range of listed companies. Prior to establishing Torre Corporate, Mr. Torre was a partner and Chairman of the National Corporate Services Committee of an international affiliated firm of Chartered Accountants working within its corporate services division for over nine years.

Aaryn Nania - Managing Director & Chief Executive Officer: Mr Nania is the CEO of Connexion Telematics, and has been a director of the Company since 2018. Prior to his current executive role, Mr. Nania was the co-founder of Lucerne Investment Partners – an active, long-term investor in both listed and unlisted companies globally. Prior to Lucerne, Mr. Nania was a Portfolio Manager at Canadian investment bank Canaccord Genuity (Australia) where he established and managed the Absolute Return Portfolio.

Mr. Nania is currently a non-executive director of Headware, an optometry group, and was previously a non-executive director of Pureprofile, an ASX-listed global data & insights company. Mr. Nania holds a Bachelor of Commerce from the University of Melbourne and is a Member of the Australian Institute of Company Directors.

Peter Torre - Company Secretary & Non-Executive Director: Mr. Torre is the principal of Torre Corporate – a specialist corporate advisory firm which provides corporate secretarial services to a range of listed companies. Prior to establishing Torre Corporate, Mr. Torre was a partner and Chairman of the National Corporate Services Committee of an international affiliated firm of Chartered Accountants working within its corporate services division for over nine years.

Simon Scalzo - Non-Executive Director: Mr. Scalzo has extensive experience both locally and in the US market, founding multiple successful software businesses in the Automotive sector amongst other related industry verticals. Mr. Scalzo's experience extends to founding Evoke autopay, an automotive-focused BNPL solution allowing consumers to pay for their car service over time, interest free. Mr. Scalzo then merged this business into Openpay Ltd (ASX:OPY) where he led the group as CEO. Mr. Scalzo was also a director of Credit Clear Ltd (ASX:CCR), where he led the group as Managing Director.

Mr. Scalzo holds a number of director and advisory roles across many different technology businesses, including MeldCX and a director of AOPEN global solutions group. In the US Mr. Scalzo is also a director of Carsfast.com (US based digital automotive dealership), Remitter.com (US based digital collections technology platform) assisting with strategy, growth, governance and continued product evolution. Prior to this, Mr. Scalzo was a Partner & Board member at BDO Australia, leading BDO's national retail advisory practice, specialising in the retail and automotive industries. Mr. Scalzo brings great expertise to Connexion, bolstering governance and providing a further layer of significant US Automotive experience and industry relationships, extending to US dealerships, OEM's and critical industry executives.

Greg Ross - Non-Executive Director: Mr. Ross is currently an Investor and Advisor for several Connected Car businesses, working as an independent consultant and as Connected Car Practice Lead for the industry's premier automotive consultancy, motormindz LLC. Based in Detroit, Mr. Ross is widely considered an expert in the Connected Car field, and the activation of this technology through new and innovative business models. Mr. Ross's experience is founded on a 31-year career with General Motors, where he built and managed an extensive global portfolio of strategic alliances for GM's Connected Car business, including Wireless Carriers, Satellite Radio Broadcasters, Insurance Carriers, Streaming Music Providers, Fleet Management companies, Car Rental companies, Car Sharing services, App Developers, and many others.

Mr. Ross was also instrumental in the growth and scaling of GM's OnStar business. Prior to his work in Connected Car, Mr. Ross's General Motors career included leadership roles in Corporate Strategy, Product Development, Product Marketing, and Retail Network Development. Mr. Ross holds a Master's Degree in Business Administration and a Bachelor's Degree in Economics from the University of Michigan.

Tasso Koutsovasilis - Chief Operating Officer: Mr. Koutsovasilis was appointed to CXZ in 2014 and has grown into the COO role. Since July 2018, he has lead the team in executing the successful OnTRAC program, a SaaS solution for General Motors.

Mr. Koutsovasilis is a leading commercial professional for technical systems with a Scaled Agile Engineering, Lean, Six Sigma and Miller Heiman sales background with a focus on improving business value streams to drive results.

Mr. Koutsovasilis has over 7 years' experience in commercial sales for a global automotive Tier 1 supplier and 7 years engineering experience in safety critical engineering systems. His experience includes bringing new technology to the market with a focus on customer engagement and profit model. He holds a Bachelor of Engineering (Mech) and MBA (Monash) and is a member of the Australian Institute of Company Directors.

Richard Jarvis - Chief Financial Officer: Mr. Jarvis is a Fellow member of the Association of Chartered Certified Accountant (ACCA), with over twenty years' experience gained both in public practice and in senior finance leadership roles.

Before joining CXZ, Mr. Jarvis spent the first ten years of his career working in a business advisory capacity both in the UK and Australia, providing assurance and advisory services to a diverse client base across multiple industry sectors.

For the last 13 years he has held senior managerial roles, including acting as Chief Financial Officer and Company Secretary for a number of emerging and entrepreneurial businesses listed on the ASX and/or the AIM market of the London Stock Exchange.

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For further information, please contact IIR at: client.services@independentresearch.com.au



Independent Investment Research (Aust.) Pty Limited

SYDNEY OFFICE

Level 1, 350 George Street
Sydney NSW 2000
Phone: +61 2 8001 6693
Main Fax: +61 2 8072 2170
ABN 11 152 172 079

MELBOURNE OFFICE

Level 7, 20–22 Albert Road
South Melbourne VIC 3205
Phone: +61 3 8678 1766
Main Fax: +61 3 8678 1826

DENVER OFFICE

355 S Teller Street
Suite 200
Lakewood 80226
Denver Colorado USA
Phone: +1 161 412 444 724

MAILING ADDRESS

PO Box H297 Australia Square
NSW 1215