

28 October 2021

September 2021 Quarterly Shareholder Update and Appendix 4C

Highlights:

- Record quarterly sales revenue of \$6.54 million, up 47% YoY, incorporating only 7 weeks' contribution from the Direct Business and boosting Vonex group annualised recurring revenue (ARR) to ~\$32 million, in line with expectations
- Integration of the Direct Business operations are well underway following completion of acquisition in August 2021, with approximately 1,500 SME clients fully prepared for migration from MNF Group to the Vonex platform
- Active PBX users up 90% YoY to approximately 80,000, delivering a significant boost to this high-margin, subscription-based revenue stream, set to grow further with Qantas Business Rewards partnership recently renewed for 3 years
- Wholesale division delivered another robust period of growth with its flagship mobile broadband product now exceeding 7,000 active subscribers
- Oversubscribed placement and share purchase plan completed, raising approximately \$14 million from existing and new investors
- Cash balance of \$10.25 million as at 30 September 2021

Telecommunications innovator Vonex Limited ("Vonex" or the "Company") (ASX: VN8) is pleased to provide an update on its activities for the quarter ended 30 September 2021.

FINANCIAL COMMENTARY

- Unaudited sales revenue of \$6.54 million, an increase of 47% on the prior corresponding period
- Annualised recurring revenue (ARR) of ~\$32 million as at 30 September 2021, up 91% year-on-year
- \$7.05 million in cash receipts, a year-on-year increase of 67% driven by a rapidly growing customer base and expansion of market share
- Pro forma revenue and EBITDA run-rate are in-line with expectations pre acquisition (announced on ASX on 23 July 2021)
- Cash on hand of \$10.25 million as at 30 September 2021, ensuring surplus available liquidity for activities over the coming quarters

DIRECT BUSINESS ACQUISITION

The Company successfully completed its transformational acquisition of the Direct Business operations from MNF Group in August 2021, and Vonex is now well into the integration phase. The infusion of new talent into the Company has bolstered the Vonex marketing and billing teams beyond management's initial expectations and allowed for valuable skills to be redeployed throughout the business.

The Company successfully rebranded the Direct Business in September, achieved through a focus on customer experience, including improved help desk service levels and reduced wait times for the new Direct Business customers.

The Company has conducted two trial customer migrations which have been successful and has tested the process between the migration, technical and customer service teams involved. The migrations will now accelerate to process up to 200 SME customers per week, with preparations already complete to execute the first 1,500 migrations and all SME migration expected to be completed in FY22.

The Company ended the September quarter with more than 80,000 active PBX users, a 90% increase from the same period last year. This high-value addition has boosted Vonex's subscription-based recurring revenue base at a low marginal cost per user and with low customer churn. The significant increase in registered PBX users is a key indicator of Vonex's progress in penetrating the multibillion-dollar Australian market for SME telecommunication services.

Annualised Recurring Revenue ('ARR')



The Direct Business acquisition has so far novated 153 new channel partners to the Company's existing network of business-to-business ICT service providers who offer Vonex products to their customers. Vonex's increased market presence and growing range of complementary products and services has significantly contributed to the Company's organic growth prospects through cross-selling opportunities.

A key Company initiative is in demonstrating the value Vonex can offer to new Direct Business SME customers in internet and mobile services. Just 4% of onboarded Direct Business customers currently purchase mobile and 27% purchase an internet product alongside PBX. This presents a significant cross-selling growth opportunity in comparison to Vonex's existing SME customers, of whom 18% currently purchase mobile and 56% currently purchase internet services. With MNF-to-Vonex migrations continuing apace, the sales teams have recently been restructured to take advantage of these opportunities and will be well-placed to maximise uptake from early November.

The Direct Business generated \$15 million in pro forma revenue last financial year, of which approximately 89% was understood to be recurring revenue. The division generated pro forma EBITDA of approximately \$5.5 million (unaudited) in FY21.

OPERATIONS

Total customer billings have increased significantly year-on-year. Quarterly billings reached \$6.1 million, marking a significant rise from the \$4.5 million billed for the same quarter the previous year. The strong result was driven by a sharp year-on-year rise in customer numbers boosted by recent acquisitions. The Company now serves circa 18,500 retail customers, up by more than five times on the same period last year.

During the quarter, the Company was pleased to extend its partnership with Qantas Business Rewards (QBR) for an additional 3-year term, with the agreement first having been announced to the ASX on 19 June 2019.

This partnership underpins Vonex's ability to reach and acquire new customers in its target market among QBR's Australian SME members, an opportunity which is particularly relevant as both domestic and international travel demand is on the rise along with the emergence of Australia's east coast from lockdown restrictions.

2SG Wholesale marked another strong quarter. Highlights included year-on-year growth of 54% in mobile voice contracts, while orders for NBN Assure, Vonex's recently-launched product offering SMEs broadband connectivity supported by wireless 4G backup to ensure service continuity, rose by 144% quarter-on-quarter.

The recently released 5G service offered to the Company's wholesale customer base in partnership with Optus represents a key growth opportunity. The Company has attracted and onboarded 7 additional wholesale customers since this service was launched late in FY21 and now serves 93 wholesale customers with its mobile broadband products nationwide.

CORPORATE

Funding activities

Vonex received strong support for the share purchase plan (SPP) completed in the quarter. The SPP, which raised the capped amount of \$2.0 million, was heavily over-subscribed with investment commitments in excess of \$3.7 million received from eligible shareholders.

Applications for the minimum subscription amount were allotted in full. The remaining applications were scaled back on a proportional basis relative to a shareholder's holding as at the SPP record date on 22 July 2021.

The SPP and a two-tranche share placement completed in the prior quarter raised approximately \$14 million before costs to support the Direct Business acquisition and maintain working capital levels.

Cash Position

As at 30 September 2021, the Company had approximately \$10.25 million of cash and approximately \$16 million drawn from a financing facility with Longreach Credit Investors. Vonex has \$9.2 million of net deferred cash consideration payable to MNF Group in monthly installments, which the Company intends to repay through a combination of cash at hand and future cashflows from the business. The Company retains sufficient funding to carry out its activities over the coming quarters.

OUTLOOK

Vonex is in a strong position to leverage its increased market presence, lower marginal cost base and capacity to realise cross-selling opportunities. The Direct Business acquisition has materially extended the Company's foothold in New South Wales and Victoria, which is set to support an acceleration of growth in Australia's two most populous states. 2SG Wholesale is also well placed to leverage key growth drivers in both the short and medium term, including through the 5G service recently launched in partnership with Optus.

While the Company remains focused on integrating the Direct Business, Vonex continues to assess acquisition opportunities within the telecommunications and ICT sectors as they arise. Vonex is primarily focused on potential targets that are capable of operating stand alone and can be purchased using existing cash, given the Company is generating positive operational cash flow. Vonex has a pipeline of acquisition opportunities that are in active consideration and continues to be assisted in its acquisition search by TCA Partners.

INVESTOR PRESENTATION

The Company's Managing Director, Matt Fahey, presented at the NWR Communications Virtual Investor Conference in August 2021. Investors can view a recording of the webinar at the following [link](#).

DISCLOSURE*Note 6 to Appendix 4C*

Payments to related parties of the entity and their associates during the quarter:

- Director fees and wages of approximately \$153k
- Legal fees of approximately \$94k
- Company secretarial and accounting fees of \$14k

This announcement has been authorised for release by Matt Fahey, Managing Director of Vonex Ltd.

ENDS

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ABOUT VONEX:

Vonex is a full service, award-winning telecommunications service provider selling mobile, internet, traditional fixed lines, and hosted PBX and VoIP services - predominately to the small to medium enterprise ("SME") customer under the Vonex brand. The Company also provides wholesale customers, such as internet service providers, access to the core Vonex PBX and call termination services at wholesale rates via a white label model.

Vonex also develops new technologies in the telecommunications industry, including a feature-rich cloud-hosted PBX system. Vonex is also developing the Oper8tor App, a multi-platform real-time voice, messaging and social media app that allows users to connect with all social media friends, followers and contacts across different social medias, all consolidated into one app.

Appendix 4C

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

Name of entity

Vonex Limited

ABN

39 063 074 635

Quarter ended ("current quarter")

30 September 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	7,051	7,051
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(4,083)	(4,083)
(c) advertising and marketing	(82)	(82)
(d) leased assets	-	-
(e) staff costs	(1,146)	(1,146)
(f) administration and corporate costs	(1,163)	(1,163)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(14)	(14)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	(156)	(156)
1.9 Net cash from / (used in) operating activities	407	407
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) businesses (Nextel and MNF)	(22,075)	(22,075)
(b) businesses (stamp duty)	-	-
(c) property, plant and equipment	(55)	(55)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investment - mining royalty	-	-
	(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 (payments for security deposit)	-	-
2.6	Net cash from / (used in) investing activities	(22,130)	(22,130)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	14,000	14,000
3.2	Proceeds from issue of convertible debt securities	(644)	(644)
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	16,000	16,000
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	(976)	(976)
3.8	Payment in advance for capital raising fees	-	-
3.9	Payments for lease liabilities (excl. interest charged)	(62)	(62)
3.10	Net cash from / (used in) financing activities	28,318	28,318

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,658	3,658
4.2	Net cash from / (used in) operating activities (item 1.9 above)	407	407
4.3	Net cash from / (used in) investing activities (item 2.7 above)	(22,130)	(22,130)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	28,318	28,318
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	10,253	10,253

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	10,253	3,629
5.2	Call deposits	-	29
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)	10,253	3,658

6. Payments to related parties of the entity and their associates

6.1 Aggregate amount of payments to related parties and their associates included in item 1

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

**Current quarter
\$A'000**

261

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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

Consulting fees and directors' fees	\$ 153,427
Company secretarial and accounting fees	\$ 13,500
Legal fees	\$ 94,177

7. Financing facilities

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.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	16,000	16,000
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	16,000	16,000

7.5 Unused financing facilities available at quarter end

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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.

Vonex entered into a \$16 million debt facility from Longreach Credit Investors. Longreach Credit Investors provides customised private debt solutions to high quality corporate borrowers in Australia and New Zealand.

The key terms of the Debt Facility are as follows:

Maturity:	3 years
Principal repayments:	\$500k per quarter commencing 15 December 2021
Security:	First ranking General Security Interest
Key covenants:	Net leverage cover, interest cover, debt service cover and minimum cash at bank
Interest costs:	The interest rate payable depends on the prevailing net debt / pro forma Last Twelve Months ("LTM") EBITDA (interest rate payable ranges between 8% and 13%).

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	407
8.2	Cash and cash equivalents at quarter end (Item 4.6)	10,253
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	10,253
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	N/A

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

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

Answer: N/A

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

Answer: N/A.

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

Answer: N/A

Compliance statement

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

Date: 28 October 2021

Authorised by:
Daniel Smith – Company Secretary

Notes

- 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.
- 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.
- 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.