

### Connecting into global utilities digitisation trend

X2M Connect Limited (ASX:X2M) is an Australian-based technology company focused on digitising the utilities sector across APAC with its proprietary technology. The technology enables a range of devices and sensors to communicate with other devices, capturing data that can be analysed and processed on one platform. The benefits include the replacement of manual processes such as meter reading, the detection of leaks, valuable customer insights and increased public safety. A connection involves an initial sale of hardware and ongoing SaaS monitoring fees per device. X2M currently operates in South Korea, Japan, Taiwan, Australia and has just recently entered the Chinese market and the Australian Energy Management market. Following funding from an IPO in September 2021, device sales have grown strongly in South Korea, Japan and China, with a further \$3.7m raise undertaken in July to maintain momentum. These markets remain under-penetrated relative to key client addressable markets, offering sustained hardware and software growth as there is little point having just part of a clients customer base monitored once going digital.

#### Business model

The X2M business model starts with the sale of a hardware device which enables legacy utility meters or sensors to communicate with an Internet of Things (IoT) platform. This sale historically has been at gross margins between 10% and 25%. A monthly SaaS software fee is then charged for each device in the field for the ongoing reading and monitoring of data from the meter, together with a monthly maintenance fee. The average yearly SaaS fee across all regions is currently ~A\$3.40 with gross margins between 60% and 90%. Additional functionality is being developed and deployed to increase this yearly fee over time. The benefits for utility companies include the detection of leaks, a reduction in manual reading and increased customer insights while for end customers improved public safety and overall customer service are key benefits. In some regions a licensing-only model is employed where the customer provides all hardware and marketing and X2M the SaaS services.

#### Device sales have accelerated in recent quarters

Funding received from an IPO in September 2021 has enabled a step-change in device sales across key regions. Connected device sales (ex-China) to June 2022 are up 99%, with growth particularly strong in South Korea (+86%) and Japan (+133%). While China is not included in the device count, we estimate at least a two-fold increase in device numbers on the ground. Recent tender wins have seen contracted revenue for FY23 already reach \$11.0m, more than the entire FY22 revenue (\$10.4m). These device sales transfer to ongoing SaaS fees in future years, increasing the percentage of recurring revenues within the group. A term sheet signed for the energy management of new greenfield estates signed with Resi Ventures in Australia will see a new hardware/software revenue stream from FY23.

#### Valuation of \$0.27/share or \$55m market cap fully diluted

We have selected a DCF methodology to value X2M given the early stages of market penetration and current loss-making position. The resulting valuation is \$0.27/share, with the biggest assumptions being device numbers in the field (including China) reaching 1.6m by FY25 and the recent Australian Energy Management initiative reaching 7.5k housing blocks (or equivalents) per annum by FY25.

#### Historical earnings and RaaS' estimates (in A\$m unless otherwise stated)

Year end	ARR*	Revenue	EBITDA adj.	NPAT adj.	EPS (adj.) (c)	EV/Revenue (x)
06/21a	1.1	5.7	(5.3)	(6.7)	nm	nm
06/22a	0.6	10.4	(6.6)	(7.9)	(0.057)	1.2
06/23f	2.0	19.3	(4.0)	(5.3)	(0.027)	0.6
06/24f	4.0	30.7	(0.6)	(2.2)	(0.008)	0.5

Source: Proforma for FY21; Actual FY22, RaaS estimates FY23f and FY24f; \*Annual Recurring Revenue EBITDA, NPAT and EPS adjusted for one-time, non-recurring and non-cash items

### Hardware, Software & Services

5<sup>th</sup> September 2022

#### Share Details

ASX code	X2M
Share price (5-Sept)	\$0.094
Market capitalisation	\$17.5M
Shares on issue	186.7M
Net cash at 30-Jun-22*	\$4.7M
Free float	~60%

\*Additional \$3.7m raised in July 2022

#### Share Performance (since listing)



#### Upside case

- Market consolidation, particularly in South Korea
- New module/functionality offering higher SaaS fees
- Favourable SaaS pricing deal in China

#### Downside Case

- Continued SaaS pricing pressures
- Limited uptake of new functionality
- Access to funding

#### Board of Directors

Alan Stockdale	Non-Executive Chair
Jodie Leonard	Non-Executive Director
Damien Johnston	Non-Executive Director
John Stewart	Non-Executive Director

#### X2M Contacts

Mohan Jesudason (CEO)	+61 1800 926 926
Keith Jelley (COO)	+61 1800 926 926
investor.relations@x2mconnect.com	

#### RaaS Contacts

John Burgess	+61 410 439 723
john.burgess@raasgroup.com	
Finola Burke	+61 414 354 712
finola.burke@raasgroup.com	

## Table of Contents

Business model.....	1
Device sales have accelerated in recent quarters.....	1
Valuation of \$0.25/share or \$48m market cap fully diluted .....	1
X2M Connect Limited .....	3
Investment Case .....	3
Background To The IPO.....	4
The Components Of Remote Meter Monitoring.....	4
Key Regions For X2M .....	5
X2M Strategy Summary .....	8
Key X2M Financials .....	9
Other Financial Commentary.....	13
Peer Comparisons.....	13
DCF Valuation .....	15
SWOT Analysis .....	15
Board and Management.....	16
Appendix 1.....	17
Financial Summary .....	18
Financial Services Guide .....	19
Disclaimers and Disclosures.....	21

## X2M Connect Limited

**X2M Connect Limited (ASX:X2M) listed on the ASX in September 2021, raising \$8m via the issue of 32m shares at \$0.25/share. The funds were earmarked for customer acquisition, customer support, IT development, licensing, administration and working capital. Since listing there have been thirteen new contract/tender wins including repeat orders in China, together with key client renewals in South Korea. While tender wins for hardware sales are one-off and low-margin in nature, they are necessary in earning longer-term recurring SaaS monitoring and analysing fees. The whole process could be considered a virtuous cycle as a tender win delivers the hardware/software required for monitoring and analysis on the X2M platform, which earns recurring SaaS and maintenance fees. The more clients that are monitored, the more valuable and comprehensive the data, while additional functionality can be added to the analysis at relatively low cost given deployment and collection is already in place. X2M has ~51 Enterprise and Government customers currently.**

### Investment Case

While the core X2M IoT platform technology is “mature”, having primarily been in development since ~2012, the commercial rollout is accelerating, promising a narrowing of losses medium-term and ultimately “sticky” profitability long-term, driven by the following factors:

- The previous ownership structure was private in nature, had disputing shareholders, was sub-scale and ultimately under-resourced financially.  
  
The new corporate structure has cleared all debts and provided funding for an acceleration in customer numbers and units in the field, with cumulative device numbers up from ~64k in H1 FY21 k to 245k in June 2022. Contracts signed imply a number closer to 437k by June 2023 by RaaS estimates.
- Device sales ultimately drive recurring SaaS revenues and are therefore an important driver for long-term shareholder value as these sales are delivered at a much higher margin than the initial hardware sale and require less marketing support.
- The benefits of remote smart metering are maximised when a client is “all-in” in terms of the number of their customers being digitally measured and analysed. Based on X2M’s current penetration relative to a client’s TAM there is significant upside across key regions. In South Korea, for example, we estimate X2M has penetrated only ~3.0% of its clients TAM in that country, while in Japan the number is estimated at 2.0%. Our FY26 estimates still imply modest penetration rates of 17% and 8% respectively relative to our estimated TAM in these regions.
- While existing SaaS fees are relatively low by SaaS standards, new product development promises additional functionality and, therefore, additional fees on the already installed device base.
- The group’s cost base is built for growth, and as a result we expect modest cost growth relative to both revenue and gross profit, resulting in significant operating leverage. Our FY23 forecasts as an example imply 86% revenue growth, 140% gross profit growth and only 12% operating cost growth.
- X2M products offer ESG benefits for both clients and their customers with respect to lower carbon footprints and direct energy cost savings, increasing their attractiveness in the current environment.
- Our DCF valuation of \$0.27/share fully diluted for the recent equity raise implies >200% upside to the current share price. It should be noted the average share price decline for our selected peer group has been ~47% over the last 6-months as sector valuations have compressed.

## Background To The IPO

X2M listed in September 2021, issuing 32m shares at \$0.25/share to raise gross proceeds of \$8m. The original business was previously known as Freestyle Technology Limited (Freestyle) and the assets were acquired out of liquidation by the current entity. Current CEO Mohan Jesudason, COO Keith Jelley and Chairman Alan Stockdale were all part of the previous Freestyle management team and combined represent ~10% of the register post IPO. A summary of Freestyle’s path to receivership can be found in appendix 1.

The funds raised from the IPO together with existing cash reserves of \$1.7m totalled \$9.7m and were earmarked for the following uses:

<b>Exhibit 1: Proposed use of X2M IPO funds</b>	
<b>Variable</b>	<b>A\$</b>
Customer acquisition	1,300,000
Customer support	1,200,000
IT development	1,500,000
Licensing	1,700,000
Administration	1,700,000
Working capital	1,100,000
Other	1,100,000
<b>Total use of cash + net IPO funds</b>	<b>9,700,000</b>

Source: X2M prospectus (page 36)

## The Components Of Remote Meter Monitoring

### The legacy and new meter

The installed or legacy meter base will have been made by a variety of meter manufacturers in each region, and be a combination of analogue, digital and smart meters. New meters are replacing legacy meters over time.

X2M hardware/software can be installed to connect with many of these devices.

### The hardware - Network Interface Card (NIC) and Micro Engine

A hardware sale for X2M is essentially the NIC, which can be added to or integrated within devices including meters, valves and pumps, enabling devices with no communications capabilities to transmit to and receive information from X2M’s ‘Micro Engine’.

The Micro Engine interacts with multiple devices over any network and essentially collates and simplifies information before it is sent on to the IoT platform for analysis.

The hardware/software is communications agnostic, meaning it can communicate with any industry standard protocol including 3/4/5G, NBIoT, Lora, Sigfox, ZigBee and Ethernet.

The NIC is designed in Australia but generally manufactured in the country of sale.

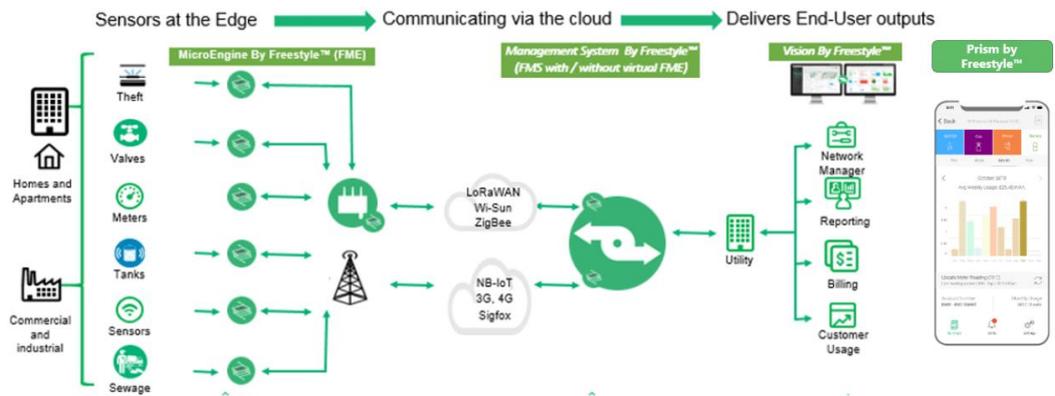
### The IoT platform

Known as the ‘Vision Platform’, this IoT platform manages, monitors, diagnoses and controls deployed Micro Engines and all connected devices. It is essentially an aggregation point for all customer data, report generation and network management.

Mobile access to this data is made possible via the ‘Prism’ application. Long-term the connection of many consumers to the Prism app will allow the Company to leverage this relationship for other future services.

A flow chart explaining the process for smart water monitoring and control, which is very similar to gas monitoring and control, is detailed below.

**Exhibit 2: Smart water monitoring and control process**



Source: X2M website

**Key Regions For X2M**

**South Korea**

**Measurement type:** Water meter monitoring.

**TAM:** South Korea has ~161 municipalities which either manage their own water sourcing and monitoring or do so via the K Water Resources Corporation (K Water). While there are ~21.5m households in South Korea, according to Statista, the TAM for this business is related to the number of residential households with water meters, which is estimated at 8m households according to Korean Water Services Statistics (2017).

**Customers:** X2M, via its relationships with municipalities Gochang, Bucheon and Jeju, services ~22 of the South Korean municipalities currently. These municipalities service an estimated 3.5m residential households with water meters.

**Business model:** A mixture of hardware bundle sales at an estimated A\$125/unit together with a maintenance/SaaS monitoring fee which combined is estimated at \$10/year.

X2M is a preferred government supplier on the Public Procurement System and holds an ‘Excellent Performance Certification’ for its products. This aids in the winning of contracts but also allows X2M to receive ~75%-80% of a contract order in the form of a prepayment funded by the municipality which covers hardware procurement costs.

**Business case (for the enterprise customer):** Improves the safety and efficiency of data collection with lower labour costs (meter readers), leak detection, data analytics and billing automation. In a case study for Gochang County, X2M’s technology resulted in a 19% improvement in leak detection and >200 social welfare callouts (when no usage triggered a house visit for an old or disabled person).

**Business case (for the consumer).** Better cost base, better overall customer service including more accurate billing, less property intrusions and increased safety.

**Taiwan**

**Measurement type:** Remote gas meter, gas pressure, water meter monitoring for enterprise customers.

**TAM:** Taiwan has predominantly been an ‘incubation hub’ for well-advanced product design applications. That said gas monitoring is re-emerging in this market and X2M has recently secured small contracts with two gas companies, Shin Tao and Hsin Kao. According to the Bureau of Energy there were 3.8m microcomputer gas installations in Taiwan in 2021.

**Customers:** Shin Tao and Hsin Kao combined have an estimated 552k installed meters while the current X2M installed base is ~10k devices. A contract with the ETC (Taiwan Electronic Testing and Certification Centre) was

deployed in November 2021 and allowed X2M to participate in its electricity utility eco-system. A further contract has been recently received from ETC. ETC is one of only three labs in the world to perform USB/SATA/VESA DP C&C verification and testing.

**Business model:** Revenue is obtained from the deployment of gas meter and battery monitoring devices, energy management projects such as the ETC and from Maintenance and SaaS fees on the 10k users.

**Business case:** Used as an the “incubation hub” for market-leading technology development which can then be transferred to other markets.

## China

**Measurement type:** Water quality sensor monitoring.

**TAM:** China has a population of ~1.4b comprising an estimated 550m households, according to Statista. We would not use this number as a genuine TAM, preferring to focus on how many households’ key customers have access to. The business is focused on Beijing and surrounding regions with an estimated 9.1m households.

**Customers:** X2M has only recently entered China whereby hardware is on-sold for the purposes of water quality measurement.

**Business model:** The business model is to install the sensor base and then secure an ongoing subscription/maintenance fee. The margin on the initial hardware sale is minimal but potential user numbers are huge.

There are no unit numbers mentioned in recent contract announcements but dividing the TCV by an estimated per unit hardware cost provides a gauge. We estimate ~70k units are on the ground in China currently.

**Business case (partners):** X2M staff have local LTI incentives to deliver material device sales and related SaaS fees medium-term using their local relationships.

**Business case (for the consumer).** Better quality water provision.

## Japan (reported as other)

**Measurement type:** Remote bottled gas monitoring.

**TAM:** Drilling down to a genuine TAM, Statista estimates 54m households in Japan. Around half of these households use (not choose) outside gas bottles (LP gas) for gas supply, implying 27m households with outside gas bottles. One of X2M’s major customers is Azbil who is estimated to have a 30% market share, implying a realistic TAM for X2M of 8.0m households against 136k Japan connections as of June 2022.

**Customers:** A major client is Azbil Kimmon, a major meter manufacturer and part of the larger Azbil Corporation listed on the Tokyo Stock Exchange (6845.T) with FY22 NPAT of US\$155m and a market cap (at ¥3830) of US\$4.1b. While current contracts are for outside gas bottles Azbil also manufacture mains gas and water meters.

**Business model:** Japan is a subscription fee-only business model with Azbil taking care of all installation and maintenance.

**Business case (enterprise customer):** A major gas company has seen a 20% logistics saving using gas bottle monitoring as the basis for logistics improvement.

**Business case (consumer).** This service actually benefits the customer with less half-filled bottles being picked-up, but the aim is to ensure customer satisfaction and gain market share with this service offering.

**Australia (reported as other)**

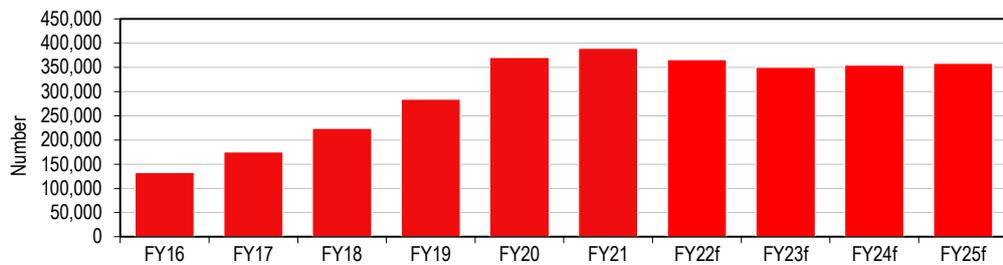
**Measurement type:** Gas meter monitoring and more recently the Energy Management space.

**TAM:** Focusing on energy management for new greenfield broad acre developments incorporating the use of Solar PV. According to the Urban Development Institute of Australia (UDIA) State of the Land summary for 2021 there were 53,760 greenfield lot sales in CY2020, up from 28,770 in CY2019 and 39,430 in CY2018.

The Clean Energy Regulator publishes the number of Small-Scale Technology Certificates (STC’s) which is a proxy for residential Solar PV installations in Australia. There were a record 389k Solar PV installs in Australia over CY2021, aided by government subsidies and lower PV costs. In the Green Energy Markets updated forecasts for the period between 2021 and 2025 they forecast a moderating in growth but still a solid rate of installations as costs continue to fall and COVID disruptions subside.

The sector continues to evolve in terms of compliance (by retailers and installers) and the uptake of batteries (with the aid of government backed programs) to better capture and utilise daytime solar for peak periods. Battery economic payback is expected to improve over coming year and will be key driver of the Australian Energy Management market going forward.

**Exhibit 3: Solar PV installs in Australia**

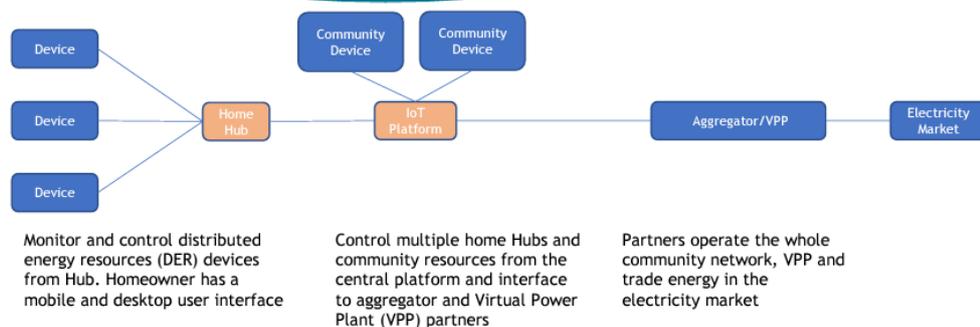


Source: Actual - Clean Energy Regulator – Forecast- Green Energy Markets – STC forecast 2021-2025

**Customers:** In gas meter monitoring X2M monitors ~1,000 gas meters in Sydney. In the energy management space X2M secured their first term sheet with land developer Resi Ventures in May 2022. Resi Ventures specialises in turning broad acre land into housing estates and the deal relates to a 1,000-lot estate in Echuca, Victoria. X2M has also signed an MOU to explore innovative cleaner energy solutions with RACV.

**Business model:** In the energy management space X2M will receive an initial hardware sale per block, an upfront SaaS connection fee and ongoing SaaS monitoring fees for every block owner that signs up to the program.

**Exhibit 4: Proposed smart community business model**



Source: X2M July 2022 Trading update

**Business case (for Resi):** Share in a portion of the ongoing SaaS fees while increasing their ESG credentials including 6-7 star energy ratings.

**Business case (consumer):** Energy cost savings (estimated at between 40%-50%) and automated device control.

<b>Exhibit 5: X2M summary by region (FY23)</b>					
Variable	South Korea	Japan	Taiwan	China	Australia
Monitoring type	Water	Gas bottle	Gas	Water	Energy Mgt
Est. devices @ June 2023	167,500	252,000	17,920	187,705	500
Est. TAM	3,500,000	7,200,000	552,000	9,100,000	40,000
Est. TAM penetration	3%	2%	3%	nm	1%
Hardware sales	Yes	No	Yes	Yes	Yes
Software sales	Yes	Yes	Yes	TBC	Yes
Est. FY23 revenues (\$m)	10.02	0.50	0.76	7.09	0.66
(% X2M Total)	53	3	4	37	3

Source: RaaS Advisory estimates

## X2M Strategy Summary

X2M has an overarching strategy with variations by region. The overarching strategy can be summarised as:

- Target B2B customers with large residential customer bases.
- Focus on the APAC region.
- Focus on the utilities sector.
- Aim for 3–10-year contracts.
- Become a key cog in the customers ecosystem.
- Secure a SaaS fee for a minimum of 12-months.
- Use hardware sale to establish a SaaS base.
- Wean off hardware over the longer-term

X2M's strategy by region can be summarised as follows:

- **South Korea:** Use government certifications and 'in-the-field' experience to capture additional municipality contracts, and rollout to as many residential apartments within both new and existing municipalities.

There is also the possibility of consolidation within this market, which would bring some chunky user numbers across from other providers.

- **Japan:** Support the customer rollout of its technology to as many of its clients as possible (estimated at ~8m).
- **China:** Partner with local groups to establish a presence in the market, initially at or around breakeven, and use the 'on-ground' reference sites as a means to bid for larger tenders.
- **Taiwan:** Stay involved in the technology leading Taiwan market while servicing and expanding the 10k legacy users.
- **Australia:** Use learnings from Taiwan (innovation hub) to win further 'Smart Community' monitoring contracts, which promise high value sales, a higher gross margin and higher ongoing SaaS fees.

Medium-term opportunities exist to expand across a range of markets including retirement villages, caravan parks and commercial buildings.

The ultimate goal, over time, is to get recurring SaaS revenues from the installed device base to more than cover the operating cost base.

## Key X2M Financials

### Revenues

Revenues are reported on both a regional basis and split between hardware and subscription fees, which comprise SaaS, maintenance and support services. We summarise these definitions below:

- **Hardware sales:** Refers to the initial sale of the hardware with no associated software fees.
- **Hardware bundle sales.** Refers to the initial sale of the NIC that allows communication from legacy meters to the monitoring platform. We estimate an average price of \$125 per unit including SaaS fees of ~A\$5, with China closer to \$60.
- **SaaS fees:** Refers to the access to data collected from the meters for analysis and monitoring. Management cites an average fee of A\$3.40/year/device currently.
- **Maintenance fees:** Refers to the upkeep of meters in the field and is mostly sub-contracted with X2M earning a clip of the ticket, with revenues estimated at A\$3-\$8/year/device.

From a regional perspective we make the following observations:

- **South Korea:** Revenues are a combination of hardware bundle sales, SaaS fees and maintenance fees.
- **Taiwan:** Derives Hardware bundle and SaaS fees from ~10k installed meters while FY23 will see a contribution from the new ETC contract.
- **China:** At present, China revenues are just hardware in nature, with a SaaS and maintenance charge for devices installed currently being negotiated. While no unit numbers are mentioned we estimate a unit price of \$60.
- **Japan (other):** Monthly SaaS monitoring fees only, with all installation and maintenance undertaken by their customers, resulting in a highly profitable business with low connection costs.
- **Australia (other):** Comprises the monitoring of ~1,000 gas meters and from FY23 the sale of smart home hubs and associated SaaS monitoring/connection fees to broad acre property developers.

Recent announcements shed light on both the unit price of hardware and the ongoing SaaS/maintenance fees, which are summarised in the table below.

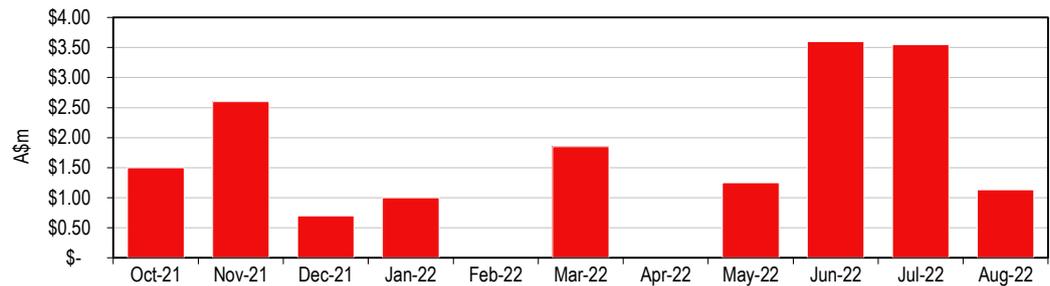
**Exhibit 6: Key contract financials from recent announcements**

Date	Value (A\$m)	Nature	Region	Units	Price/unit or bundle/year (A\$)
Oct-21	1.50	Hardware bundle*	South Korea	9,377	160
Nov-21	2.60	Hardware bundle*	South Korea	20,278	128
Dec-21	0.70	Hardware	China	na	na
Jan-22	1.00	Three-year SaaS/maintenance	South Korea	26,000	13
Mar-22	1.00	Hardware	China	na	na
Mar-22	0.85	Hardware bundle*	South Korea	5,360	159
May-22	1.25	Hardware bundle*	South Korea	10,387	120
Jun-22	1.00	Hardware	China	na	na
Jun-22	1.34	Hardware	China	22,000	61
Jun-22	0.66	Hardware bundle*	South Korea	7,777	85
Jun-22	0.60	Hardware bundle*	South Korea	4,000	150
Jul-22	1.60	Hardware bundle*	South Korea	11,000	145
Jul-22	1.25	Hardware bundle*	South Korea	9,754	128
Jul-22	0.70	Hardware bundle*	South Korea	3,252	215
Aug-22	1.13	Hardware bundle*	South Korea	4,280	264

Source: Company announcements \*Bundles include 12-months SaaS fees

From a monthly perspective June and July of 2022 have been by far the biggest months for contract announcements in value terms over the last 9-months, highlighting an acceleration in contract wins.

**Exhibit 7: Value of contract announcements by month (\$m)**



Source: Company announcements

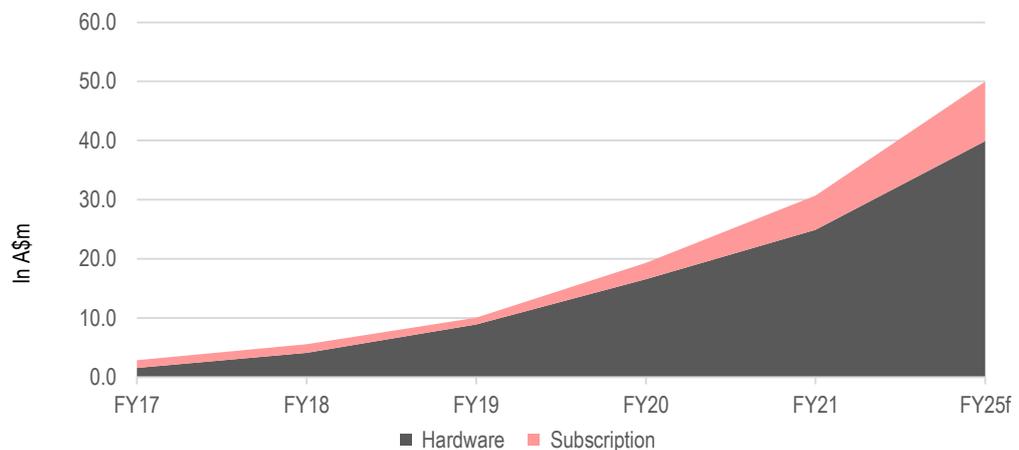
Key revenues assumptions to FY25 are detailed in the table below:

<b>Exhibit 8: X2M revenues summary by region/stream</b>					
Variable	2021a	2022a	2023f	2024f	2025f
<b>Device numbers</b>	<b>143,402</b>	<b>317,970</b>	<b>625,625</b>	<b>1,040,325</b>	<b>1,608,025</b>
<b>Device numbers ex China</b>	<b>125,256</b>	<b>245,265</b>	<b>437,920</b>	<b>672,620</b>	<b>990,320</b>
South Korea	49,978	94,000	167,500	280,000	450,000
Taiwan	13,420	14,920	17,920	21,920	51,920
China*	18,146	72,705	187,705	367,705	617,705
Japan	60,858	135,345	251,000	366,200	481,400
Australia	1,000	1,000	1,500	4,500	7,000
<b>Implied Penetration rate</b>					
South Korea	1.7%	2.7%	4.8%	8.0%	12.9%
Taiwan	na	2.7%	3.2%	4.0%	9.4%
China (Beijing only)	0.2%	0.8%	2.1%	4.0%	6.8%
Japan	0.9%	1.9%	3.5%	5.1%	6.7%
Australia	nm	nm	2.0%	10.0%	15.0%
<b>Hardware revenues (\$m)</b>	<b>4.1</b>	<b>8.7</b>	<b>16.6</b>	<b>24.9</b>	<b>39.9</b>
South Korea	3.1	5.4	8.8	10.1	15.3
China	1.1	3.3	6.9	10.8	15.0
Taiwan	0.2	0.2	0.4	0.5	3.6
Australia	0.0	0.0	0.5	3.5	6.0
<b>Software revenues (\$m)</b>	<b>1.6</b>	<b>1.1</b>	<b>2.5</b>	<b>5.8</b>	<b>10.1</b>
South Korea	0.9	0.6	1.2	2.2	3.7
Taiwan	0.4	0.2	0.4	0.5	0.6
China	0.0	0.0	0.2	0.6	1.6
Japan	0.1	0.2	0.4	1.0	1.7
Australia	0.2	0.1	0.3	1.4	2.4
<b>Total revenues (\$m)</b>	<b>5.7</b>	<b>9.8</b>	<b>19.1</b>	<b>30.7</b>	<b>50.0</b>

Source: RaaS estimates \* excluded from company disclosed data

RaaS' estimates for hardware and subscription revenues between FY19 and FY25(f) are charted below.

#### Exhibit 9: X2M revenues by stream



Source: RaaS estimates

#### Gross profit margin

Our gross profit assumptions vary significantly depending on the revenues stream, and are summarised below:

- **Hardware:** South Korea and China are the two key markets for hardware currently with very different metrics. Initial China sales were done at zero gross margin (market entry and chip costs), implying group hardware margins of ~12% in 1H FY22. There was improvement in 2H FY22, evidenced by a 340bps improvement in group GP% relative to the 1H FY22.

Near-term we have China moving to 10% as the group establishes a market position while South Korea returns to the 25%-30% range as chip costs normalise.

Australian hardware sales are forecast to achieve a higher gross margin given the technology employed and wholesale sale nature. We estimate a margin of 40% which is near the average of our selected peer hardware/software group. Similarly, we estimate a 30% margin for Taiwan sales.

Based on our regional mix assumption this implies a group hardware margin of 25% by FY25.

- **SaaS fees:** Like most software products we expect a gross margin between 80%-90% for the SaaS licensing fees associated with the monitoring and data analysis. From FY24 we have 20% growth in the average SaaS fee (or ARPU) from new functionality.
- **Maintenance fees:** We estimate a GP% of 35% for maintenance revenues which is consistent with labour-intensive businesses such as Service Stream (ASX:SSM).

As the mix of maintenance and SaaS fees increase as a % of revenues we estimate an improving group GP% over the forecast period.

### Operating costs

X2M exits the year with a A\$8.8m operating cost base. Key components include:

- **Employees** represent \$5.2m of total operating costs with 50 full-time employees Australia, Seoul, Taipei, Tokyo and Beijing.
- **Professional fees** represent \$1.3m of total operating costs and include legal, contractors and marketing.
- **Other expenses** represent the balance at \$2.3m.

From the FY22 cost base we assume a 12% increase in employee costs, 10% increase in professional services and 12% increase in other expenses ex some one-off's in 2H FY22 into FY25, slowing to 5% thereafter. Such increases relate to supporting new business from Taiwan and Australia, and growing businesses in China and South Korea.

<b>Exhibit 10: X2M P&amp;L summary (in A\$m unless otherwise stated)</b>					
Line item	2021a	2022a	2023f	2024f	2025f
<b>Sales</b>	<b>5.70</b>	<b>10.39</b>	<b>19.33</b>	<b>30.70</b>	<b>49.98</b>
Hardware	4.14	8.89	16.58	24.91	39.90
Subscription	1.44	1.15	2.75	5.79	10.08
Other	0.12	0.34	0.00	0.00	0.00
Gross profit	1.63	2.31	5.55	10.09	17.43
<b>GP%</b>	<b>29%</b>	<b>22%</b>	<b>29%</b>	<b>33%</b>	<b>35%</b>
Operating costs	6.89	8.88	9.55	10.70	11.98
<b>EBITDA</b>	<b>-5.26</b>	<b>-6.57</b>	<b>-4.00</b>	<b>-0.61</b>	<b>5.44</b>
D&A	1.24	0.95	0.71	0.92	0.98
EBIT	-6.50	-7.51	-4.72	-1.53	4.47
Interest expense/(income)	0.16	0.07	0.04	0.02	0.02
Tax expense	0.00	0.00	0.00	0.00	0.00
<b>NPATA</b>	<b>-6.32</b>	<b>-7.24</b>	<b>-4.26</b>	<b>-0.85</b>	<b>5.20</b>
Reported NPAT	-8.44	-10.23	-5.03	-2.03	3.92

Source: Company announcements & RaaS estimates

## Other Financial Commentary

### Cash flow

**Capitalised software** represents product development associated with new analytical products expected to be offered to clients in return for additional/higher SaaS fees over the medium-term.

The positive **tax line** is R&D tax credits associated with the capitalised software spend, which we have assumed ends in FY24 when revenues are forecast to exceed \$20m.

### Balance sheet

**Net cash position:** As at June 2022 the group has a net cash position of \$1.0m but subsequently raised \$3.7m before costs.

**Intangibles:** \$3.1m represent the capitalised software for new product development which is now being amortised.

**Inventory: Very low relative to sales** due to both the sales arrangement in China and South Korean pre-payments from municipalities (seen in the contract liabilities line).

**Payables/Receivables.** We have assumed long-term days payables of 30 days and days receivables of 20-days, resulting in modest overall working capital requirements.

### Shares on issue

The group currently has 186.7m shares on issue and 55.9m options with exercise prices between \$0.25/share and \$0.50/share.

An accelerated rights issue and accompanying SPP raised gross proceeds of \$3.7m at \$0.085/share, together with attaching options on a 1 for 2 basis at a strike price of \$0.16 and expiry in August 2024 was completed in August. Our numbers assume 60% of the options are exercised during FY24 given our fully diluted valuation is higher than the strike price.

## Peer Comparisons

Our assessed peer group for X2M has the following characteristics:

- Small/micro-cap in size;
- Predominantly a technology hardware producer making a 'one-time' unit sale;
- Use the initial hardware sale to generate recurring SaaS revenues, usually with embedded software;
- Utilising a core technology to develop new products or push into new verticals; and
- Dealing mainly with larger/blue-chip customers offshore.

While the technologies and potential market opportunities may vary by industry and product and size, these companies share similar challenges in terms of gross margins, input costs, balancing payables and receivables, and funding growth requirements.

Below we summarise selected peers and list some key financial metrics across the peer group.

**Envirosuite (ASX:EVS):** Is a leader in 'environmental intelligence' in the areas of noise, vibration, odour, dust, air quality and water quality with three key software products suites, namely Aviation (airports), Omnis (Mining & Industrial, Waste & Water) and Water (treatment). The group operated across 391 sites in March 2022 with a regional exposure across APAC (40%), EME (32%) and the Americas (28%). ARR was \$53m in June 2022 and group revenue 80%/20% recurring/non-recurring.

**Atomos (ASX:AMS):** A global video technology company that enhances video content creation via simple-to-use monitor recorded creation products. The product is own brand and takes images directly from the sensor of all major cameras then enhances, records and distributes them in high-quality formats for content creation using the major video editing software programs. AMS is introducing new cloud services that will attract a SaaS-style fee, with ARR forecast at >\$3m in FY23 and \$6m in FY24.

**Pivotal Systems (ASX:PVS):** A producer of gas-flow control solutions integral to the production of semi-conductors. The company's hardware and software utilises advance machine learning to enable preventative diagnostic capabilities to improve fab productivity. Its customers are OEMs or integrated device manufacturers (IDMs).

**Birddog (ASX: BDT):** A global video technology company that enhances the quality, speed and flexibility of video through a range of solutions, augmented with a network device interface. BDT develops and manufactures a range of products including pan-tilt-zoom cameras, converters, AV products, controllers and accessories, monitors and cloud software solutions. Most hardware is software embedded for future connections to cloud-based infrastructure.

**EP&T Global (ASX:EPX):** Combines multiple information sources with cloud based analytics and historical real-life data to detect real-time energy inefficiencies in buildings using their 'Edge' platform. The group operates across Australia, the UK, Hong Kong and the Middle East and had 471 contracted sites in June 2022. The group is 100% SaaS revenue and recorded ARR of \$9.2m at June 2022.

**Shekel Brainweigh (ASX:SBW):** SBW is a global leader in the design and manufacture of weighing hardware/software for retail self-checkout stations, healthcare and industrial applications. SBW is employing this technology to move into new verticals including autonomous stores, autonomous vending machines and smart carts. The new verticals involve an initial hardware sale, then ongoing SaaS fees for analysis of real-time sales data. SBW is also a RaaS research client.

Exhibit 11 below summarises some key financial variables for the CY22(f) (PVS, SBW) and FY22(a) financial years.

**Exhibit 11: Peer group financial comparison – FY22/CY22 (in A\$m unless otherwise stated)**

Company Name	Ticker	Share price (cps)	Mkt. cap.	Net debt(cash) @ Jun-22	Adj. PBT	FY22 revenue	% Rev growth on FY21	GP%	Working capital /Rev (%)	R&D/ Rev (%)
Envirosuite	EVS	0.15	188	-12.3	-12.0	53.4	10	48	12	25
Netlinkz	NET	0.018	59	-2.7	-4.4	15.7	9	30	9	11
Atomos	AMS	0.16	30	-2.3	4.4	81.9	4	40	37	6
Birddog	BDT	0.17	35	-23.0	-0.5	38.2	0	27	54	3
Shekel Brainweigh *	SBW	0.12	20	9.7	-1.2	31.3	23	40	50	16
Pivotal Systems *	PVS	0.09	14	-4.6	-20.0	31.3	3	0	55	30
EP&T Global	EPX	0.06	13	-4.2	-6.5	7.1	17	92	(11)	0
<b>AVERAGE</b>							<b>10</b>	<b>40</b>	<b>29</b>	<b>13</b>
X2M Connect	X2M	0.094	18	-4.7	-7.4	10.4	82	22	(18)	16
X2M Connect (ex-China)	X2M	0.094	18	-4.7	-7.4	7.1	54	28	(26)	23

Sources: Company financials, Refinitiv Eikon; Prices 5 September 2022 \*CY22(f)

Looking at X2M relative to the peer group we would highlight the following:

- The capital-light model can be seen in the working capital/sales ratio for X2M at -18% against a peer average of 29%;
- A forecast reported gross margin of 22% which is well below the peer average of 40% due to the recent entry into China. Adjusting for China we estimate a GP% closer to 28% in FY22;
- Achieved the highest revenue growth (FY22 on FY21) of the peer group (+82%); and

- The average peer share price has declined 47% since March 31 2022 against X2M -28% as sector multiples have compressed.

## DCF Valuation

Based on our earnings assumptions which have been outlined through this note our valuation for X2M using a DCF methodology is A\$0.27/share, fully diluted for equity raise assumptions.

We would highlight the following as being key drivers/assumptions of this valuation:

- A discount rate of 12% incorporating a beta of 1.3x, risk-free rate of 3.5% and market-risk premium of 6.5%;
- Medium-term growth beyond the forecast period (FY28-FY32) of 15%;
- Terminal growth rate of 2.2%;
- Overall gross margin reaching 40% by FY27, albeit this number is heavily influenced by the hardware mix in any given year. Hardware margins are forecast to average 25% (subject to mix);
- Operating cost growth of 12% per annum to FY25, slowing to 5% thereafter;
- Penetration rates (relative to the current customer addressable market) by FY27 of 17% in South Korea, 10% in Beijing, 8.5% in Japan and 20% (of all greenfield block developments) in Australia;
- 20% increase in APRU across South Korea, China and Japan from FY24 on the back of increased functionality;
- Tax payable from FY26; and
- Continued capitalised software spend at 3% of sales.

### Exhibit 12: X2M base-case DCF valuation

Parameters	Outcome
Discount rate/WACC	12.0%
Beta	1.3x
Terminal growth rate assumption	2.2%
Sum of PV (\$m)	17.7
PV of terminal value (\$m)	35.8
PV of enterprise (\$m)	53.5
Debt (cash) (\$m)	(1.0)
Net value – shareholder (\$m)	54.6
No. of shares on issue (fully diluted) (m)	201
NPV (\$/share)	<b>\$0.27</b>

Source: RaaS estimates

## SWOT Analysis

We see the strengths and opportunities for ATV outweighing weakness and threats, with our SWOT analysis summarised below.

### Exhibit 13: Strengths, Weaknesses, Opportunities, Threats

Strengths	Opportunities
Established and mature technology at commercialisation	Grow into customers' existing clients
Established relationships with key utility providers	Add new functionality/revenues to an installed unit base
Continuing product development	Secure appropriate subscription deal in China
Existing customers have large TAM's	Increase subscription prices in some regions
	Establish a strong Australian operating presence
Weaknesses	Threats
Low subscription fees require large installed base	Continued shortage of semi-conductors
Installed unit base is sub-scale across most regions	Refit of existing legacy meters with smart meters/platforms
May still require equity funding medium-term	Chinese sales performance

Source: RaaS analysis

## Board and Management

### Directors

**Mr Alan Stockdale, Non-executive Chairman.** Mr Stockdale has significant legal, government and investment banking experience. He was previously the Victorian Treasurer (1996-1999), and Minister for IT and Multimedia (1996-1999), law firm partner and consultant, and Macquarie Bank investment banker. Currently Chairman of software provider Knosys Limited (ASX:KNO) and previously Chairman of Senetas, Axon Instruments and Symex.

**Ms Jodie Leonard, Non-Executive Director.** An experienced Non-Executive Director and digital transformation advocate with experience across financial services, consumer goods and media/entertainment. Currently a Non-Executive Director of Great Ocean Road Coast and Parks Authority, and previously a Non-Executive Director of BWX Limited, Flexigroup Limited (now Humm Limited), RACV, Beyond Bank Australia, Kinetic Superannuation, Racing Victoria and Tourism North East.

**Mr Damien Johnston, Non-Executive Director.** An experienced ASX finance executive, Mr Johnston was CFO at Tabcorp Holdings until 2019 and held several senior roles at BHP Group Limited.

**Mr John Stewart, Non-Executive Director.** Mr Stewart has 25 years' experience in M&A advisory roles and has been the CFO of a start-up with 50 employees. Mr Stewart held senior roles at Gresham Partners, Lazard, JPMorgan and Thomas Weisel Partners. Mr Stewart is currently a Director of SSW Dairy Proprietary Limited, Stratford Retail Group (UK), Sovereign Investments and Gander APP Pty Ltd.

### Management

**Mr Mohan Jesudason, Chief Executive Officer.** Mr Jesudason has spent the past eight years leading the X2M/Freestyle business. Prior to this he was Managing Director of Gaming and Group Marketing at Tabcorp Holdings for 10 years. He also worked for nine years at New Zealand Telecom including as Managing Director of Telecom Mobile. Mr Jesudason is a Director of Melbourne Football Club and past Director of Racing Victoria Limited where he was also a member of the Racing Integrity Council.

**Mr Keith Jelley, Chief Operating Officer.** Mr Jelley has spent the past seven years in the X2M/Freestyle business. He has over 35 years' experience in operations and technology development across nine countries, delivering mission-critical systems and transformations through major programmes in the military, telecommunications and embedded systems industries. Prior to joining X2M/Freestyle Mr Jelley held senior leadership positions at Tabcorp Holdings' gaming division.

**Mr Yongsun Kim, Managing Director (South Korea).** An experienced IT professional with 20 years of sales, marketing and management experience in OEM, telecommunications, and the government sector. Prior to X2M Mr Kim was Korea Country Manager at NextWindow for four years and CEO at Kathrein for five years.

**Mr Steven Fang, Managing Director (Taiwan).** An experienced IT professional with over 30 years of management experience in IoT, big data, cloud and green energy. Prior to X2M Mr Fang spent 12 years working in business and product development of Enterprise Solutions for Ericsson in Taiwan and China.

**Mr Yoshio Matsunaga, Managing Director (Japan).** Mr Matsunaga has experience and expertise in developing business within Japan. He is an experienced management consultant in IoT, AI and digital marketing.

**Mr Oliver Carton, Company Secretary.** Mr Carton is a qualified lawyer and experienced Company Secretary with over 30 years' experience in a variety of roles. He is currently a director of the Melbourne Symphony Orchestra and Australian Mines Limited.

## Appendix 1

Freestyle's path to receivership can be summarised below:

- Incorporated in December 2005 as a proprietary limited company;
- Raised approximately \$70m in capital between 2005 and 2019 to develop its technology including an estimated \$40m for R&D;
- Achieved minimal revenues between 2005 and 2013;
- Secured first revenues in 2014 in Taiwan following a number of trials;
- Became a public limited company in May 2018, and was subject to a number of complicated and restrictive shareholder-related agreements which provided certain shareholders with a number of special rights;
- While not uncommon, such arrangements were said to have an adverse impact on the day-to-day management of the business;
- A further \$4.45m was raised over 2019 in the form of secured convertible loans from a number of investors (secured over all of the assets of Freestyle);
- An IPO was planned for the second half of CY2019 but denied by the ASX due to legal proceedings that had been lodged;
- Ultimately Freestyle was placed into liquidation via court orders and its assets acquired out of liquidation in February 2020 by X2M then known as FS IoT Holdings Pty Ltd.

Court proceedings remain afoot with Freestyle and subsequently X2M joined as defendants. The plaintiffs of this case do not have involvement with X2M and X2M did not exist when the court proceedings were commenced. No damages from X2M are being sought.

### Exhibit 14: X2M Financial Summary

X2M Connect Limited (ASX:X2M)						Share price (5 September 2022)						A\$	0.094				
<b>Profit and Loss (A\$m)</b>						<b>Interim (A\$m)</b>						<b>H121A</b>	<b>H221A</b>	<b>H122A</b>	<b>H222A</b>	<b>H123F</b>	<b>H223F</b>
<b>Y/E 30 Jun</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23F</b>	<b>FY24F</b>	<b>FY25F</b>	Revenue	3.2	2.5	4.6	5.8	9.3	10.0					
Revenue	5.7	10.4	19.3	30.7	50.0	EBITDA	(1.8)	(3.5)	(3.2)	(3.4)	(2.0)	(2.0)					
Gross profit	1.6	2.3	5.5	10.1	17.4	EBIT	(2.4)	(4.1)	(3.8)	(3.5)	(2.2)	(2.3)					
GP margin %	28.5%	22.3%	28.7%	32.9%	34.9%	NPATA (normalised)	(2.3)	(3.7)	(3.7)	(3.4)	(2.0)	(2.0)					
EBITDA	(5.3)	(6.6)	(4.0)	(0.6)	5.4	Adjustments	0.2	(2.3)	(2.6)	(0.2)	(0.2)	(0.3)					
Depn	(0.9)	(0.6)	(0.2)	(0.2)	(0.2)	NPAT (reported)	(2.2)	(5.9)	(6.4)	(3.5)	(2.2)	(2.3)					
Amort	(0.3)	(0.3)	(0.5)	(0.7)	(0.8)												
EBIT	(6.5)	(7.5)	(4.7)	(1.5)	4.5	EPS (adjusted)	nm	nm	(0.028)	(0.025)	(0.011)	(0.011)					
Interest expense	(0.2)	(0.1)	(0.0)	(0.0)	(0.0)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000					
Tax	0.3	(0.0)	0.0	0.0	0.0	Imputation	0.0	0.0	0.0	0.0	0.0	0.0					
Minorities	0.0	0.0	0.0	0.0	0.0	Operating cash flow	na	na	na	na	na	na					
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Free Cash flow	na	na	na	na	na	na					
<b>NPATA pre sign. items</b>	<b>(6.7)</b>	<b>(7.9)</b>	<b>(5.3)</b>	<b>(2.2)</b>	<b>3.7</b>	<b>Divisionals</b>	<b>H121A</b>	<b>H221A</b>	<b>H122A</b>	<b>H222A</b>	<b>H123F</b>	<b>H223F</b>					
Adjustments	(2.1)	(2.8)	(0.5)	(0.7)	(0.8)	Revenue	3.2	2.5	4.6	5.8	9.3	10.0					
<b>NPAT (reported)</b>	<b>(9.1)</b>	<b>(11.1)</b>	<b>(6.2)</b>	<b>(3.6)</b>	<b>2.2</b>	Hardware	2.5	1.8	3.9	5.4	8.1	8.5					
						Subscription/other	0.7	0.7	0.7	0.4	1.2	1.5					
<b>Cash flow (A\$m)</b>						<b>Divisions</b>						<b>H121A</b>	<b>H221A</b>	<b>H122A</b>	<b>H222A</b>	<b>H123F</b>	<b>H223F</b>
<b>Y/E 30 Jun</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23F</b>	<b>FY24F</b>	<b>FY25F</b>	Gross profit	1.0	0.6	0.9	1.4	2.6	2.9					
Adj EBITDA	(5.4)	(6.7)	(4.1)	(0.8)	5.3	Gross Profit Margin %	31.6%	24.6%	20.4%	23.8%	28.1%	29.3%					
Interest	0.2	0.1	0.0	0.0	0.0	Employee	2.2	2.4	2.5	2.7	2.8	3.0					
Tax	0.5	0.4	0.6	0.4	0.0	Professional fees	0.3	0.6	0.6	0.8	0.7	0.9					
Working capital/other	1.8	0.2	0.5	(0.4)	(1.0)	Other	0.3	1.1	1.0	1.3	1.1	1.1					
<b>Operating cash flow</b>	<b>(2.9)</b>	<b>(6.1)</b>	<b>(3.0)</b>	<b>(0.8)</b>	<b>4.3</b>	<b>Total costs (ex SBP/1-time)</b>	<b>2.8</b>	<b>4.1</b>	<b>4.1</b>	<b>4.7</b>	<b>4.6</b>	<b>4.9</b>					
Mtce capex	0.0	(0.0)	(0.0)	(0.1)	(0.1)	EBITDA	(1.8)	(3.5)	(3.2)	(3.4)	(2.0)	(2.0)					
Capitalised Software	(0.8)	(1.7)	(1.0)	(1.0)	(1.1)	EBITDA margin %	(240%)	(494%)	(443%)	(790%)	(168%)	(129%)					
<b>Free cash flow</b>	<b>(3.7)</b>	<b>(7.8)</b>	<b>(4.0)</b>	<b>(1.8)</b>	<b>3.1</b>	Margins, Leverage, Returns		<b>FY21A</b>	<b>FY22A</b>	<b>FY23F</b>	<b>FY24F</b>	<b>FY25F</b>					
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBITDA margin %		(92.3%)	-63.2%	-20.7%	-2.0%	10.9%					
Other	(0.1)	0.1	0.0	0.0	0.0	EBIT margin %		(114.1%)	-72.3%	-24.4%	-5.0%	8.9%					
Cash flow pre financing	(3.8)	(7.6)	(4.0)	(1.8)	3.1	NPAT margin (pre significant items)		(116.9%)	-76.5%	-27.2%	-7.3%	7.4%					
Equity	2.0	7.3	3.8	2.2	0.0	Net Debt (Cash)		0.46	-0.46	-0.16	-0.54	-3.64					
Other	0.7	(1.4)	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	nm	nm	nm	nm	nm					
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	ND/ND+Equity (%)	(%)	nm	nm	nm	nm	nm					
<b>Net change in cash</b>	<b>(1.1)</b>	<b>(1.8)</b>	<b>(0.2)</b>	<b>0.4</b>	<b>3.1</b>	EBIT interest cover (x)	(x)	nm	nm	nm	nm	nm					
<b>Balance sheet (A\$m)</b>						ROA		nm	nm	nm	(16.0%)	33.4%					
<b>Y/E 30 Jun</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23F</b>	<b>FY24F</b>	<b>FY25F</b>	ROE		nm	nm	nm	(512.7%)	47.3%					
Cash	2.0	1.0	0.7	1.1	4.2	<b>NTA (per share)</b>											
Accounts receivable	0.2	0.2	0.5	1.0	1.8	<b>Working capital</b>		-1.8	-1.9	-1.9	-1.5	-0.5					
Inventory	0.1	0.1	0.3	0.4	0.6	<b>WC/Sales (%)</b>		<b>(30.9%)</b>	<b>(17.9%)</b>	<b>(9.7%)</b>	<b>(4.8%)</b>	<b>(0.9%)</b>					
Other current assets	1.7	2.9	2.9	2.9	2.9	<b>Revenue growth</b>		nm	82.2%	86.1%	58.8%	62.8%					
<b>Total current assets</b>	<b>4.0</b>	<b>4.2</b>	<b>4.3</b>	<b>5.4</b>	<b>9.4</b>	<b>EBIT growth pa</b>		n/a	n/a	n/a	n/a	(392.0%)					
PPE	0.6	0.6	0.6	0.6	0.6	<b>Pricing</b>		<b>FY21A</b>	<b>FY22A</b>	<b>FY23F</b>	<b>FY24F</b>	<b>FY25F</b>					
Capitalised Software	2.2	3.1	3.6	3.9	4.3	No of shares (y/e)	(m)	-	133	179	201	201					
Goodwill	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	-	133	179	201	201					
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EPS Reported	A\$ cps	nm	(0.0807)	(0.0321)	(0.0146)	0.0146					
Other non current assets	0.1	0.2	0.4	0.4	2.3	EPS Normalised/Diluted	A\$ cps	nm	(0.0572)	(0.0266)	(0.0077)	0.0221					
<b>Total non current assets</b>	<b>3.0</b>	<b>3.9</b>	<b>4.6</b>	<b>4.9</b>	<b>7.1</b>	EPS growth (norm/dil)		nm	nm	-54%	-71%	-387%					
<b>Total Assets</b>	<b>6.9</b>	<b>8.2</b>	<b>8.9</b>	<b>10.2</b>	<b>16.5</b>	DPS	cps	0.000	0.000	0.000	0.000	0.000					
Accounts payable	2.0	2.2	2.7	2.9	2.8	DPS Growth		n/a	n/a	na	na	na					
Contract liabilities	1.1	2.2	3.6	4.4	6.8	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Borrowings	2.4	0.6	0.6	0.6	0.6	Dividend imputation		0	0	0	0	0					
Other	0.9	1.0	1.0	1.0	1.0	PE (x)		nm	-1.6	-3.5	-12.2	4.2					
<b>Total current liabilities</b>	<b>6.4</b>	<b>6.0</b>	<b>7.8</b>	<b>8.8</b>	<b>11.2</b>	PE market		15.0	15.0	15.0	15.0	15.0					
Lease liabilities	0.1	0.3	0.3	0.3	0.3	Premium/(discount)		nm	(111.0%)	(123.6%)	(181.2%)	(71.7%)					
Employee benefits	0.2	0.3	0.3	0.4	0.4	EV/EBITDA (x)		nm	(2.0)	(3.0)	(27.1)	3.4					
<b>Total long term liabilities</b>	<b>0.4</b>	<b>0.6</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	FCF/Share	A cps	nm	(0.060)	(0.023)	(0.009)	0.015					
<b>Total Liabilities</b>	<b>6.8</b>	<b>6.6</b>	<b>8.4</b>	<b>9.5</b>	<b>11.9</b>	Price/FCF share		nm	(1.6)	(4.1)	(10.1)	6.1					
<b>Net Assets</b>	<b>0.2</b>	<b>1.6</b>	<b>0.5</b>	<b>0.7</b>	<b>4.6</b>	Free Cash flow Yield		nm	(45.7%)	(23.2%)	(10.6%)	17.7%					
Share capital	9.4	19.3	23.3	25.5	25.5												
Reserves	0.4	2.1	2.1	2.1	2.1												
Accumulated losses	(9.6)	(19.9)	(24.9)	(26.9)	(23.0)												
Other	0.0	0.0	0.0	0.0	0.0												
<b>Total Shareholder funds</b>	<b>0.2</b>	<b>1.6</b>	<b>0.5</b>	<b>0.7</b>	<b>4.6</b>												

Source: Company data for actuals, RaaS estimates

# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

**ABN 99 614 783 363**

**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

**Effective Date: 6<sup>th</sup> May 2021**

### About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License (“AFSL”) number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR.

This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS’s services and includes such things as

- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

Contact Details, BR and RaaS

BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: [finola.burke@raasgroup.com](mailto:finola.burke@raasgroup.com)

RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

**What Financial Services are we authorised to provide?** RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
  - Securities
- deal on behalf of retail and wholesale clients in relation to
  - Securities

The distribution of this FSG by RaaS is authorized by BR.

### Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

### Our dealing service

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application form if needed.

### How are we paid?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.

We may also receive a fee for our dealing service, from the company issuing the securities.

### Associations and Relationships

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS’s representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

### Complaints

If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR’s internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren’t satisfied with an outcome, you may contact AFCA, see below. BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: [www.afca.org.au](http://www.afca.org.au); Email: [info@afca.org.au](mailto:info@afca.org.au); Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

### Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

## DISCLAIMERS and DISCLOSURES

This report has been commissioned by X2M Connect Ltd and prepared and issued by RaaS Advisory Pty Ltd, trading as Research as a Service. RaaS Advisory has been paid a fee to prepare this report. RaaS Advisory's principals, employees and associates may hold shares in companies that are covered and, if so, this will be clearly stated on the front page of each report. This research is issued in Australia by RaaS Advisory and any access to it should be read in conjunction with the Financial Services Guide on the preceding two pages. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. Opinions contained in this report represent those of the principals of RaaS Advisory at the time of publication. RaaS Advisory provides this financial advice as an honest and reasonable opinion held at a point in time about an investment's risk profile and merit and the information is provided by the RaaS Advisory in good faith. The views of the adviser(s) do not necessarily reflect the views of the AFS Licensee. RaaS Advisory has no obligation to update the opinion unless RaaS Advisory is currently contracted to provide such an updated opinion. RaaS Advisory does not warrant the accuracy of any information it sources from others. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance.

Assessment of risk can be subjective. Portfolios of equity investments need to be well diversified and the risk appropriate for the investor. Equity investments in listed or unlisted companies yet to achieve a profit or with an equity value less than \$50 million should collectively be a small component of a balanced portfolio, with smaller individual investment sizes than otherwise.

The science of climate change is common knowledge and its impacts may damage the global economy. Mitigating climate change may also disrupt the global economy. Investors need to make their own assessments and we disclaim any liability for the impact of either climate change or mitigating strategies on any investment we recommend.

Investors are responsible for their own investment decisions, unless a contract stipulates otherwise. RaaS Advisory does not stand behind the capital value or performance of any investment. Subject to any terms implied by law and which cannot be excluded, RaaS Advisory shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information. If any law prohibits the exclusion of such liability, RaaS Advisory limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. Copyright 2022 RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363). All rights reserved.