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Connexion Telematics Ltd

A step change in price per user

Connexion Telematics (ASX: CXZ) is a software supplier for Courtesy Transportation Programs (CTPs) run by OEMs in the automobile space. General Motors (GM) in the US is CXZ's key customer. CTPs are seen as a key marketing programme, incentivising franchise dealer groups to provide new vehicle models for customers to drive, be it for a service loan, rental or a test drive. Dealers are compensated for every day and mile the car is on loan, but to receive compensation, they must subscribe to the OnTRAC software powered by CXZ for audit/compliance purposes. A new pricing agreement for an upgraded, "All in One" solution, including a new platform, has been implemented from January 1, 2023, and implies a ~70% increase in the price per dealer, or US\$3.0m per annum, the gross margin of which should drop straight to the bottom line.

Business model

CXZ operates a Software as a Service (SaaS) model, delivering its platform to OEM car manufacturers that in-turn incentivise their "dealers" to adopt the software in order to operate and comply with key customer support/marketing programs. CXZ's only client currently is General Motors (GM), which requires its dealers to use the OnTRAC software for compliance with (and therefore compensation from) its Courtesy Transport Program (CTP). CXZ also undertakes paid project work for both GM and the dealer network to add functionality to the existing product.

A step change in price per user

CXZ has announced an upgraded "All in One" version of OnTRAC incorporating new premium features, together with an upgraded platform that better accommodates larger, more sophisticated dealerships. In return CXZ expects an additional US\$250k/month in subscription fees (US\$3m or A\$4.3m on an annualised basis) from the existing client base commencing January 1, 2023, which RaaS estimates to be a ~70% increase on previous pricing. Given this is essentially a price increase we would expect the gross profit (80% of incremental revenue based using the recent H1 FY23 result) of this increased revenue to drop to the bottom line. The step-change in growth for CXZ will be converting dealerships from Ford and Lincoln (CXZ holds Approved Vendor status with both, albeit most dealers are already using competing software), and/or commercial partnership success with new solutions sold via the CXZ marketplace.

Valuation discussion points

We estimate an ARR of US\$6.5m (A\$9.3m) incorporating the recent product upgrade/price increase, which would see CXZ trading at ~1.7x EV/ARR against an estimated EV/ARR small SaaS peer average of 2.8x (EVS, PRO, UBN, SKF, KNO, 8CO and K2F). A peer average would imply a valuation of \$0.027/share. Larger peer Infomedia (ASX:IFM) is trading closer to 3.6x EV/ARR, and would imply a valuation closer to \$0.038/share. More importantly, CXZ will be profitable at the EBIT and NPAT line, which none of their small peers can currently claim. Our numbers suggest an FY24 PER (incorporating a full 12-months of the upgrades) of 7.0x and EV/EBIT of 3.0x.

Historical earnings and RaaS forecasts (in US\$m unless otherwise stated)

Year end	Total Revenue	Gross Profit	EBIT	NPAT	EPS* (A\$c)	PE (x)	EV/EBIT (x)	Net Cash	EBIT margin %
06/21a	4.4	1.7	0.6	0.5	0.0011	16.0	19.4	0.6	14.6
06/22a	3.8	2.7	0.5	0.2	0.0005	32.9	29.1	0.5	12.8
06/23f	5.6	4.3	1.3	0.8	0.0015	12.2	9.0	1.3	23.2
06/24f	7.0	5.2	2.1	1.5	0.0026	7.0	4.2	2.1	29.8

Source: Company data, RaaS analysis *undiluted for ESS

Share Details

ASX code	CXZ
Share price (24-Feb)	\$0.018
Market Capitalisation	\$16.1M
Shares on issue	833M
Net cash at 31 Dec	US\$0.26M
Industry Sector	Software & Services
Free float	~61.9%

RaaS RAP 5-point score* = 5/5

Revenue increasing (1); EPS increasing (1); Return on Capital Employed [ROCE] (1); EBIT interest cover >3x (1) Gross Operating cash flow/EBITDA >90% (1)

Share Price Performance (12-months)



Upside Case

- The addition of new proprietary features (resulting in higher ARPU from existing clients)
- Growing ARPU through commercial partners
- Expanding the userbase outside of GM

Downside Case

- GM develops software internally
- CTP program scaled back as a marketing tool
- Competition increases focus on the CTP niche

Catalysts

- Revenue growth in the next few quarterlies.
- Reduced customer concentration (greenfield or dealer)
- Expanding into other GM departments

Comparative Companies (Australia & NZ)

Infomedia (ASX:IFM), Urbanise (ASX:UBN), Knosys (ASX:KNO), 8Common (ASX:8CO)

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FINANCIAL SERVICES GUIDE

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- **how we transact with you**
- **how we are paid, and**
- **complaint processes**

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