

VONEX LIMITED (Proposed ASX code: VN8)

PRE-IPO CAPITAL RAISE – \$1,000 Conv Notes - Dec. 2017

The Offer: \$0.75m to \$1.2m (max) in Secured Convertible Notes - for 5708 investors only

Note that this Offer is Speculative; please read the [Convertible Note Trust Deed](#) & consult your adviser

We view Vonex as a high growth prospect in the rapidly evolving Australian telecom sector, with a HPBX cost structure that allows the group to compete against major competitors such as Telstra. Vonex has already demonstrated two-year average revenue growth rates of ~25% pa and we forecast that revenue growth will accelerate as new customers increase from 50 to 300 per month in 2018. An IPO of \$6m to \$7m is scheduled for March–April 2018 to complete the fund raising.

OFFER DETAILS			
Issuer	Vonex Limited (ACN 063 074 635)	ASX Exchange Code	Unlisted until April 2018 – then VN8
Transaction Type	To secure working capital and refinancing capital prior to proposed listing on the ASX on or before 30 April 2018 via the issue of convertible notes; each Convertible Note has a face value of \$1,000.		
Offer Term	Term to 30 April 2018 (subject to Noteholder approval at Noteholders meeting on 15 Dec 2017) Convertible notes are secured against Company assets.		
Interest Rate on Notes	25% per annum from date of investment, compounding monthly and payable in cash on the maturity date or an earlier redemption date at the sole discretion of the Company unless converted in accordance with the Convertible Note Trust Deed dated 25 April 2016 as amended from time to time.		
Notes/Ords Conversion	Upon acceptance to official listing on a recognised stock exchange on or before the expiry of the Term.		
Conversion Price	80% of the issue price of shares offered under the proposed listing of the Company on the ASX pursuant to a prospectus, i.e. at proposed IPO issue price of \$0.20 per share (post consolidation), conversion price = \$0.16 per share (=> 6,250 shares per \$1,000 Convertible Note).		
Free Option	Free attaching share option (\$0.20 exercise price post consolidation) for every share issued following the conversion of the Convertible Notes. Expiry date of options: 30 th November 2022.		

Capital Structure Pre & Post IPO; M'cap calculated on \$0.20 per share	Shares (m)	M'cap \$m	%
Existing shares on issue	66	13.2	32%
Convertible Notes on issue (including \$550k of new Notes for repayment)	14.2	2.8	7%
New Convertible Notes (\$250k additional notes)	1.7	0.3	1%
Number of shares (pre-IPO)	81.9	16.4	39%
Conversion of Performance Rights/Shares upon listing	34.7	6.9	17%
IPO shares (assuming \$7m raise @ \$0.20 issue price)	35	7.0	17%
Undiluted number of shares (post-IPO)	151.6	30.3	72%
Performance Rights/ Options	57.7	11.5	28%
Fully diluted shares on issue (post-IPO)	209.3	41.9	100%

Use of Funds (from new Convertible Notes)	\$	%
Repayment of certain existing convertible notes	\$500,000	67%
IPO fees, listing preparatory work, working capital	\$250,000	33%
TOTAL	\$750,000	100%

EXPECTED NEAR TERM NEWS FLOW

- **Listing on ASX by 30 April 2018 (on ASX - not on NSX as previously proposed),**
- Retail business already break-even & growing rapidly: targeting + \$8m in contracted FY18 revenue - forecast profitable from FY18,
- Onerous debt terms and corporate uncertainty to cease upon ASX listing by April 2018 (i.e. within 5 months),
- Expansion into SMEs through forced churn by NBN will push revenue growth over the next 5 years,
- PBX improvements including redesigned management interface, connectivity, and mobile video chat will further boost growth rate,
- Oper8tor - Beta testing in Australia from mid-2018, soft launch in Europe targeting 10 million users from late 2018.

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COMPANY BACKGROUND

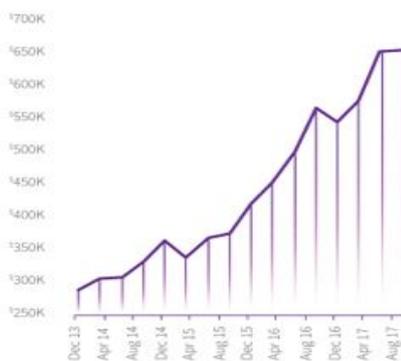
Vonex, founded in 2009, is a Perth-based telecom company specializing in innovative Voice over Internet Protocol (VoIP) solutions and feature-rich Private Branch Exchange (PBX) technology. The three core businesses are:

- 1) **Vonex Telecom** – Vonex’s retail arm which provides full service telecommunications (mobile, internet, business phone systems and Cloud-hosted PBX (HPBX)) to small-medium-sized businesses; these services are sold directly through Vonex or via affiliates (channel partners),
- 2) **Vonex Wholesale** – supplies wholesale customers (ISPs, carriers, larger telcos and cloud service providers) with PBX endpoints, voice minutes and advanced PBX features; these products are sold on a white-label basis,
- 3) **Technology** – develops in-house technology; also houses the group’s patented “Oper8tor” communications App. Oper8tor is a multi-platform voice, messaging and social media app that allows users to connect with all social media friends, followers and contacts, from a single app.

Vonex Telecom – an impressive growth profile still gaining momentum

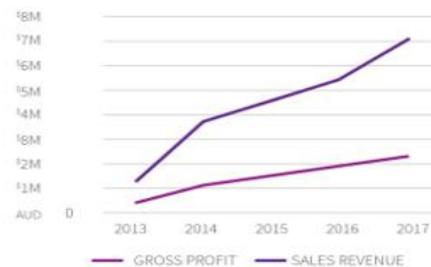
(source: Vonex)

BILLING GROWTH – MONTHLY (AUD)



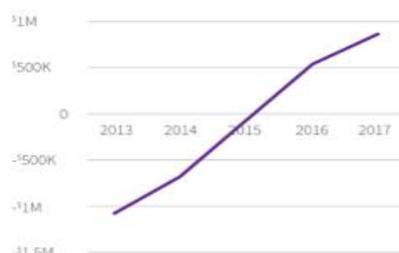
Vonex Telecom (Retail division) has experienced consistent Month on Month organic growth since inception - 21.4% pa from Dec 2013 to Oct 2017

SALES / PROFIT



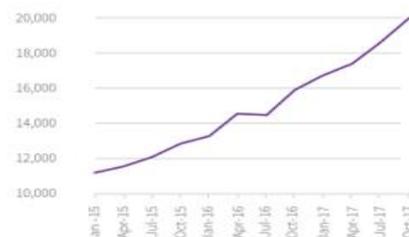
Total Sales Revenue for Vonex Telecom (combined Wholesale and Retail divisions) has risen from \$1.5m to \$7.0 m in four years. Gross Profit has increased from \$ 0.43m to \$2.32m in the same period - CAGR of 52.4% pa

EBITDA



Combined EBITDA for Vonex Telecom’s Wholesale and Retail divisions has been dramatically improving over the last five years - to \$860K for FY17

REGISTRATIONS



Total PBX end point registrations have just exceeded 20K.

Over the last 12 months to October 2017, a growth rate of 29% has been achieved.

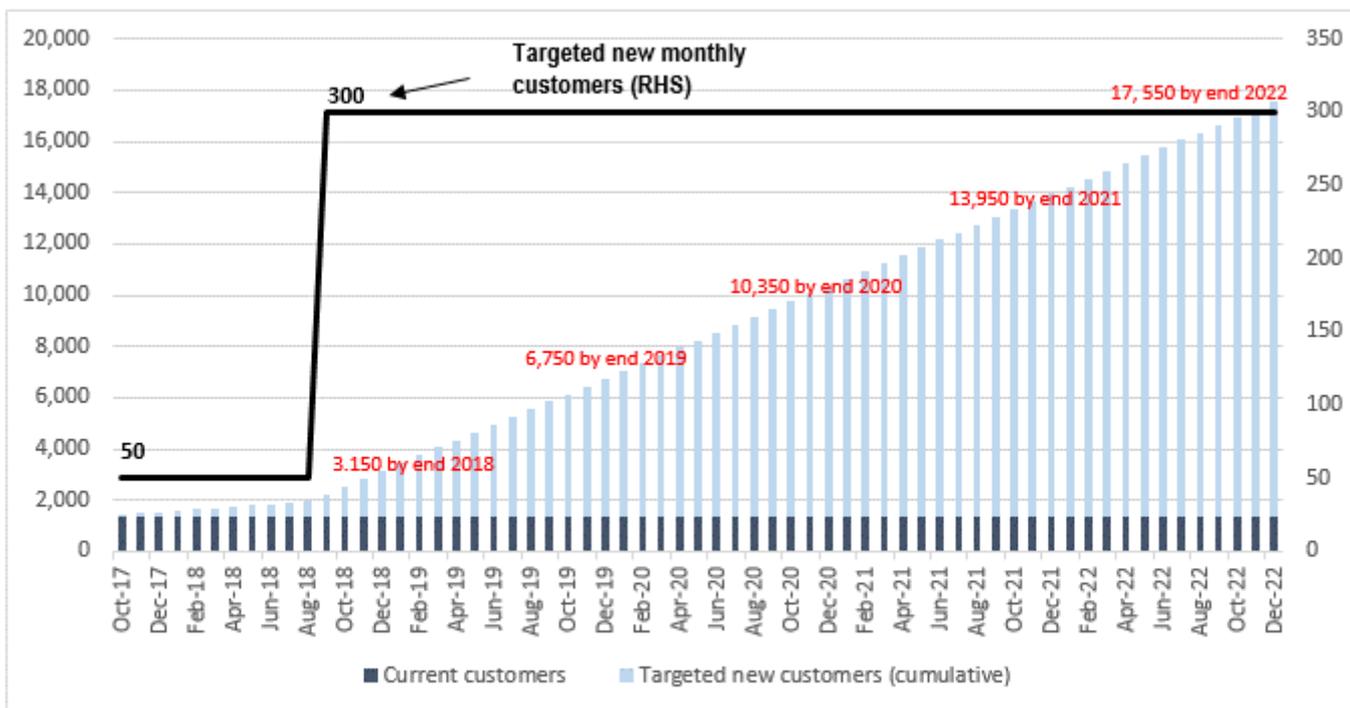
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INVESTMENT CASE - NBN rollout offers unique opportunity for smaller telco players

- **Strong historical revenue growth** - group revenue in the last financial year (end-June 2017) was \$7.02m (85% Retail Australia); revenue has grown at a 23% CAGR over the past three years. This growth has been achieved solely via organic growth and “word of mouth” on the back of stronger brand exposure and recognition. As a result of this growth, the group is expanding the in-bound call centre team based in Cebu in the Philippines.
- **Cash neutral** - in FY17, the wholesale/retail operations posted underlying EBITDA of \$860,000 (excl. corp. segment costs) and a cash loss of \$450,000. We believe that in the first few months of the current financial year Vonex is cash neutral, and heading towards cash +ve territory. As at 1 December 2017, Vonex’s cash position was ~A\$220k.
- **Massive “once-in-a-lifetime” opportunity in the Australian telecommunications sector** - it is estimated that the rollout of the National Broadband Network (NBN) will require millions of customers having to disconnect from Telstra’s copper/landline network, and reconnect to the new (government-owned) fibre-optic network; this will act as a catalyst to spread market share more evenly, and provide opportunities for nimble technology-driven telco players. Australia has 2.1 million Small to Medium businesses (SME), with 1.75 million still to connect to NBN over the next five years, i.e., by the end of 2022. VN8 is targeting to add (at least) an average of 300 new customers each month over this period as the group takes advantage of this “forced churn” event. At an incremental growth rate of 300 new customers per month, from September 2018, we calculate VN8’s domestic customer base growing from the current level of 1,400, to 6,750 by December 2019 and 17,550 by end 2022. See chart below.

Vonex Telecom - indicative forecast number of Retail customers (to December 2022)



Source: Company, State One Stockbroking forecasts

Note: We assume 50 new/additional customers per month (the current growth rate) to August 2018, with this rate increasing to 300 per month from September 2018. We believe that this profile captures the forecast “delay” between lead generation and sales post listing in March/April 2018.

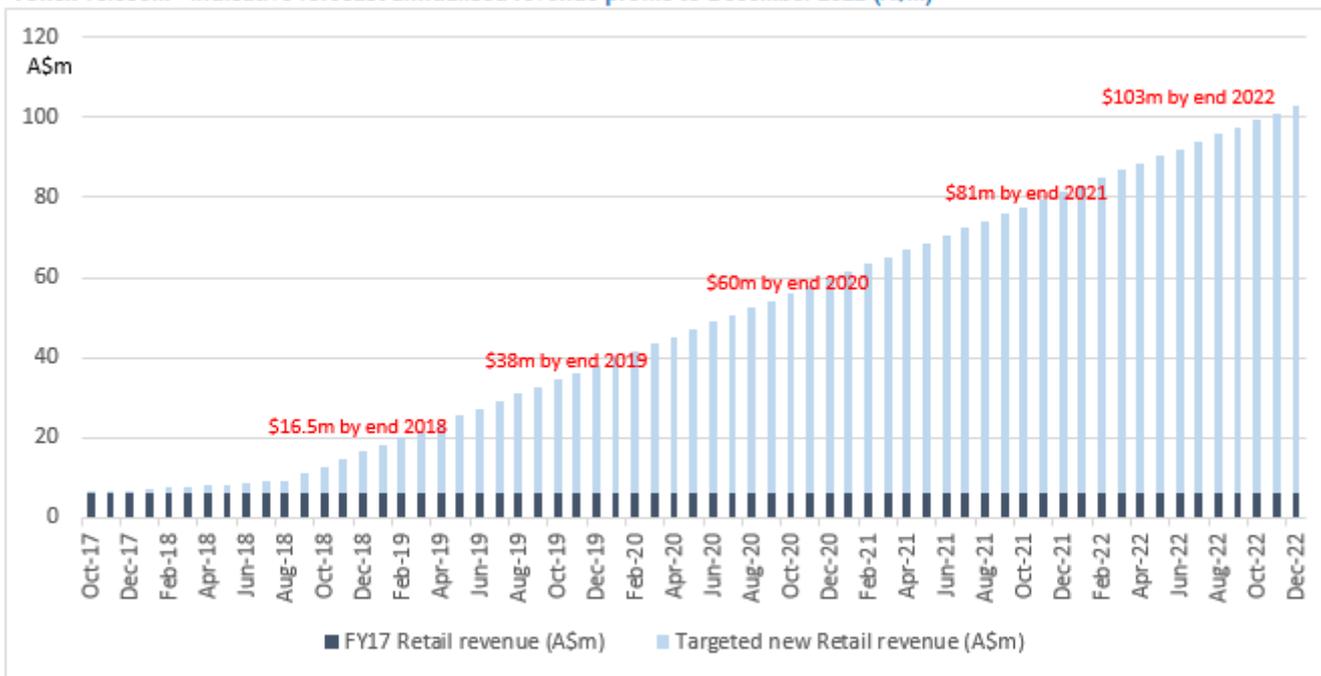
- **Exciting revenue growth. We forecast Vonex Telecom revenue growing from A\$6m in FY17, to an annualised level of \$16.5m by December 2018, \$38m by December 2019 and +\$100m by December 2022.** At an average SME subscription fee of \$6,000pa, we calculate that an additional 3,600 customers (i.e., 300 per month x 12 months) equates to an additional A\$21.6m in revenue. Note: VN8 estimates that – over the next five years 1.75m SMEs will be changing telecommunication providers. VN8’s target of 300 new customers per month equates to (only) ~1% of this potential customer base. VN8’s HPBX product is up to 50% cheaper than major competitors and is well-placed to compete on price as well as technology/service. As a result, we believe that VN8’s customer acquisition target is conservative and has upside potential. Doubling the penetration rate to (a still conservative) ~2%, could see annualised HPBX revenues closer to \$80m within two years.

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Vonex Telecom - indicative forecast annualised revenue profile to December 2022 (A\$m)



Source: Company, State One Stockbroking forecasts

Note: Predicted on 50 new retail customers per month to August 2018, and 300 from Sept 2018, at an average subscription fee of A\$6,000 per annum.

Subscription fee dependent on number of individual users in the SME and individual contract costs.

- **Attractive NPV** – our indicative NPV₁₀ valuation (after tax) for the Australia Retail HPBX business ONLY is \$120m. Including Wholesale and a risk-weighted Oper8tor valuation, we suggest VN8’s valuation is closer to \$150m.

Vonex Telecom - NPV valuation (A\$m)

Financial year	FY18E	FY19E	FY20E	FY21E	FY22E
Revenue (A\$m)	10	18	39	61	82
After-tax cash margin (%)	18%	18%	18%	18%	18%
Cash flow (A\$m)	2	3	7	11	14
Discount rate	10%				
NPV of FY18-22E cash flow	25				
Perpetuity value (A\$m)	95				
NPV (A\$m)	120				

Note: Years are per financial year (end June). Assumes pre-tax margin of 25%.

- **Oper8tor / Technology** – subject to funding, the soft release of VN8’s “Oper8tor” App is scheduled for late 2018. This innovative telecommunications aggregation system – designed to connect users on multiple social media platforms (i.e., Skype, Facebook, Viber, WhatsApp, WeChat) on landlines or mobile phones - is protected by multiple patents. Advertising, In-App Purchases, and Voice Minutes offer significant “blue sky” revenue opportunities.
- **Debt free** – via a combination of convertible note conversion, and repayment of debt from funds raised in the proposed 2018 Public Offer, VN8 should be substantially free of interest-bearing borrowings upon listing on the ASX.
- **Potential for dividends** – predicated on funding and business development, we forecast that VN8 could be in a position to return capital to shareholders via ordinary or special dividends by FY21E (and potentially from FY20E).

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Oper8tor – an innovative application for linking the world

While Vonex’s Hosted Private Branch Exchange (PBX) business is targeted to be the primary revenue and profit driver for the group over the short-term (2-3 years), we believe the group’s patented communications application (App) - **Oper8tor** - offers significant “blue sky” revenue opportunities.

At the moment, all users are required to download the same specific App to communicate (i.e., download Skype to talk to Skype, or Viber to Viber, or Facebook to Facebook, or Google to Google). The **Oper8tor App** will eliminate the need for this, as it aims to seamlessly link all voice calls (and messaging) across multiple platforms and devices around the world.

Introducing a World First...

As each one answers on the platform of their choice, Oper8tor will connect everyone together.

Our Voice aggregation system is a world first and is protected by multiple Patents.

With the ability to also aggregate contacts, messaging, voice and with future plans for video, Oper8tor is the only communications app you will ever need. As new apps enter the market, Oper8tor will include them too.



Oper8tor App is currently in Alpha Development, with Beta Development dependent on funding raised in the Public Offer. Beta Development includes user interface functionality look and feel, data collection, bug reporting testing and tracking, scalability testing on elastic servers, redundancy and online marketing. The costs of development primarily include the hiring of in-house engineers and developers until a minimum viable product is ready for soft-launch in Europe.

Vonex has selected a soft-launch into Europe due to the large population of technology/communication app users, and clean data on app take-up and demand. Reaching management’s target of 10 million monthly active users is more likely in a region with 739 million people, than in Australia (with a population of some 24.6 million). On successful completion and commercialisation of the free-to-download **Oper8tor App**, revenues are intended to be generated in three ways:

- Advertising on the **Oper8tor App**,
- In-App purchases of advanced **Oper8tor App** features (hold, merge, transfer, conference, call blast, etc.) and,
- By selling call credit and making a margin on the calls used by customers.

We estimate that 10 million monthly active users of the Oper8tor App could generate annual revenue for Vonex of A\$8-10m.

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Director Information (Source: Company Financial Report, 30 June 2017)

Nicholas Ong – Non Executive Director

Mr Ong was previously a Principal Adviser at the ASX in Perth and brings over ten years' experience in listing rules compliance and corporate governance to the board. Mr Ong was an active member of the ASX JORC Group and has overseen the admission of in excess of 100 companies to the official list of the ASX. Mr Ong is a member of the Australian Institute of Company Directors, Governance Institute Australia and has a Bachelor of Commerce and MBA from the University of Western Australia. Other directorships of Australian listed companies held by Mr Ong in the last three years are:

Current: CoAssets Limited, Segue Resources Limited and Tianmei BG Corp Ltd.

Previous: Excelsior Gold Limited, Auroch Minerals Limited, Fraser Range Metals Group Limited

Angus Parker – Managing Director and CEO

Mr Parker is a co-founder of Vonex. He is a futurist and innovator, with a track record in advancing technology. With 10+ years' experience in the development of VoIP products and solutions, he works with world leaders in the field to establish products for Vonex Ltd. His vision has led him to all corners of the globe, where, as innovator with voice, he leads the development world with cloud-based solutions to assist in connecting people.

Mr Parker has not held any other directorships of Australian listed companies in the last three years.

Matt Fahey – Commercial Director

Mr Fahey is Vonex Telecom's chief commercial officer and joined the Board as Commercial Director. Mr Fahey joined Vonex Ltd in 2013 through the Vonex Group's acquisition of iTrinity (IP Voice & Data) where he had served as Sales Director. Matt brings with him 20 years of extensive experience in building and managing Telecommunications companies with a well-regarded reputation in the industry for excellence in VoIP and Telco. 2014 saw amazing growth for Vonex Ltd with the partner program increasing from 90 to over 400 partners.

Mr Fahey transitioned from Sales Director at Vonex Ltd to Chief Commercial Officer and is part of the executive leadership team responsible for commercial strategy and development. Mr Fahey oversees the retail and wholesale business units and is focused on driving marketing, sales and the continued development of diverse products in order to accelerate business growth and expand Vonex's market share.

Mr Fahey has not held any other directorships of Australian listed companies in the last three years.

David Vilensky – Non-Executive Director

Mr Vilensky is a practising corporate lawyer and the managing director of Perth law firm Bowen Buchbinder Vilensky. He has more than 30 years' experience in the areas of corporate and business law and in commercial and corporate management. Mr Vilensky practises mainly in the areas of corporate and commercial law, mergers and acquisitions, mining and resources, trade practises and competition law and complex dispute resolution. Mr Vilensky acts for a number of listed and private companies and advises on directors' duties, due diligence, capital raisings, compliance with ASX Listing Rules, corporate governance and corporate transactions generally. Mr Vilensky has a Bachelor of Arts and a Bachelor of Laws from the University of Cae Town and is a member of the law Society of Western Australia. Other directorships of Australian listed companies held by Mr Vilensky in the last three years are:

Current: Latin Resources Limited

Previous: Zambesi Resources Limited

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Winnie Lai Hadad (Non-Executive Director, to be appointed on about 11 December 2017)

Winnie has expertise in change management, corporate governance and business process improvement and has been involved in listings on the Australian Securities Exchange. Winnie has been involved with both investments into China and out-bound investment from China. Her past roles include implementing Coca-Cola bottling strategies into Greater China and administering the first Chinese direct investment in an iron ore mine in the Pilbara Region of Western Australia.

She has also worked for Swire Pacific Ltd, P&O Ports Limited, Paladin Resources Limited, Kerry Group Limited, Rio Tinto Iron Ore and a Perth-based subsidiary of an Asian listed entity focused on iron ore, resources and construction. Winnie is a lawyer admitted to practice in Western Australia, is a qualified CPA, holds a BA, BCom and MSc, and is a graduate of both the Australian Institute of Company Directors and Governance Institute of Australia.

Upon the listing of the shares on ASX, Matt Fahey will assume the role of Chief Executive Officer and Manager Director, while Angus Parker will step down from the board and assume the role of Chief Technical Officer.

TRANSACTION CONTACTS

Lead Manager	State One – Alan Hill	+ 61 413 569 288	ahill@stateone.com.au
Executive Assistant	State One – Linda Hill	+ 61 8 9288 3338	lhill@stateone.com.au
Vonex CEO & MD	Vonex - Angus Parker	+ 61 421 108 084	angus@vonex.com
Vonex CEO Elect	Vonex – Matt Fahey	+ 61 411 244 224	matt@vonex.com.au

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**PARTICIPATE IN THE CONVERTIBLE NOTE OFFER IN VONEX LIMITED BY COMPLETING THE
APPLICATION FORM. See link below.**

<https://investors.vonex.com.au/convertible-note/asx/>

See the Key Terms of the Convertible Notes and the Convertible Note & Trust Deed [here](#).

**For further information, call your State One Adviser at 08 9288 3388 or 1300 651 898 or
Email: vonex@stateone.com.au**