

Thesis

Connexion Telematics (CXZ.AX) is a fleet telematics company that delivers SaaS to car dealerships. After renewing their deal with GM to exclusively manage the GM CTP (Courtesy Transformation Program) for another 5 years, CXZ is still trading at the basically the same price prior to the deal renewal, which I believe greatly undervalues the business and its levers for growth.

Business Overview

CXZ is a Courtesy Transportation Program (CTP) and fleet telematics SaaS services provider operating in North America.

To understand CTP, it's first important to understand where dealership profits come from. Dealers tend to sell vehicles around cost, then make their money on oil changes, repairs, etc. When a dealer is doing work on a customer's car, they offer that customer a temporary vehicle, which is where CTP programs come in. CTP programs track these courtesy vehicles and help keep dealers and OEMs communicating about CTP needs and vehicle turnover. CTP cars are only driven for a limited period of time and number of miles, after which they're sold at a steep discount to market prices.

CXZ is the sole provider of CTP software for GM & GM brands under the name of OnTrac. Any dealer that sells cars under a GM brand must use OnTrac if they want to use GM's offered CTP service to all dealers of their brands. CXZ also offers a white-brand label CTP software under the name CXZTrac. CXZTrac and OnTrac can be used together, which allows multi-brand dealerships to use one software across multiple CTP services. Within a year since CXZTrac's inception, 180 of roughly 1000 Non-GM-exclusive dealers have converted to CXZTrac.

Along with the CTP service, CXZ offers software solutions and API solutions to customers and DMS providers. These additional services and functionalities charge an additional premium, and make up a substantial portion (~25%) of revenues being generated by OnTrac. Many of these software solutions aren't publicly disclosed to avoid giving private competitors an advantage, but customer response to these services have been extremely positive according to management calls. In my discussion with Aaryn, he emphasized a focus on 'agnostic' software solutions like CXZTrac rather than dealer-specific solutions.

One area CXZ is exploring is interfacing data generated through fleet management services with online automobile marketplaces. An increasing portion of automobile sales are done online, and the data CXZ collects through its CTP services and 'used up' CTP vehicles could theoretically bridge the gap between dealers and customers, fulfilling customer demand with existing supply.

CXZ leadership is also currently exploring API partnerships with Dealer Management Systems (DMS) companies, specifically CDK Global (CDK) and Takion. Right now these relationships

with DMS providers are in their infancy and have been just focused on eliminating duplicate information collected by the CXZ software and DMS providers for dealers. While this is a relatively simple and small scale service, feedback has been “majority positive” and it seems reasonable to expect further partnerships in the future.

CXZ also operates a legacy product under the CXZ Telematics name. This is a legacy product offered from before the company restructuring, all telematics devices are pre-purchased, and there are no non-maintenance costs. In my conversation with the CEO, he described the business as solely being “proof of concept” and isn’t material to the long term trajectory of the company.

History & Management

CXZ started as a more traditional telematics company, of which Lucerne became a majority owner of convertible debt for the company in 2015. Under the old management, cash was being burned like crazy, and in 2017 the company deteriorated in performance and nearly went bankrupt. Lucerne got involved, instituted their own board of directors, cut headcount from 67 to 7, and focused on making the company profitable. In 2018 the company signed a deal with GM to be the sole provider of GM’s CTP software services, which helped bring the company to profitability.

2020 and 2021 were volatile years for the company. The company delivered extremely positive results that were partially spurred by one-time tax-writeoff benefits. While these results had already been shared, the market irrationally bought into the FY presentation, driving the share price up over 100% in one day. Lucerne, which was under completely new management and completely unassociated with the old management, took this opportunity to sell out of the remaining shares. Lucerne and associated investors, which composed ~3/4s of shelf (rather than the reported 22% ownership), flooded the market with shares and brought stock price down from the .036 intraday high to .02 a share. Along with this massive disposal of shares, former CEO David Connelly, who guided the company through its turnaround, resigned in 2020 for personal reasons and was replaced by current CEO Aaryn Nania.

A shortage in semiconductors led to a decrease in automobile supply, which in turn decreased the number of cars being serviced by OnTrac. This temporarily depressed FY revenues by about \$1m. The 3-yr GM deal was also set to expire in June 2021, which rightfully raised customer concentration concerns with the company. CXZ recently signed a new, 5-year deal with GM that guarantees CXZ as the sole provider of software CTP services for GM, which mitigates customer concentration risk for the foreseeable future. This deal also places CXZ in a unique position for growth compared to competitors, which I’ll discuss more later in this thesis.

Some background on the CEO, Aaryn, much of which comes straight from our call. Aaryn was one of the two co-founders of Lucerne and was involved in the original purchase of the convertibles. At some point Aaryn decided he wanted to move from fund management to c-suite, which sparked a multi-year transition to CXZ. At the time of the Lucerne sale, Aaryn still

held the title of director but was completely uninvolved with the day-to-day operations of the fund. While this mass selling is concerning at first glance, it's important to understand the circumstances around Aaryn's move to CXZ. His transition from asset management to CXZ was a multi-year process and one he chose to undertake. He chose to leave his secure position at an asset management fund to move to CXZ, which indicates a confidence in the company and the company's future. Aaryn also owns 10m shares and has 8m warrants set to vest in 2022, 2023, and 2024 on criteria involving share price, new partnerships with OEMs, new deal with GM, and improved deal criteria with GM. Since a 5-year deal with GM has been recently inked, 6m of these shares are already set to vest over the next 3 years. While there are some justified questions raised based on insider selling filings and management transitions, Aaryn's move to CXZ demonstrates a clear confidence in the company and his compensation package clearly aligns his economic interests with shareholders. From an anecdotal standpoint, I've found Aaryn to be extremely responsive and helpful through our call and correspondence. He responded to my initial linkedin message within 24 hours of me sending it and set up a call for the following week. He was forthright and didn't dodge any questions during our call.

Levers For Growth & Growth Strategy

In my conversation with Aaryn, there were multiple levers of growth management actively focused on. The first two, upselling services and API solutions, were discussed earlier in the thesis. The third lever of growth is expanding the use of OnTrac and CXZTrac with current dealers and leverage that use into deals with more OEMs. ¼th of OnTrac's ~4000 dealerships sell non-GM brands of automobiles. Dealers that sell non-GM cars are incentivized to use CXZTrac to keep all their CTP services on the combined CXZTrac-OnTrac platform. CXZTrac is also about ½ the cost and more modern than competitors' products, which offers increased incentive to make the switch. As of May 26th, CXZTrac was publicly reported as live with 180 dealers signed on, which represents ~18% of dealers currently using OnTrac who also sell other brands. As more multi-brand dealerships make the switch to a full CXZTrac-OnTrac platform, this gives CXZ greater negotiating power with OEMs and a greater likelihood of another single-CTP deal.

Valuation & Price Target

While the specifics of the 5 year GM deal aren't currently public, given the already-low pricing for OnTrac compared to competitors and the complete saturation of OnTrac with GM dealers, it seems highly likely that the contract and subsequent revenues should remain intact.

In terms of balance sheet position, CXZ is flush with cash. With a market cap of \$14m and EV of \$11.6m, CXZ should have sufficient cash on hand to deliver organic natural growth. Right now the company is investing in human capital, in the form of software developers, to help grow the product line and retain quality. Each vehicle on CXZTrac or OnTrac generates ~\$72 a year in revenue at around 50% gross margin.

This year CXZ generated \$7m in revenue and \$1.7m in EBITDA, yielding an EV/Sales of 2x, EV/EBITDA of 8.2.

All revenue generated is annual recurring revenue. There are two important adjustments that need to be made to revenue and EBITDA that should meaningfully affect revenue this year. Issues with semiconductor supply and a decline in vehicle purchases due to covid temporarily reduced the number of vehicles on the CTP program from over 70,000 cars to 60,000, which in turn had a temporary \$1m negative impact on revenues.

The 180 CXZTrac-converted dealers will also meaningfully impact recurring revenue. While the company hasn't shared data or estimates, estimates by [Independent Investment Research](#) projects ~41 additional cars per dealer, which equates to nearly \$3000 a year in revenue per dealership. At 180 dealers, this represents a \$540k (+18%) increase in annual recurring revenue. At 100% conversion of multi-brand GM dealers, this would generate an additional \$3m (+43%) in revenue.

I constructed a comps table using automobile telematics companies. CXZ adj. reflects normalized revenue, so revenues and EBITDA are adjusted for the temporary decrease in auto sales and for the 180 added CXZTrac customers.

Ticker	Market Cap	EV	EV/Sales	EV/EBITDA
CAMP	\$498,320,000	\$612,160,000	1.98	36.24
PWFL	\$242,900,000	\$290,660,000	2.6	44.56
ORBC	\$893,470,000	\$1,070,000,000	4.37	34.73
MIXT	\$324,590,000	\$290,110,000	2.25	18.1
TRMB	\$19,520,000,000	\$20,750,000,000	6.4	28.8
ASX: CXZ*	\$14,080,000	\$11,390,000	1.63	7.04
CXZ adj.	^	^	1.33	4.45**
Average			3.52	32.486
Implied Returns Current			194%	485%
Implied Returns Adj.			232%	654%

*CXZ numbers are in AUD

**calculated with 30% EBITDA margin,

Comps imply returns of 194-654%, which equates to 4.7-12.1¢ a share compared to the current price of 1.6¢ a share.

Catalysts

- Reversal in revenue drop from covid + semi shortage + realization of CXZTrac revenues
- CXZ management continues to deliver on multi-brand adoption of CXZTrac
- CXZ lands another OEM, proving growth strategy to the market, increasing revenue by >\$4m, and eliminating the previously discussed overblown one-customer concerns
- Acquisition by major DMS provider