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NS Trading Statement

TRADING UPDATE

QUARTIX TECHNOLOGIES PLC

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Quartix Technologies plc
("Quartix", "the Group" or "the Company")
Trading update

As announced on 26 September 2023, Andy Walters, founder and former CEO of Quartix, returned to the Company last week as Chairman. Since then he has led, on behalf of the Board, a preliminary review of the business which is summarised in the following update. It provides further information on: progress in Quartix's telematics subscription base; the acquisition of Konetik Deutschland GmbH ("Konetik") and EVOlve; the impact of 4G network migration in Europe; and the financial outlook for this year and next.

Subscription base growth

The annualised recurring revenue of the fleet subscription base was £28.7m on 1 October, representing an increase, in constant currency terms, of £2.1m year on year, based on exchange rates as at 1 October 2023.

The Company's subscription base has grown by 13.0% year on year, to just under 259,000 vehicles. New units installed in the first 9 months of the year have increased by 4.3% compared with the same period in 2022. Growth in new subscriptions for the first 9 months of 2023 is shown in the table below.

Region	% of total subscription base	New subscriptions (units) first 9 months 2023	New subscriptions (units) first 9 months 2022	% Difference
UK	56%	20,029	20,714	-3.3%
France	25%	16,621	12,523	32.7%
USA	11%	4,913	7,269	-32.4%
Spain, Italy, Germany	8%	6,998	6,060	15.5%
Total	100%	48,561	46,566	4.3%

Growth in France over the past year has been very pleasing, but progress in the UK and USA has been disappointing. Growth in the customer base will be the subject of renewed focus in the coming months and into 2024 with the results from this renewed focus expected in 2024 and beyond.

Acquisition of Konetik and EVOlve

The Company also provides the following further information concerning the acquisition of Konetik, which provides the core technology used within the Company's EVOlve product. The EVOlve product is a tool that assists fleet managers with planning their migration to electric vehicles, which includes an evaluation of their costs, potential savings and environmental benefits.

Incorporated in 2014, Konetik has 4 permanent employees and is based in Berlin, Germany. In its accounting period for the 12 months to 31 December 2022 it recorded revenues of €0.12m (2021: €0.14m). The Company's current estimate of incremental revenue for Quartix from the date of acquisition of 14 September 2023 to year end is £0.04m, with an anticipated loss of £0.5m. Just over half of this amount relates to one-off sign-on payments to key employees and hence is non-recurring.

Fixed consideration for the acquisition is €2.5m, of which €2.25m was payable on completion; the remaining €0.25m is to be paid in 12 months' time. An additional deferred consideration of up to €1.4m is payable over two years, depending on the sale of EVOlve licences.

A total of 1,269 upgrade vehicle licences for EVolve have been sold to existing UK customers since product launch in 2022, of which 105 were sold in Q3 2023.

The Company will conduct a review of the EVolve product line in order to assess its potential to support growth in the Company's core subscription base.

4G network migration in Europe

During the course of the past few months the Company has become aware that two major network providers in France have brought forwards their plans to switch off 2G networks, supporting only 4G for the future. We believe that 2G networks in France will therefore be obsoleted at the end of 2026, and that approximately 50,000 Quartix tracking systems will need to be replaced within the Company's customer base over the course of the next three years.

It is our intention to assist our customers in this transition, as we did for the USA. The cost of doing this could amount to approximately £4.1m over the three-year period but we will continue to review the best way to achieve the transition whilst reducing these potential costs, which we were successful in doing in the USA.

We continue to review the situation for network migration in the UK. Currently all new systems installed are either 4G compatible or make use of a roaming sim card which can use a range of 2G networks, as we believe that some of these will continue to be operational beyond 2028.

In the Company's Interim Report it noted that there had been an increase in manufacturing cost associated with the first production version of its 4G tracking system for Europe. Under the Company's revised accounting policy this resulted in a significant increase in the value of contract cost assets capitalised on the balance sheet. Although the Company can now report that these costs have been substantially reduced in the latest product version, amortisation of this asset in H2 2023 and throughout 2024 will lead to slightly lower gross margins than previously anticipated.

Financial outlook for the remainder of 2023 and 2024.

Although the Company has made good progress in annualised recurring revenues, the Board does not now believe that the rate of growth has been sufficient to achieve current market expectations for revenue in 2023 or 2024, and it has now reduced its own expectations by approximately £0.9m and £2.6m, respectively.

The combination of reduced expectations for revenue, together with the additional operational costs of the Konetik acquisition, a reduction in gross margins as a consequence of the introduction of new 4G variants and some inflationary pressures on marketing costs have led the Board to anticipate that Adjusted EBITDA for 2023 and 2024 may differ from current market expectations by approximately £1.1m and £2.4m, respectively. Free cashflow before the acquisition costs for Konetik are expected to reduce by £1.0m in 2023 and £1.2m in 2024.

The Company will consider the payment of a reduced ordinary dividend at year end, but there will not be a supplementary dividend payable for the year ending December 2023.

Underlying cash generation within the Company's core business remains strong, and the Board will strive to mitigate the effects of the factors mentioned above.

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014 as retained as part of UK law by virtue of the European Union (Withdrawal) Act 2018 as amended.

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