January 2023

**Dear Shareholder,**

**Re: Periodical Update & Executive Summary: 2021 Audit, 2022 Results & 2023 Plan**

1. **2021 Audit:**

Exelot has finalized its audit for 2021. During 2021, the company operated 3.7 million shipments over the Exelot platform. Revenue reached an all-time high of USD 38.2 million. This was mainly due to a major jump in airfreight rates (from an average of USD 4.5 to USD 12–17). However, the gross margin was still too low at 8%, especially since Exelot cannot make any significant cuts in airfreight services.

We invested much during 2021 in improving the technological capabilities of the platform and expanding to the UK. This included a complete last-mile service for Exelot, from which we are already seeing good results. As a result of the low gross margin and these investments, the accumulated loss for 2021 was USD 4 million.

1. **2022 Results:**

**Shipments:** During 2021, we operated more than 7.5 million shipments over the Exelot platform, compared to 2.8 million in 2020 and 3.7 million in 2021.

This month, we are expecting the cumulative number of shipments on the Exelot platform to exceed 15 million (!), with 50% of these shipments made during 2022.

**Financials:**

**Revenue:** During 2022, especially in the second half, we saw a decline in airfreight services due to the subsidence of the effect of the COVID-19 pandemic (the “return to normal”).

[According to Ti logistics 31.12.22: “In 2020 carriers were reporting unprecedented pandemic-driven volume growth of anywhere between 20-40%. From 2021 to 2022 pandemic-driven volumes fell back to more normalised levels”].

A major part of these services consisted of the last mile after landing. 50% of the growth in shipments was for SaaS and clearance plus terminals supervision services, and this contributed around 20% of revenue. Overall, revenue declined to USD 18.5 million.

**Gross profit**: the gross profit per shipment improved significantly to over 14% in 2022, compared to 8–9% during the last few years. This is thanks to several reasons: a reduction in COGS, an increase in charges for delayed items in customs, and operational improvements, as well as movements in currency exchange rates (specifically, a rise of around 10% in the USD/NIS exchange rate). The company plans to maintain this margin and increase it, especially with mid-size customers, during 2023.

**Expenses:** Since July 2022, the company also cut expenses by USD 60 thousand monthly, and we are already seeing positive results: ,Exelot recorded its first months with positive cash flow.

**Cash:** The loss for 2022 is projected at USD 2.3–2.4 million (unaudited), a reduction in loss compared to USD 4 million in 2021. The net cash balance as of December 31, 2022, is positive USD 1.7 million. We have decreased the monthly cash burn to around USD 120 million and are planning to move to zero cash burn from Q3/2023.

**Sales & Revenue Diversification:** During 2022, we have diversified the business in terms of geography and customers. From one main customer (Shein) with 70% of revenue in thefirst half of 2021, Exelot is now based on five main customers that altogether contribute 78–80% of its revenue. We’ve grown from 23 paying customers at the end of 2021 to 29 paying customers at the end of 2022. We intend to continue this diversification in 2023.

The largest customer in 2022 was the Alibaba group, contributing 22% of revenue. It was the only customer that accounted for more than 20% of revenue. We plan to reduce this dependence during 2023 and to acquire an additional 3–4 customers contributing 7%–10% of revenue.

**Operation, Logistics & Customer Service:** The company fulfilled and delivered very well and stably during the recent 2022 peak season. The platform proved its permanent scalability and stability during peak times, along and its great ability to grow fast and support logistics activity. Various new automation initiatives are close to the end of development, and the full automation of some manual procedures will be launched and in use during Q2/2023.

Major improvements were achieved this year in customer services, for both sellers and consumers. We pushed forward with the automated tools to respond quickly and have reduced the proportion of tickets from buyers to which we can’t respond within 24 hours to less than 1.5%.

**Business Development & New Lines:** Exelot has further developed lines between the UK to the USA. This move has contributed USD 2.4 million in 2022 and is projected to contribute USD 9 million in 2023.

We have also completed infrastructure and partnerships for most of Europe and Turkey and achieved the first tens of thousands of shipments from Turkey to the UK. (Russia and its neighboring countries have not been included due to the war in this area). Germany will be our next base in Europe from May/June 2023.

1. **2023 – General Plan:**

**Our plan for 2023 is based on revenue growth from USD 18.2 million to USD 25 million, and zero loss from Q4/2023.**

**General:**

* Shipments: Growth from 7.3 million to 8.8 million, including returns shipments.
* Returns: Increase returns activity to 1 million shipments yearly.
* The major source of growth in shipment revenue is projected to be from the UK to various destinations: the USA, Europe, and Israel.
* Continuing diversification: Exelot plans to expand to other segments as mid-size sellers and, if our budget allows, to Germany, India, and the USA in the second half of 2023.
* We project a balanced cash flow and net profitability from the end of Q3/2023 and positive cash flow from Q4/2024.

**Technology:**

* We are focusing on three major efforts: The automation of additional processes, a new platform version, Exelot Platform V. 3.0, to support various sizes of customers and additional flexibilities, and a new version of our business analytics. In addition, we will continue interfaces to more shippers and logistics partners globally.
* **HR:** Due to the revenue decrease between 2021 and 2022 we have reduced the number of employees on the payroll from 30 to 28 and the number of additional outsourced employees and consultants to 18 from 27. As a consequence of budgetary restrictions, the company cannot afford to hire any additional R&D programmers, which will cause some delays in development in 2023.
1. **Shareholders’ Meeting:**

We are expected to approve the audit for 2021 soon and plan to convene a shareholders’ meeting via Zoom during February 2023. An invitation will be sent separately with a Zoom link.

**Let me wish you and your family a very healthy, happy, and prosperous 2023!!**

**Sincerely,**

**Daniel Cohen, CEO**

**Exelot**