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 have operated 3.7 M shipments over the Exelot platform. Revenue has been at peak of 38.2 M USD. This occurred mainly following to the major jump of airfreight rates (from an average of $4.5 USD to $12-17 USD). However, the gross margin was still too low at 8%, especially since Exelot cannot make any significant cut on airfreight services.

We have invested much during 2021 in improving the technological platform capabilities, and in expanding to the UK, with a complete last mile service for Exelot, which we already see good results. As a result of the low gross margin in 2021 and the investments, the accumulated loss for 2021 was at $4 M USD.

1. **2022:**

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

This month we are indicating over 15 million (!) shipments in general on the Exelot platform since the start, while 50% of these shipments have been made during 2022.

**Financials:**

**Revenue:** During 2022 and especially in the second half the COVID effect was behind us ("back to normal"), we haven't served much the airfreight services as in Covid time.

[See 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"].

The major part of the services was the last mile after landing. 50% of the growth in shipments was more for SaaS and clearance plus terminals supervision services, and therefore contributed around 20% of the revenue. Consequently, revenue reduced to $18.5 M USD.

**Gross profit**: the gross profit per shipment was highly improved in 2022 to over 14% compared to 8-9% during the last years. This is thanks to number of reasons: COGS reduction, a raise of the charges per delayed items in customs, operational improvements, plus the change in currency rates (mainly USD and NIS with around 10% raise). The company plans to keep this margin and to increase it especially with mid-size customers during 2023.

**Expenses:** Since July 2022 the company also cut the expenses at 60 K USD monthly, and we already see first good results: Exelot presented first balanced months already in Nov. – Dec. 2022 with positive cash flow.

**Cash:** The loss for 2022 is projected to $2.3-2.4 M (not audited yet) a reduction from $4M in 2021. The positive cash for 31.12.2022 is $1.7 M USD. We have decreased the monthly cash burn to $120 K monthly and are planning to move to zero cash burn from Q3/2023.

**Sales & Revenue Diversification:** During 2022 we have diversified the business by geographies and customers: From 1 main customer (Shein) with 70% of revenue in the 1st half of 2021, Exelot is based now on 5 main customers who pays altogether 78-80% of the revenue. We've grown from 23 paying / concurrent customers in end 2021 to 29 paying customers in end 2022 and we intend to continue this diversification in 2023.

The largest customer in 2022 was the Alibaba group with 22% of revenue, and there's no other customer with more than 20% beside it. We also plan to reduce this portion during 2023 and to grow additional 3-4 customers with 7%-10%.

**Operation, Logistics & Customer service:** The company fulfilled & delivered very well and stable during the recent peak season of 2022, while the platform proved its permanent scalability & stability during peak time, along and its great ability to grow fast and to support the logistics activity. Various new automations are now in the end of developments, and full automation of some manual actions will be presented and in use during Q2/2023.

Major improvements were included this year for customer services - for both sellers and consumers. We pushed forward the automatic tools to respond quickly and have reduced to 1.5% and less the un responded tickets from buyers within 24 hours.

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

We have completed the infrastructure and partnership for most of Europe and Turkey with first tens thousands of shipments also from Turkey to the UK (The region of Russia and the neighboring countries is not 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 18.2 USD to 25 M USD, and zero loss from Q4/2023.**

**General:**

* Shipments: Growth from 7.3 M to 8.8 M including returns shipments.
* Returns: Increase the returns activity to 1 M shipments yearly.
* The major growth in shipments revenue is projected from the UK activity to various destinations: USA, Europe, and Israel.
* Diversification continuity: Exelot plans to expand to other segments as mid-size sellers and if budget will enable to Germany, India and to USA in the 2nd half of 2023.
* Since end Q3/2023 we project a balanced cash flow and net profitability and positive cash flow from Q4/2024.

**Technology:**

* We are focusing on three major efforts: 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 the ongoing 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 additional outsourced employees and consultants to 18 from 27. Consequently, budget wise, the company can't afford hiring any additional R&D programmers, which will cause some development delays in 2023.
1. **Shareholders’ Meeting:** We are expected to approve the audit for 2021 soon, and plan to convene a shareholders' Zoom meeting during February 2023. An invite 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**