

ZU TEC



Interim Report
1 October 2019 – 31 December 2019

Significant Events

- Revenue for the 3 months to 31 December 2019 was SEK 6.5m, a 53% increase on the corresponding period in 2018 (SEK 4.3m).
- EBITDA for the 3 months to 31 December 2019 was SEK -7.3m, a deterioration of 3% on the corresponding period in 2018 (SEK -7.1m).
- Signed a long-term agreement for the provision of our software on one of the largest infrastructure projects in Ireland.
- Zutec has referred its significant outstanding Qatar debt to an arbitration process for adjudication with the view of claiming the original core debt as well as all historical and future incurred costs in respect of the contract.
- Signed an Enterprise Agreement with one of Ireland's leading homebuilders.
- Election of a new member to the Board of Directors, Mikael Näsström.
- Draw down of €300k loan against €1m credit facility with Athanase Industrial Partners in December 2019 which was previously approved by shareholders at the November 2019 AGM.

Key Figures, SEK

000 SEK	Q2	Q2	H1	H1	FY
	Oct -Dec 19	Oct -Dec 18	Jul-Dec 19	Jul-Dec 18	Jul-Jun 19
Revenue	6,529	4,258	13,729	10,188	22,515
Gross profit	4,511	3,436	10,683	8,509	18,822
Gross profit margin	69%	81%	78%	84%	84%
EBIDTA	(7,255)	(7,060)	(10,988)	(8,779)	(24,017)
EBIDTA margin	(111%)	(166%)	(80%)	(86%)	(106%)
Net (loss)/income	(9,370)	(8,400)	(14,793)	(11,082)	(28,928)
Net (loss)/income margin	(144%)	(197%)	(108%)	(109%)	(128%)
Cash	6,187	28,897	6,187	28,897	15,075
Earnings per share	(1.29)	(1.16)	(2.04)	(1.52)	(4.04)

October – December 2019 (Quarter)

- Revenue for the 3 months to 31 December 2019 was SEK 6.5m, a 53% increase compared with the same period in 2018 (SEK4.3m).
- EBITDA for the 3 months to 31 December 2019 was SEK -7.3m a 3% decrease compared with the same period in 2018 (SEK -7.1m).
- Net loss for the 3 months to 31 December 2019 was SEK -9.4m a 12% increase compared with the same period in 2018 (SEK -8.4m).

July – December 2019 (Half-Year)

- Revenue for the 6 months to 31 December 2019 was SEK 13.7m a 35% increase compared with the same period in 2018 (SEK10.2m).
- EBITDA for the 6 months to 31 December 2019 was SEK -11m a 25% decrease compared with the same period in 2018 (SEK -8.8m).
- Net loss for the 6 months to 31 December 2019 was SEK -14.8m a 33% increase compared with the same period in 2018 (SEK -11.1m).



Message from Our CEO

The second fiscal quarter has continued to be a challenging period for Zutec. Nonetheless, there were and continues to be positive indicators which allows for confidence about the future of our business.

Revenue for the quarter to December 2019 was SEK 6.5m, an increase of 53% on the same period in 2018. Quarter on quarter revenue is down slightly from SEK 7.2m in Q1. This is due mainly to a slowdown in the UK economy towards the end of 2019 due to uncertainty regarding Brexit and the UK general election. UK GDP growth was estimated to be close to zero for the final quarter of 2019 ⁽¹⁾. We are however seeing an uplift in sentiment in the region and the prospects for 2020 are encouraging.

During the period we signed several long-term enterprise contracts in the UK and Ireland. As previously mentioned, we signed a contract on one of the largest infrastructure projects in Ireland which is expected to last 4-5 years. We also signed an enterprise deal with one of the largest housebuilders in Ireland. Our approach in targeting such contracts is to unlock our business potential by securing long term recurring “sticky” revenue. Although this may involve forfeiting short term revenue booms, it results in long term predictable cash flow. This approach will enable us to build a platform for growth.

We recently proceeded to arbitration on the large outstanding debt in Qatar. Having engaged in detailed consultation with our legal advisors in the region, the Board and I believe that this was the best way forward in recouping the debt due to the company.

As mentioned in previous reports, we are continuing to restructure our company internally. I am continuing to focus on cost and streamlining the company to make it as cost efficient and productive as possible.

Culture is central to Zutec in achieving our long-term strategy. I aim to develop a culture which rewards high performance and seek to build on the values of the company. I am pleased to see employees support this, with a marked increase in employee engagement.

Finally, as reported, we are due to have an EGM in the coming week to change the board of directors. Should this change happen, I would like to take this opportunity to thank Gerry Jones, Conor O’Brien, Hans Schedin and Daniel Nyhren for their support since my interim appointment as CEO in September 2019.

Clíona Farrelly

(1) <https://www.bankofengland.co.uk/monetary-policy-report/2020/january-2020/the-economic-outlook>



Management Report

About the Report

This Interim Report covers the 3-month period from October to December and the 6-month period from 1 July to 31 December 2019.

About Zutec

Zutec Holding AB (Parent Company) and its subsidiaries (collectively the Group) develop and market data and project management software in the construction and property sector. The Group's operations are conducted in Ireland with subsidiaries in the UK, Australia and Hong Kong.

The Parent Company is a limited liability company based in Stockholm. The address of the head office is Zutec Inc (Irl) Ltd., Level 3, Adelphi Plaza, George's Street Upper, Dún Laoghaire, Co. Dublin, A94 T927. The Parent Company's operations consist of the management of shares in subsidiaries.

Revenue

Total revenue for the 6-month period to December 2019 was SEK 13.7m, a 35% increase on the corresponding period in 2018. Total revenue for the 3-month period to December 2019 was SEK 6.5m, an increase of 53% on the same quarter in 2018 (SEK 4.3m). Part of our strategic intent is to expand further into the UK and grow the domestic market in Ireland, capitalizing on the growth we are seeing currently.

There has been significant growth in revenue from Ireland in the 6-month period with a 65% increase when compared to the corresponding period in 2018 and 165% increase in the 3-month period to December 2019 when compared to the same quarter in 2018. The increase was driven by a focus on the quantity and quality of deals providing long-term recurring revenue. As mentioned in an earlier report, we recently signed a contract on one of the largest infrastructure projects in Ireland which is expected to last 4-5 years.

The UK has also performed strongly with an increase in revenue of 62% in the 6-month period compared to the same period in 2018 and a 93% increase in the 3-month period to December 2019 when compared with the same quarter in 2018. This was driven by the continued broadening of our customer base in the region. Middle East revenue decreased by 27% year on year reflecting the decreasing revenue from the Qatar contract that took place in the quarter to September 2018. There was a 12% decrease in the 3-month period to December 2019 when compared to the same quarter in 2018.

Revenue from Australia has remained the same for the 6-month period when compared with the corresponding period in 2018. There was a 22% decrease in the 3-month period to December 2019 when compared to the same quarter in 2018.

Revenue by Geographical Region	Q2	Q2	H1	H1	FY
	Oct -Dec 19	Oct -Dec 18	Jul-Dec 19	Jul-Dec 18	Jul-Jun 19
UK	3,933	2,035	8,543	5,282	11,379
Ireland	948	358	1,478	898	1,853
Middle East	349	394	1,167	1,605	3,638
Australia	867	1,112	1,757	1,762	4,446
ROW	81	-	81	38	147
	6,178	3,899	13,026	9,585	21,463
Other Income	351	359	703	603	1,052
Total Revenue	6,529	4,258	13,729	10,188	22,515



Costs

Operating Costs for the 6-month period to 31 December 2019 have increased by 30% when compared to the same period in 2018. Operating Costs for the 3-month period to 31 December 2019 have increased by 22% when compared to the same quarter in 2018. Personnel costs were 26% higher in this 6-month period driven by among other things, one-off payroll costs in quarter to September 2019 and higher levels of commission resulting from increased revenue in the period. Personnel costs for the 3 months to December 2019 were down 4% when compared to the same quarter in 2018.

Other external costs for the 6-month period to 31 December 2019 have increased 36% when compared with the same period in 2018. The main drivers of the increase were increased cost of sales, legal, professional and consultancy fees. Other external costs for the 3 months to December 2019 increased 57% when compared to the same quarter in 2018 with the same drivers as the 6-month period but also includes a negative FX translation.

As previously reported a cost reduction plan is currently being undertaken by the Group and results of this plan are expected to come to fruition in subsequent reporting periods.

Group Structure

Zutec Holding AB (publ) is a publicly owned company registered in Sweden and quoted on the Nasdaq First North Growth Market Stock Exchange. It commenced trading on 15th March 2018. The Swedish entity owns 100% of the share capital of Zutec Inc (Irl) Limited which in turn owns 100% of Zutec Inc (UK) Limited, 100% of Zutec Asia Limited (Hong Kong) and 56% of Zutec Australia (pty).



6. Financials

6.1 Group Income Statement

	Q2 Oct -Dec 19 SEK 000	Q2 Oct -Dec 18 SEK 000	H1 Jul-Dec 19 SEK 000	H1 Jul-Dec 18 SEK 000	FY Jul-Jun 19* SEK 000
Operating income					
Net sales	6,178	3,899	13,026	9,585	21,463
Other income	351	359	703	603	1,052
Gross income	6,529	4,258	13,729	10,188	22,515
Operating expenses					
Other external costs	(7,503)	(4,779)	(11,040)	(8,126)	(24,886)
Personnel costs	(6,281)	(6,539)	(13,677)	(10,841)	(21,646)
Operating (loss)/profit before Depreciation and Amortisation EBIDTA	(7,255)	(7,060)	(10,988)	(8,779)	(24,017)
Depreciation and Amortisation of intangible & tangible assets	(1,644)	(1,342)	(3,220)	(2,306)	(5,057)
Operating income	(8,899)	(8,402)	(14,208)	(11,085)	(29,074)
Interest income & similar credits	(471)	2	(585)	3	(71)
(Loss)/ Income after financial items	(9,370)	(8,400)	(14,793)	(11,082)	(29,145)
Income taxes	-	-	-	-	217
(Loss)/income for the period	(9,370)	(8,400)	(14,793)	(11,082)	(29,928)
Attributable to:					
Equity holders of the parent company	(9,141)	(8,264)	(14,466)	(10,752)	(28,628)
Non-controlling interests	(229)	(136)	(327)	(330)	(300)
Total	(9,370)	(8,400)	(14,793)	(11,082)	(28,928)
Earnings per share (parent company) SEK	(1.29)	(1.16)	(2.04)	(1.52)	(4.04)
Number of shares	7,083,333	7,083,333	7,083,333	7,083,333	7,083,333

*Audited



6.2 Group Cash Flow

	Q2 Oct -Dec 19 SEK 000	Q2 Oct -Dec 18 SEK 000	H1 Jul-Dec 19 SEK 000	H1 Jul-Dec 18* SEK 000	FY Jul-Jun 19* SEK 000
Operating activities					
Operating loss for period	(8,899)	(8,402)	(14,208)	(11,085)	(29,074)
Adjustment for items not included in net cash	2,038	1,350	3,292	1,721	5,057
Currency adjustment	-	-	-	-	(211)
Paid taxes	-	-	-	-	882
Capital gains/losses on tangible fixed assets	-	-	-	-	205
Interest paid	(484)	-	(609)	-	(75)
Interest received	13	2	24	3	4
Cash flow from operating activities					
Movement in current receivables	1,694	(682)	307	(3,598)	189
Movement in current liabilities	(387)	414	189	(824)	(1,909)
Changes in other working capital	330	(670)	2,694	(1,208)	-
Cash flow from operating activities	(5,695)	(7,988)	(8,311)	(14,991)	(24,932)
Investing activities					
Investments in intangible assets	(1,214)	(1,670)	(2,907)	(2,666)	(6,576)
Investments in tangible assets	-	(381)	(16)	(766)	(768)
Cash flow from investing activities	(1,214)	(2,051)	(2,923)	(3,432)	(7,344)
Financing activities					
Repaid finance liabilities	(396)	-	(793)	-	-
Related party loan	3,139	-	3,139	-	-
Cash flow from financing activities	2,743	-	2,346	-	-
Cashflow for the period	(4,166)	(10,039)	(8,888)	(18,423)	(32,276)
Change in cash and cash equivalents					
Cash and cash equivalents, at the beginning of the year	10,353	38,936	15,075	47,320	47,320
Translation differences on cash and cash equivalents	-	-	-	-	31
Cash and cash equivalents, at the end of the year	6,187	28,897	6,187	28,897	15,075

*Audited



6.3 Group Balance Sheet

	31/12/2019	31/12/2018	30/06/2019*
	SEK 000	SEK 000	SEK 000
ASSETS			
<i>Non-current assets</i>			
Intangible assets	11,540	9,480	10,859
Tangible assets	822	1,176	1,008
Other long-term receivables	6,223	-	304
Total non-current assets	18,585	10,656	12,171
<i>Current assets</i>			
Trade receivables	14,730	18,101	15,037
Other receivables	4,702	4,576	3,742
Prepaid costs & other income	1,649	1,384	1,401
Cash & cash equivalents	6,187	28,897	15,075
Total current assets	27,268	52,958	35,255
TOTAL ASSETS	45,853	63,614	47,426
EQUITY AND LIABILITIES			
<i>Liabilities</i>			
Trade payables	1,982	2,009	1,793
Other liabilities	23,348	9,353	10,389
Total current liabilities	25,330	11,362	12,182
<i>Equity</i>			
Equity	21,782	52,565	36,182
Non-controlling interest	(1,259)	(313)	(938)
Total equity	20,523	52,252	35,244
TOTAL EQUITY & LIABILITIES	45,853	63,614	47,426

*Audited

6.4 Group Statement of Equity

Statement of Changes in Equity						
	Share capital	Other contributed capital	Translation reserve	Retained earnings	Minority interests	Total equity
Balance as at 30 June 2019	1,417	42,869	177	(8,281)	(938)	35,244
Movement in the period	-	-	(395)	(14,005)	(321)	(14,721)
Balance as at 31 December 2019	1,417	42,869	(218)	(22,286)	(1,259)	20,523

*Audited



6.5 Parent Income Statement

	H1 Jul-Dec 19 SEK 000	H1 Jul-Dec 18 SEK 000	FY Jul-Jun 19* SEK 000
Operating expenses			
Other external costs	-	(96)	(1,466)
Personnel costs	(283)	(837)	-
Operating (loss)/profit before Depreciation and Amortisation EBIDTA	(283)	(933)	(1,466)
Interest income & similar credits	(211)	-	-
(Loss)/ Income for the period	(494)	(933)	(1,466)

*Audited

6.6 Parent Cash Flow

	H1 Jul-Dec 19 SEK 000	H1 Jul-Dec 18* SEK 000	FY Jul-Jun 19* SEK 000
Operating Activities			
Operating loss for period	(494)	(933)	(1,466)
Cash flow from operating activities	(494)	(933)	(1,466)
Movement in current receivables	(13,880)	(14,997)	(29,728)
Movement in current liabilities	3,348	-	728
Changes in other working capital	-	-	-
Cash flow from investing activities	(10,532)	(14,997)	(29,000)
Cashflow for the period	(11,026)	(15,930)	(30,466)
Change in cash and cash equivalents			
Cash and cash equivalents, at the beginning of the year	11,826	42,292	42,292
Cash and cash equivalents, at the end of the year	800	26,362	11,826

*Audited



6.7 Parent Balance Sheet

	31/12/2019	31/12/2018	30/06/2019*
	SEK 000	SEK 000	SEK 000
ASSETS			
<i>Non-current assets</i>			
Investments in subsidiaries	120,000	120,000	120,000
Total non-current assets	120,000	120,000	120,000
<i>Current assets</i>			
Receivables on group companies	45,055	17,331	31,127
Other receivables	3	3	51
Cash & cash equivalents	800	26,362	11,826
Total current assets	45,858	43,696	43,004
TOTAL ASSETS	165,858	163,696	163,004
EQUITY AND LIABILITIES			
<i>Liabilities</i>			
Other liabilities	4,076	887	728
Total current liabilities	4,076	887	728
<i>Equity</i>			
Share capital	1,417	1,417	1,417
Share premium reserve	162,369	162,369	162,369
Retained earnings	(2,004)	(977)	(1,510)
Total equity	161,782	162,809	162,276
TOTAL EQUITY & LIABILITIES	165,858	163,696	163,004

*Audited

Note 1 General Accounting Principles

This summarized interim report for the group was prepared in accordance with IAS 34 Interim reports and the applicable rules in the annual reporting law. The interim report for the parent company was prepared in accordance with chapter 9 of the Annual Report Law, Interim reports.

For both the group and the parent company, the same accounting policies and calculation methods were adopted as applied in the 30 June 2019 annual report except for the new standards that were applied on 1 July 2019.

The most significant new standard that has impacted on the Group's financial statements is IFRS 16 Leasing Agreements. From 1 July 2019, Zutech has applied IFRS 16 and then applied the simplified transition method, which means that comparative information in previous periods will not be recalculated.

The lease liability consists of the discounted remaining lease fees as of 31 December 2019. The right to use asset equates to an amount corresponding to the lease liability. The transition to IFRS 16 will have no effect on equity.

The most significant leasing agreements consist of agreements regarding leases for office space. As a result of the introduction of IFRS 16, the Group's total assets have increased through the inclusion of rights of use and leasing liabilities. Leasing fees that have been recognised as other external costs in the income statement under IAS 17 have been replaced by the depreciation of the rights of use assets, which are recognised as an expense in operating profit and interest on the lease liability which is recognised as a financial expense.



The lease fee is divided between amortization of the lease liability and the payment of interest. For the transition to IFRS 16, all remaining leasing fees have been calculated at present value using Zutec's marginal loan interest rate. The average loan interest rate as of 31 December 2019 was 7%.

Significant Risks and Uncertainties

Operating in both Ireland and the UK brings about obvious uncertainties when operating in the current Brexit transition period.

Planning to mitigate these risks began in earnest with the formation of a separate UK entity which commenced trading in the period ended 30 June 2017. Trading in the UK company since 2017 has increased significantly and all recent and future UK based contracts are with Zutec Inc (UK) Limited.

Despite efforts to mitigate risks, the commercial uncertainties related to the UK and Irish construction markets throughout the Brexit transition period remain. Zutec constantly monitors the construction industry to identify trends that may assist transforming industry uncertainty into opportunity.

There is further uncertainty in the international money markets. It has not been the policy of the company to engage in currency hedging, but this policy is reviewed on an ongoing basis.

Retention of key staff always presents exposure to any company and Zutec is no different. It is company policy to pay the going commercial rates and to nurture staff with regular training programmes in technology and management.

This report contains forward-looking statements which reflects management's current expectations, estimates and projections about its operations. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements.

The next Interim Report will be for the period January - March 2020 and will be released 5 May 2020.

The interim results to 31 December 2019 have not been reviewed by an external auditor.

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The company is listed on Nasdaq First North Growth Market and Mangold Fondkommission AB is the Company's acting Certified Adviser (Tel. + 46 8 5030 1550, CA@mangold.se, www.mangold.se.)

