

# ZU TEC

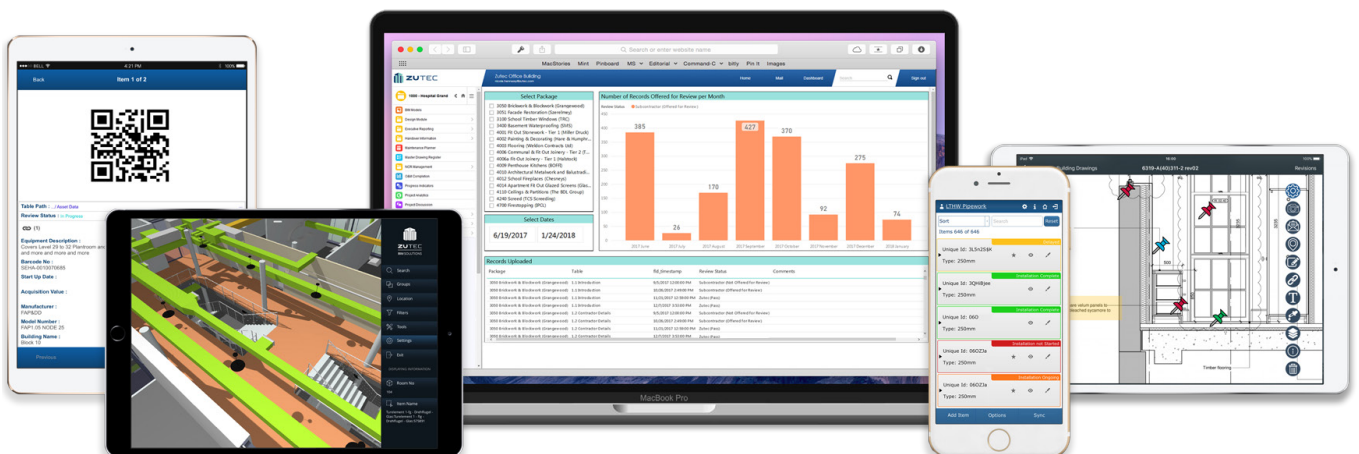
## Interim Report



Quarter ended 30th September 2018

# Quarter in Brief

- The transformation into the new scalable SaaS-based business model is progressing according to plan with several new SaaS customers already won in the quarter.
- Increase in contracted SaaS Sales of 24% to June 2021.
- Inbound approach beginning to show return.
- Reduced revenue due to end of large contract phase in Qatar.
- The group's cash flow was negatively impacted by an increase in account receivables from the larger middle Eastern project, which is expected to rewind in due course in line with the market practice in the region.
- Confident in Qatar contract next phase extension.
- Excellent pipeline of large projects globally.
- Appointment of Chief Revenue Officer.
- New activity in Asia Pacific initiated.
- Zutec has signed a contract with Yuanda Europe, a facade construction company which uses world-class manufacturing techniques and quality control products across Europe.
- Zutec stands ready to accelerate the digital transformation of the construction industry with a combined focus on large projects and a highly scalable pipeline of small and medium sized customers.



# Message from the CEO



## Brendan O'Riordan - CEO

Our first financial quarter of the 2018-2019 financial year has seen huge positives in some quarters and some negatives in others. On the negative side, the group suffered a drop in revenue due to the expiration of one phase of a contract in Qatar. We are currently engaged with the client and we are confident of securing an extension to the project. In addition, there is a long standing debt overdue on the same contract which will be paid as part of the negotiations for the contract extension.

This revenue drop cements our decision last year to concentrate on adding a pure SaaS offering to our products and implementing an inbound sales strategy. Overall, our contracted SaaS sales are up by 24% to June 2021, and we are starting to reap the benefits of a new inbound sales strategy. Since July, we have signed several new customers with a yearly value of between €9k and €17k. We are also having very positive conversations with construction companies and developers in many regions.

## Transforming our business

In the past, we've relied on sales representatives to create their own prospects. However, with our new inbound sales approach, we intend to use our website and other digital marketing strategies to generate leads. We recently hired a Chief Revenue Officer and have a clear roadmap to help us achieve our target. Since July, we acquired several new customers with an annual contracted value of between €9k and €17k. We are recruiting for another inside sales rep and a digital marketing manager to help consolidate this progress.

## Product focus

In this quarter, we've done a significant amount of work on the product range. This involved extensive market research, as well as getting feedback and input from clients to help shape a new range of marketable products. We know that standard product solutions are the key to our ability to scale the company. We now have a strong understanding of what they'll look like, and have created some standard configured applications of the current platform for testing. Looking forward, we have a clear roadmap for preparing our suite of products for the mass market. To rival products like ProCore and Plangrid.

## New Opportunities

The project at The Port in Doha has been our biggest one to-date, in both resource and revenue terms. As

stated, that contract phase expired recently, which has led to a drop in revenue for Zutec. Delays to the commencement of the next phase of the port contract are due to some third-party contractual issues, but we're confident that a contract extension will be signed soon. This situation validates our decision to compliment our major projects with a focus on a volume sales approach supported by our new inbound sales strategy. As a result of this change, we have over 100 other clients to buffer against future loss in revenue from a single client. In other positive developments, we are currently in talks with a number of large projects in the UK, Central Europe, the Nordics, The Middle East and Asia. It's vitally important that we maintain this pipeline, as we continue to be the world leader in our field.

Construction is going through a period of massive change. Thanks to our forward-thinking strategy and premium product, we're in a strong position to thrive and prosper in to the future.

## Group Structure

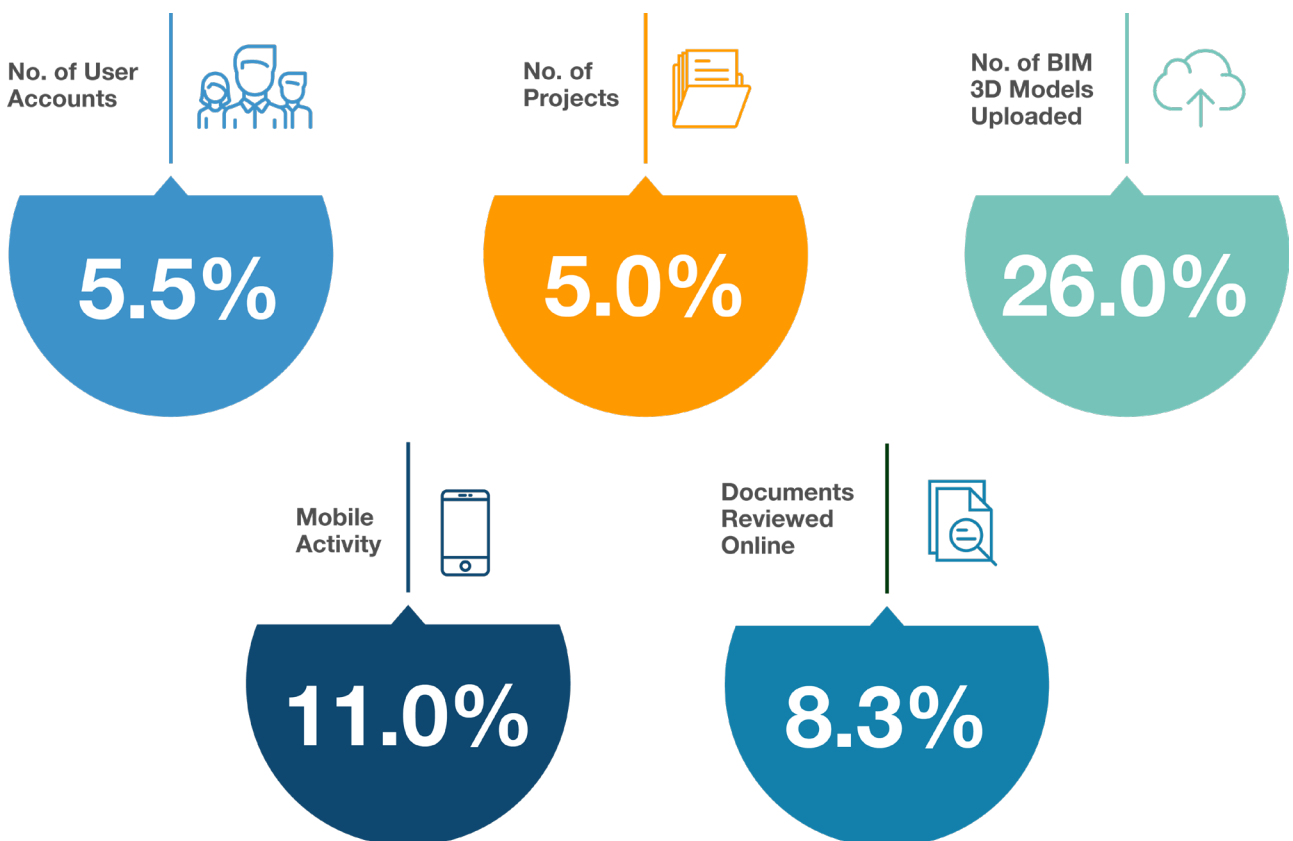
Zutec Holding AB (publ) is a publicly owned company registered in Sweden and quoted on the Nasdaq First North Stock exchange. It commenced trading on 15th March 2018. The Swedish entity owns 100% of the share capital of Zutec Inc (Ireland) Limited which in turn owns 100% of Zutec Inc (UK) Limited, 100%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

## About Zutech

Zutech develops and markets cloud-based SaaS solutions for the construction and facilities management services sector. The company's products help customers to increase productivity and cost efficiency. Zutech offers solutions for project management, data and document collaboration, 3D-BIM, defect management, project handover and the operations and maintenance of buildings. The company's main product is the Zutech Platform, which is a cloud-based data base. The company markets several modules which can be connected to the platform to increase its functionality according to the needs of the customer.

Among the company's clients are some of the world's largest construction firms, which have used Zutech's solutions on projects and sites such as Wembley Stadium, The Shard and Doha Airport. Other projects include ports, hospitals, universities and large commercial builds in Ireland, the UK, the Middle East, Australia, Asia and continental Europe.

## System Usage



## Inbound Sales Strategy

Zutec has invested in an inbound sales and marketing strategy that focuses on customer-centric selling and account-based marketing techniques. Inbound marketing is the primary marketing approach for the majority of businesses worldwide. As a global methodology, inbound will allow us to target customers in new markets with campaigns and lead generation tactics designed to attract active buyers.

Zutec has a legacy of providing technology solutions and professional services to the most complex projects in the world. As global leaders in providing technology solutions to the construction industry, Zutec continues to provide enterprise-level technology solutions to its customers, while developing a more standardised delivery of a SaaS (software as a service) model to a higher volume of customers that will benefit from the economies of scale offered by a cloud platform. New SaaS customers will benefit from the most valuable standardised configurations on the platform at a lower cost per user, coupled with standard operating procedures and world-class, expert customer service. This approach allows Zutec to scale their sales system to serve a much wider, global market.

Over the past few months, Zutec has been developing sales processes and implementing technology solutions (including HubSpot, a unified sales and marketing platform) to facilitate growth. Zutec has engaged Sales Hub Pro, a performance-based consultancy with expertise in sales methodologies and operations for the HubSpot platform. Working with each area of the business, including Sales, Marketing, Customer Success

and the Product Team, we have now put in place the foundation of a SaaS-based sales system, including baseline metrics, core messaging, sales processes, essential sales emails & call scripts, HubSpot CRM customisations and predictive reporting. We have also begun a recruitment process to recruit, hire and onboard talented sales representatives and marketing professionals to grow our SaaS technology business.

The impact and ROI (return on investment) of an Inbound approach to sales and marketing are now measurable, according to benchmarks and the data we have made available internally through HubSpot. The benefits of taking an 'Inside Sales' approach include: Reduced sales force required for greater reach, reduced cost-per-contact and an increased number of contacts per day. We also have greater access to global markets and faster response times for customers.

Zutec has demonstrated through inbound and outbound marketing, via remote or Inside Sales processes, that it is possible to increase our pipeline and target customers at scale. Early efforts with a minimal commitment of resources in the local market have added over 200,000 euro to the SaaS product pipeline, which represents an increase of over 40% in sales of 'standardised configurations' of our software, apps and services on the 'Zutec Cloud'.

Visibility of sales processes and metrics is of value to Zutec both as a way to manage our sales and marketing teams and to give us a robust system to make decision-making and any further investments more effective as we grow. We have begun implementation of a step by step process to build our sales system, including an audit of our existing systems, establishing baseline metrics and using our existing sales team to develop some basic messaging and sequencing in order to prospect, nurture and close inbound leads. We conducted this process in 3 Phases, all of which are now complete and have given positive indications of a scalable and defined sales process that will centre on streamlined sales processes, standardised delivery and more subscription based licenses sold as standard configurations of the Zutec platform.

Zutec has applied an Inside Sales framework to internal systems that is designed to accelerate sales and revenue as fast, efficiently and predictably as possible. Thanks to our successful implementation of HubSpot over the past few months, we have good indicators currently on such metrics as win rate, active leads, sales rep follow up activities, closed won rates and so on. These are the areas we will focus on to set targets on outcomes.

Outcomes will be revenue related objectives - related to one of the five levers we can now control in our sales system:

1. Active Leads
2. Win Rate
3. Repeat Business
4. Profitability
5. Average Sales Price

Over the next 6 months, we aim to grow sales of our SaaS products in



Over the next 6 months, we aim to grow sales of our SaaS products in phases, with the following being our primary objectives:

**Discovery:** in-depth review and discovery to understand baseline measurements in our sales pipeline and processes, as well as core positioning and messaging. We will conduct several workshops to uncover the value offered to our customers and identify further what can be offered at scale in the immediate, medium and long-term to our new SaaS customers. As part of this process, we have identified business drivers and measurable revenue targets for the months ahead.

**The Sales Equation:** our team have convened to form a strategic messaging blueprint that will become a key component to our communications strategy. This work outlines an 'education based' sales approach that will differentiate us from our competitors and highlight our superior expertise and experience in providing technology solutions to the construction industry. Our aim is to position Zutec as an authority and to enhance brand loyalty due not only to our technology products but also our processes for delivery of value to the world's leading construction companies.

Business Flight Plan: Zutec's 'sales roadmap' includes lead generation and conversion targets for each area of the business, targets required for us to reach our defined business goals. As part of this project, Zutec is creating a 'go to market' strategy for SaaS products that focus on lead generation, win rate percentage and average sales price needed to meet and exceed revenue targets. A detailed sales process aligns the sales and marketing teams with a unified vision and essential KPIs (key performance indicators) will be established to build accountability and transparency.

Outbound sales: we have established an outbound sales process and will onboard and train 2 new business development representatives over the coming weeks as part of our recruitment drive. In addition, we will be hiring a full-time Digital Marketing Manager to provide strategy and implementation of marketing campaigns on the HubSpot platform, including our website, which has now been moved to HubSpot completely so that we can avail of advanced tools for lead generation, SEO and social media promotion and tracking of results.

Zutec is confident that our sales and marketing strategy for SaaS will see higher ROI as a result of our inbound marketing practices, coupled with a sales system that is optimised for the efficient processing of leads to paying customers. Using company data and data from the internet organised in a central hub so that every potential customer is tracked and processed by our team, Zutec will be in a better position to grow and scale operations globally.

According to 'The State of Inbound 2018', published by Hubspot, Sales is usually focused on closing more, but prospecting is getting more difficult. Salespeople say they source the most leads themselves, showing a potential rift between marketing and sales, who should generate the most leads for sales teams to work. Zutec has invested in unified systems and processes, which provide a complete platform for CRM, Marketing, Sales and Customer Success in one place, and streamlines data entry and CRM admin for salespeople so they're selling more and using our valuable data in sales.

Our salespeople are also being trained in using an educational and consultative methodology with our customers. We have partnered with Sales Hub Pro to ensure the rapid and streamlined delivery of these systems in a strategic way. Over the coming year, we will continue to test, iterate and improve our sales system based on measurable key performance indicators at every stage of our sales funnel. By investing in our sales system we are aligning our sales and marketing teams and enabling our salespeople to find active, warm leads interested in our products.





## Significant events

The ownership of the company experienced a significant change with the sale of 15% of the shares capital previously owned by the groups largest shareholder Brian McGuire to Athanase Industrial Partners who already held a smaller block of shares. The ownership structure as at 30.09.18 and the comparable figure for 30.06.18 was as follows

	The 10 Largest Owners	30.09.18 Number of shares	30.09.18 % shares	30.06.18 Number of shares	30.06.18 % shares
1	Brian McGuire	1,343,129	18.96%	2,405,629	33.96%
2	Athanase Industrial Partners	1,215,222	17.16%	-	-
3	Humle Småbolagsfond	670,833	9.47%	670,833	9.47%
4	Thomas Boland	621,733	8.78%	621,733	8.78%
5	Mike White	478,256	6.75%	478,256	6.75%
6	Avanza Pension	378,802	5.35%	378,802	5.35%
7	Conor O'Brien	334,779	4.73%	334,779	4.73%
8	Noel Mathews	320,432	4.52%	320,432	4.52%
9	Brendan O'Riordan	286,954	4.05%	286,954	4.05%
10	Sinead Branagh	239,128	3.38%	239,128	3.38%
	Other	1,194,066	16.86%	1,346,788	19.01%
<b>Total</b>		<b>7,083,334</b>	<b>100%</b>	<b>7,083,334</b>	<b>100%</b>

Zutec Inc Ireland Limited has negotiated a lease on a 550 square meter office in the centre of Dun Laoghaire, located 10km south of the city. The agreed rate is approximately half the commercial rate currently being demanded in Dublin city centre and docklands. In addition, the unit comes fully pre-fitted to a high specification including fixtures and equipment at a nominal cost.

Zutec has signed a contract with Yuanda Europe. Yuanda Europe is a Facade construction company which uses world-class manufacturing techniques and quality control products delivering several projects in the UK, France, Germany and Switzerland.

## Financial Review

The historic tabulation clearly indicates a pattern of growth and contraction over a six year period. This is due to the commencement and cessation of the large prestigious contracts in the middle east.

The pattern of a €1M-€3M turnover company while very profitable with turnover in excess of €2M was not deemed sustainable over the longer term. Also with the high quality product developed, it was timely to go to the markets for capital to scale the company to much higher levels and to refine the product range even further. This journey is well under way but will take time for tangible results to be evident.

Profit and Loss Extracts (2014-2019)	QE 30.09.18	YE 2018	YE 2017	YE 2016	YE 2015	YE 2014
Historical Summary		(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Year Ended 30th June	Group	Group	IRL	IRL	IRL	IRL
	€	€	€	€	€	€
Turnover	565,990	3,298,162	2,444,301	1,561,316	1,380,583	2,245,517
Gross Profit	464,574	2,972,165	2,057,784	1,086,803	781,404	1,240,153
EBIT	(165,753)	634,609	644,599	(260,759)	(186,979)	257,714
R&D Write off in the financials	Capitalised	Capitalised	397,481	327,051	375,255	200,465

The quarter 1 figures indicate a repeat of the previous pattern with a drop in turnover due to the completion of a contract phase in Qatar. As stated, we are confident that we can re-engage in the next phase of this project as the Zutec platform is already embedded on the site. We are also confident of the commencement of an additional new middle east contract in quarter 3.

The development of the Inbound sales strategy with the use of the Hubspot platform selling a range of Zutec products online will counter reliance on the large scale contracts in the future.

This issue has also impacted on our cash flow with substantial funds due from Qatar at the end of the period. This is not uncommon in the region and we are confident that the resolution of the next phase of the contract will correct this matter.

The group has increased expenditure in sales marketing and technology, internally in terms of resource needs and externally in establishing the planned new market regions. This expenditure is designed to generate future upscaled income. Early signs particularly in the inbound sales strategy are very positive.

By Region	QE 30/09/2018		QE 30/09/2017	
	EURO	SEK	EURO	SEK
Ireland	408,314	4,248,691	612,165	5,850,325
UK	91,913	956,398	46,058	440,162
Australia	65,763	684,271	107,344	1,025,861
	<b>565,990</b>	<b>5,889,360</b>	<b>765,566</b>	<b>7,316,348</b>

Figures, other than revenue (as shown above), for the corresponding quarter in 2017 are not comparable due to the change in accounting policies. We have included the sales figures by company for the quarter ended 30th September 2017. It is planned to generate comparative figures for the half year to 31 December 2017 for the next report based on the pro-forma half year figures included in the prospectus.

There is a reported drop in Australian sales due to the restructuring of some key accounts. This was done with a view to securing long term agreements with our customers.

<b>Income Statement (Group)</b>	<b>QE Sept 30 2017/2018</b>	<b>*YE Jun 30 2017/2018</b>
<b>Operating Income</b>		SEK000
Net Sales	5,645	32,846
Other Income	244	2,475
<b>Gross Income</b>	<b>5,889</b>	<b>35,321</b>
<b>Operating expenses</b>		
Other external costs	(2,961)	(14,877)
Personnel costs	(4,653)	(14,155)
<b>Operating Loss/Profit before Depreciation and amortisation (EBITDA)</b>	<b>(1,725)</b>	<b>6,289</b>
Depreciation and amortization of intangible and tangible assets	(963)	(3,950)
<b>Operating income</b>	<b>(2,688)</b>	<b>2,339</b>
Interest income and similar credits	1	3
<b>Income after financial items</b>	<b>(2,687)</b>	<b>2,342</b>
Income taxes	-	(187)
<b>INCOME FOR THE PERIOD</b>	<b>(2,687)</b>	<b>2,155</b>
<b>Attributable to:</b>		
Equity holders of the parent company	(2,494)	1,970
Non controlling interests	(193)	185
<b>TOTAL</b>	<b>(2,687)</b>	<b>2,155</b>
<b>Earnings per share, SEK</b>	<b>(0.35)</b>	<b>0.28</b>

<b>Cash Flow Statement (Group)</b>	<b>QE 30/09/2018 SEK000</b>	<b>*YE 30/06/2018 SEK000</b>
<b>Operating activities</b>		
Operating loss for period	(2,688)	2,339
Adjustment for items not included in net cash	(351)	3,924
<b>Cash flow from operating activities</b>		
Movement in current receivables	(2,916)	(7,921)
Movement in current liabilities	(1,238)	(29)
Changes in other working capital	(536)	(180)
<b>Cash flow from operating activities</b>	<b>(7,729)</b>	<b>(1,867)</b>
<b>Cash flow from investing activities</b>	<b>(655)</b>	<b>5,060</b>
<b>Cash flow from financing activities</b>	<b>-</b>	<b>43,703</b>
<b>Cashflow for the quarter</b>	<b>(8,384)</b>	<b>46,896</b>
<b>Change in cash and cash equivalents</b>		
Cash and cash equivalents, at the beginning of the year	47,320	-
Translation differences on cash and cash equivalents	-	424
<b>Movement in the quarter</b>	<b>(8,384)</b>	<b>46,896</b>
<b>Cash and cash equivalents, at the end of the period</b>	<b>38,936</b>	<b>47,320</b>

\*Audited

<b>Balance Sheet (Group)</b>	<b>30/09/2018 SEK000</b>	<b>*30/06/2018 SEK000</b>
<b>Assets</b>		
<b>Non Current Assets</b>		
Intangible Assets	8,905	8,859
Tangible Assets	1,108	799
Other Long Term Receivables	-	106
<b>Total Non-Current Assets</b>	<b>10,013</b>	<b>9,764</b>
<b>Current Assets</b>		
Trade Recievables	17,419	14,502
Other Recievables	4,095	4,401
Prepaid costs & other income	731	2,139
Cash & cash equivalentents	38,936	47,320
<b>Total Current Asset</b>	<b>61,181</b>	<b>68,362</b>
<b>TOTAL ASSETS</b>	<b>71,194</b>	<b>78,126</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade payables	1,595	2,832
Other short term liabilities	8,888	11,137
<b>Total current liabilities</b>	<b>10,483</b>	<b>13,969</b>
<b>Equity</b>		
Equity	61,163	64,809
Non-Controlling Interest	(452)	(652)
<b>Total Equity</b>	<b>60,711</b>	<b>64,157</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>71,194</b>	<b>78,126</b>

\*Audited

## Significant risks and uncertainties

Operating in both Ireland and the UK simultaneously up to now has been a seamless operation, however, with Brexit looming and the possibility of Britain falling out of the E.U. without a deal, such a scenario presents obvious uncertainties and risks. Planning around Brexit for Zutec began in earnest with the formation of a separate UK trading entity. As such, we feel we are well prepared for a no deal scenario.

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 interim 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 quarterly results to 30th September 2018 have not been reviewed by an external auditor.



