

# ZUTEC



Interim Report, July – December 2018



## Significant Events in the Period

- Decrease in revenues due to the completion of Phase 1 of large Qatar contract with challenging baseline figures as a result.
- Planned expenditure on marketing, sales and product development have had a significant effect on our results with operating costs SEK 8.5m higher for H1 2019 at SEK 18.9m compared to the same period in the previous year. These costs will take time to mature before the benefits are clearly seen in terms of revenue and profitability.
- Significant increase in quantity, value and probability of our sales pipeline exceeding our forecasted expectations.
- Currently interfacing on significant value contracts with the multinational sector in the sales pipeline. Focus on prospecting for clients leading to increase in deals in our inbound SaaS sales pipeline.
- Two new products Resolution and Elevation apps have been launched with excellent customer feedback.
- Senior sales executive with a wealth of experience in our immediate sector appointed.
- Launch of our revamped website in April 2019, optimised to increase leads and conversions, improve the customer journey and grow sales.

### 2<sup>nd</sup> Quarter, Oct – Dec 2018

- Revenue decreased by 28% to SEK 4.3m (Q1 2018, SEK 5.9m).
- EBIDTA decreased by SEK 5.3m to SEK -7.1m (Q1 2018, SEK -1.7m).
- Operating loss increased to SEK 8.4m (Q1 2018 SEK 2.7m).
- Loss per share for the period of SEK -1.16 (Q1 2018 SEK -0.35).
- Cash flow from operations was SEK -7.9m (Q1 2018 SEK -7.7m).

### Half -year, Jul – Dec 2018

- Revenue decreased by 36% to SEK 10.2m (H1 2018, 15.9m).
- EBIDTA decreased by SEK 14.2m to SEK -8.8m (H1 2018, SEK 5.4m).
- Operating income decreased by SEK 14.6m to a loss of SEK 11.1M (H1 2018 operating income SEK 3.6m).
- Loss per share for H1 2019 of SEK -1.52 (H1 2018 EPS SEK 0.37).
- Cash flow from operations was SEK -14.9m (Q1 2018 SEK -1.9m).

## Key Figures, SEK

SEK 000	Q2 18/19 Oct-Dec '18	H1 18/19 Jul-Dec '18	H1 17/18 Jul-Dec '17	FY 17/18 Jul-Jun '18
Gross Revenue	4,258	10,188	15,875	35,321
Gross Profit	3,436	8,509	13,970	30,908
Gross Profit Margin	81%	84%	88%	88%
EBIDTA	(7,060)	(8,779)	5,409	6,289
EBIDTA Margin	(166%)	(86%)	34%	18%
Net Income/(Loss)	(8,400)	(11,082)	2,896	2,155
Net Income/(Loss) Margin	(197%)	(109%)	18%	6%
Cash	28,897	28,897	9,745	47,320



## Message from the CEO



**Brendan O’Riordan – CEO**

The second quarter has been all about change and new beginnings. In December we moved to a new office in the centre of Dún Laoghaire town. This office has brought a new lease of life and a drive to all in the company. It is an excellent environment for people to be creative and we have already started to reap the benefits in not only our existing team but in the calibre of people we have been able to attract.

Our operating loss for the period was SEK 11.1m with the resultant decrease in cash in the period. As previously reported, we completed our largest ever contract at the beginning of quarter one and the impact of that revenue reduction is still being felt in the second quarter. We have invested heavily in sales and marketing in the period with our sales pipeline in both our solution market and SaaS market showing unprecedented growth. We should begin to see a return on this investment towards the end of the financial year. Our current revenue forecast is the most optimistic we have seen in our history. We expect our win ratio to increase exponentially with our exceptional innovative product range coupled with our recently expanded experienced sales team. Progress has come at the expense of our base line income in the period due to these planned expenditures. We continue to develop synergies with other parties in the global software sector which should bear fruit in the medium term.

I am delighted to report great the successful on-time release of our new apps with excellent feedback from our existing customers. Our developers have now released a completely new version of our onsite app, The Resolution App. This is a tool for our clients to use onsite which enables the collection and review of data. We have also released The Elevation App which is a 2D drawing manager for use in the field. It is a simple tool that can be used as a standalone solution without the need for assisted implementation resulting in a faster sales cycle. The development team have demonstrated great energy and commitment in getting these products to the market in a timely manner. They are both excellent market ready products which are designed to make a strong impact on both the inbound SaaS and the solutions sales market. In addition, we have invested heavily in our customer onboarding processes to ensure new customer success.

When we listed on the NASDAQ First North in March 2018, we committed to spend 70% of the capital raised on sales and marketing. We are beginning to see the benefits of this commitment by way of a significant increase in our sales pipeline.



## Financial and Operational Development

### About the Report

This semi-annual report covers the period from 1 July to 31 December 2018.

### Revenue

Revenue for the six months to 31 December 2018 (H1 2019) has decreased by 36% to SEK 10.2m compared to SEK 15.9m for H1 2018. As previously reported, the conclusion of phase one of a project in Qatar in the first half of the quarter has had a significant impact on revenue. This reinforces our decision to adjust our sales strategy, to focus on adding a pre-SaaS offering of our products and to implement an inbound sales strategy to complement our existing enterprise sales.

### Costs

Expenditure for the six months to 31 December 2018 increased by SEK 8.5m to 19m (H1 2018, SEK 10.5m). Personnel costs in this period increased from SEK 6m for H1 2018 to SEK 10.8m for H1 2019. Other external costs have increased by 83% in the six months to 31 December 2018 to SEK 8m (H1 2018, SEK 4.4m).

These increases are in line with expectation. The capital added to the Group over the course of 2018 has helped in developing our products along in both new and existing markets. We have also invested heavily in growing our business by increasing personnel in sales and marketing and other core market building tools. Due to the extensive working capital cycle in the construction sector, these expenses will take time to mature before the benefits are clearly seen in terms of revenue and profitability.

### Product Focus

Zutec's strategy is to develop cutting edge products which while aimed primarily at the construction sector are also applicable to other economic areas. One of Zutec's unique selling points is the ability to filter, regroup and represent critical data in to meaningful formats. This USP can be applied also to the transport sector where we are currently actively engaging for the first time with high hopes of a first contract close out in the fourth quarter.

### 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 Zutec

The Group develops and markets data and project management software for the construction and property sector. The products can be used throughout the life cycle of a building, from the planning stage to the operation and maintenance stage. Our customers include some of the world's largest construction companies, and Zutec's products have helped them to initiate over 300 projects.

The Group's operations are conducted in Ireland with subsidiaries in the UK, Australia and Hong Kong.

The Group was formed in February 2018 when Zutec Inc. (Ireland) Ltd became a wholly-owned subsidiary of Zutec Holding AB as a result of a share issue. The transaction was made between companies under the same controlling influence, which is why IFRS 3 Business Combinations does not apply. No revaluation of assets or liabilities occurred in connection with the acquisition. The consolidated income statement for the financial year 2017/2018 included the full Zutec Holding AB and the Zutec Inc. (Ireland) Ltd's financial year. The effect on the Group's equity, which is termed Acquisition through an issue for non-cash consideration, consists of the equity of the Group's subsidiaries at the beginning of the financial year adjusted for transactions with shareholders that took place before the Zutec Group was formed.

The comparative figures for the consolidated income statement for H1 2018 consist of proforma which includes unaudited consolidated figures for the Zutec Group Ireland (as adjusted for the changes in accounting policy).

## Business Model

The Group's business model has evolved in the period and is now split between our long-established large enterprise sales contracts and a new SaaS strategy of inbound sales and marketing.

Our established model is based on signing long-term licensing and maintenance agreements, as well as assisting customers when implementing and adapting the Group's software to suit the customer's specific needs.

Our new inbound sales and marketing strategy focuses on customer-centric selling and will allow us to target customers in new markets with campaigns and lead generation tactics designed to attract active buyers.

## Market

To date, the Group's market consisted primarily of the UK, Ireland, Australia and the Middle East. However as previously discussed, we are now in a growth phase and are in the process of expanding into new regions across the Nordics, Western Europe, Asia and the US.

It is our assessment that the market for the Company's products and services is robust, and through the injection of funds into the business in 2018, marketing activities have been and will continue to be intensified into both new and old markets alike.

## Future Development

Zutec operates in the SaaS data management and collaboration tools market, primarily in the building and construction sectors. The Company has witnessed a significant rise in SaaS enquiries of late. The market is rapidly adapting to new services that are aimed at helping companies in their drive to become more efficient and cost effective. Bearing in mind the well-documented inefficiencies in the construction sector, and the unavoidable trend towards digitisation in our everyday lives, the prospects for Zutec products remain very positive. Maintaining the rapidly developing market needs will call for significant ongoing investments in our R&D products.

We are quietly confident in the future of the Group.

For risks and uncertainties please refer to our 30 June 2018 annual report.



## Group Income Statement

SEK 000	Q2 18/19 Oct-Dec '18	H1 18/19 Jul-Dec '18	H1 17/18 Jul-Dec '17	FY 17/18 Jul-Jun '18*
<b>Operating Income</b>				
Net Sales	3,899	9,585	14,807	32,846
Other Income	359	603	1,068	2,475
<b>Gross Revenue</b>	<b>4,258</b>	<b>10,188</b>	<b>15,875</b>	<b>35,321</b>
<b>Operating Expenses</b>				
Other external costs	4,779	8,126	4,445	14,877
Personnel costs	6,539	10,841	6,021	14,155
<b>Operating (loss)/profit before Depreciation and Amortisation EBIDTA</b>	<b>(7,060)</b>	<b>(8,779)</b>	<b>5,409</b>	<b>6,289</b>
Depreciation and Amortisation of intangible & tangible assets	(1,342)	(2,306)	(1,858)	(3,950)
<b>Operating (Loss)/ Income</b>	<b>(8,402)</b>	<b>(11,085)</b>	<b>3,551</b>	<b>2,339</b>
Interest income & similar credits	2	3	-	3
Other Income	-	-	651	-
Exceptional Items	-	-	(1,306)	-
<b>(Loss)/ Income after financial items</b>	<b>(8,400)</b>	<b>(11,082)</b>	<b>2,896</b>	<b>2,342</b>
Income Taxes	-	-	-	187
<b>(Loss)/ Income for the period</b>	<b>(8,400)</b>	<b>(11,082)</b>	<b>2,896</b>	<b>2,155</b>
Attributable to:				
Equity holders of the parent company	(8,264)	(10,752)	2,628	1,970
Non-controlling interests	(136)	(330)	268	185
<b>Total</b>	<b>(8,400)</b>	<b>(11,082)</b>	<b>2,896</b>	<b>2,155</b>
<b>Earnings per share, SEK</b>	<b>(1.16)</b>	<b>(1.52)</b>		<b>0.28</b>
<b>Number of Shares</b>	<b>7,083,334</b>	<b>7,083,334</b>	n/a	<b>7,083,334</b>

\* Audited



## Group Cash Flow

SEK 000	Q2 18/19 Oct-Dec '18	H1 18/19 Jul-Dec '18	FY 17/18 Jul-Jun '18*
<b>Operating Activities</b>			
Operating Loss for period	(8,402)	(11,085)	2,339
Adjustment for items not included in net cash	1,350	1,721	3,924
Interest income	2	3	-
<b>Cash flow from operating activities</b>			
Movement in current receivables	(682)	(3,598)	(7,921)
Movement in current liabilities	414	(824)	(29)
Changes in other working capital	(670)	(1,208)	(180)
<b>Cash flow from operating activities</b>	<b>(7,988)</b>	<b>(14,991)</b>	<b>(1,867)</b>
<b>Investing activities</b>			
Investments in intangible assets	(1,670)	(2,666)	(4,593)
Investments in tangible assets	(381)	(766)	(685)
Investments in net assets through non-cash issue	-	-	10,388
Changes in current receivables	-	-	(50)
<b>Cash flow from investing activities</b>	<b>(2,051)</b>	<b>(3,432)</b>	<b>5,060</b>
<b>Financing activities</b>			
New Share issue	-	-	43,786
Other	-	-	(83)
<b>Cash flow from financing activities</b>	<b>-</b>	<b>-</b>	<b>43,703</b>
<b>Cashflow for the quarter</b>	<b>(10,039)</b>	<b>(18,423)</b>	<b>46,896</b>
<b>Change in cash and cash equivalents</b>			
Cash and cash equivalents, at the beginning of the year	38,936	47,320	46,896
Translation differences on cash and cash equivalents	-	-	424
<b>Movement in the quarter</b>	<b>(10,039)</b>	<b>(18,423)</b>	<b>47,320</b>
<b>Cash and cash equivalents, at the end of the period</b>	<b>28,897</b>	<b>28,897</b>	<b>47,320</b>

\*Audited



## Group Balance Sheet

SEK 000	31/12/2018	30/09/2018	30/06/2018*
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Intangible Assets	9,480	8,905	8,859
Tangible Assets	1,176	1,108	799
Other Long-Term Receivables	-	-	106
<b>Total Non-Current Assets</b>	<b>10,656</b>	<b>10,013</b>	<b>9,764</b>
<b>Current Assets</b>			
Trade Receivables	18,101	17,419	14,502
Other Receivables	4,576	4,095	4,401
Prepaid costs & other income	1,384	731	2,139
Cash & cash equivalents	28,897	38,936	47,320
<b>Total Current Asset</b>	<b>52,958</b>	<b>61,181</b>	<b>68,362</b>
<b>TOTAL ASSETS</b>	<b>63,614</b>	<b>71,194</b>	<b>78,126</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Liabilities</b>			
Trade payables	2,009	1,595	2,832
Other liabilities	9,353	8,888	11,137
<b>Total current liabilities</b>	<b>11,362</b>	<b>10,483</b>	<b>13,969</b>
<b>Equity</b>			
Equity	52,565	61,163	64,809
Non- Controlling Interest	(313)	(452)	(652)
<b>Total Equity</b>	<b>52,252</b>	<b>60,711</b>	<b>64,157</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>63,614</b>	<b>71,194</b>	<b>78,126</b>

## Group Statement of Equity

	Share Capital	Other Contributed Capital	Translation Reserve	Retained Earnings	Total	Minority Interests	Total Equity
<b>Balance as 30 June 2018</b>	<b>1,417</b>	<b>42,369</b>	<b>176</b>	<b>20,847</b>	<b>64,809</b>	<b>(652)</b>	<b>64,157</b>
Movement in the period	-	-	(1,492)	(10,752)	(12,244)	339	12,583
<b>Balance 31 December 2018</b>	<b>1,417</b>	<b>42,369</b>	<b>(1,316)</b>	<b>10,095</b>	<b>52,565</b>	<b>(313)</b>	<b>52,252</b>





## Parent Income Statement

SEK 000	Q2 18/19 Oct-Dec '18	H1 18/19 Jul-Dec '18	FY 17/18 Jul-Jun '18*
<b>Operating Expenses</b>			
Other external costs	(64)	(96)	(44)
Personnel costs	(837)	(837)	-
<b>Operating (loss)/profit before Depreciation and Amortisation EBIDTA</b>	<b>(901)</b>	<b>(933)</b>	<b>(44)</b>
<b>(Loss)/ Income for the period</b>	<b>(901)</b>	<b>(933)</b>	<b>(44)</b>

\*Audited

## Parent Cash Flow

SEK 000	Q2 18/19 Oct-Dec '18	H1 18/19 Jul-Dec '18	FY 17/18 Jul-Jun '18*
<b>Operating Activities</b>			
Operating Loss for period	(901)	(933)	(44)
<b>Cash flow from operating activities</b>	<b>(901)</b>	<b>(933)</b>	<b>(44)</b>
<b>Investing activities</b>			
Changes in current receivables	(8,144)	(14,997)	(1,450)
<b>Cash flow from investing activities</b>	<b>(8,144)</b>	<b>(14,997)</b>	<b>(1,450)</b>
<b>Financing activities</b>			
New Share issue	-	-	43,786
<b>Cash flow from financing activities</b>	<b>-</b>	<b>-</b>	<b>43,786</b>
<b>Cashflow for the quarter</b>	<b>(9,045)</b>	<b>(15,930)</b>	<b>42,292</b>
<b>Change in cash and cash equivalents</b>			
Cash and cash equivalents, at the beginning of the period	35,407	42,292	-
<b>Movement in the quarter</b>	<b>(9,045)</b>	<b>(15,930)</b>	<b>42,292</b>
<b>Cash and cash equivalents, at the end of the period</b>	<b>26,362</b>	<b>26,362</b>	<b>42,292</b>



## Parent Balance Sheet

SEK 000	31/12/2018	30/09/2018	30/06/2018*
<b>ASSETS</b>			
<i>Non-Current Assets</i>			
Investments in Subsidiaries	120,000	120,000	120,000
<b>Total Non-Current Assets</b>	<b>120,000</b>	<b>120,000</b>	<b>120,000</b>
<i>Current Assets</i>			
Receivables on group companies	17,331	8,300	1,397
Other receivables	3	3	53
Cash & cash equivalents	26,362	35,407	42,292
<b>Total Current Asset</b>	<b>43,696</b>	<b>43,710</b>	<b>43,742</b>
<b>TOTAL ASSETS</b>	<b>163,696</b>	<b>163,710</b>	<b>163,742</b>
<b>EQUITY AND LIABILITIES</b>			
<i>Liabilities</i>			
Other liabilities	887	-	-
<b>Total current liabilities</b>	<b>887</b>	<b>-</b>	<b>-</b>
<i>Equity</i>			
Share Capital	1,417	1,417	1,417
Share Premium Reserve	162,369	162,369	162,369
Loss for the year	(977)	(76)	(44)
<b>Total Equity</b>	<b>162,809</b>	<b>163,710</b>	<b>163,742</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>163,696</b>	<b>163,710</b>	<b>163,742</b>
*Audited			

## Note 1 General Information

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, Stockholm municipality, and is registered in Sweden with corporate identity number 559136-0317. The address of the head office is Zutec Inc. (Irl) Ltd., Level 3, Adelphi Plaza, George's Street Upper, Dun Laoghaire, Co. Dublin, A94 T927. The Parent Company's operations consist of the management of shares in subsidiaries.

## Note 2 General Accounting Principles

This summarised 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 2018 annual report with the exception of the new standards that came into force on 1 July 2018. These have been applied in preparation of this report but have not had a significant impact on the results.



### Note 3 Breakdown of Revenue

SEK 000	Q2 18/19 Oct-Dec '18	H1 18/19 Jul-Dec '18	H1 17/18 Jul-Dec '17	FY 17/18 Jul-Jun '18*
Ireland	358	898	1,290	2,839
UK	2,035	5,282	4,303	9,645
Middle East	394	1,605	7,176	15,191
Australia	1,112	1,762	2,038	5,171
ROW	-	38	-	-
<b>Net Sales</b>	<b>3,899</b>	<b>9,585</b>	<b>14,807</b>	<b>32,846</b>
Other Income	359	603	1,068	2,475
<b>Total Revenue</b>	<b>4,258</b>	<b>10,188</b>	<b>15,875</b>	<b>35,321</b>
*Audited				

### Note 4 Transactions with related parties

All transactions with related parties are based on market prices. The period has seen continued sales between Ireland and Australia.

### 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 interim results to 31 December 2018 have not been reviewed by an external auditor.

For additional information please contact:

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



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