

# **INDUCT**

## **INTERIM REPORT – Q3 2017**

# Highlights

- Annualized Recurring Revenue (ARR) on a consolidated basis by end of Q3 2017 was NOK 9.0 million – up 35.3% from Q3 2016.
- YTD Q3 2017 lost ARR was 0.25 million.
- Q3 2017 revenue of NOK 2.6 million compared to NOK 1.9 million in Q3 2016.
- Q3 2017 negative EBITDA of NOK -2.9 million compared a negative EBITDA for Q3 2016 of -0.1 million.
- The increased sales capacity was expected to contribute to increased ARR from Q3 2017, but according to the pipeline and sales processes, we do not expect significant contribution before Q1 2018.

## CEO comment

*Even though the sales pipeline in Scandinavia has increased significantly during 2017, we have experienced slower sales processes than expected. We expect churn to stay low, however, we experienced two lost subscriptions this quarter.*

*For just over a decade ago, knowledge management became the order of the day. Content was searched, classified, stored and made available. In many organizations, large technological structures were created, in repository format, with huge amounts of documents encoded and classified, in a static format as libraries. In a few years we have seen how Social Networks have caused an explosion of knowledge generators increasing exponentially; **the channels through which the information circulates have multiplied; the formats have diversified ...** this same process has also occurred more slowly in organizations and companies.*

*With the next generation of Induct, organizations and companies are offered the opportunity to take advantage of technological tools that allow managing collaboration in communities and forming virtual networks. **You can create collaborative spaces of large potential**, both for the speed, transparency and flexibility of the communication and for the individualization and personalization of the content. The outright barrier between sender and receiver disappears, and the entire network can be a generator of content. While a large amount of information is shared, members of the network can contribute comments and express opinions about it, increasing the value of the original knowledge. Knowledge can be found and located through natural searches, in a totally intuitive way, or we can automatically link knowledge together with advanced matching technology. Challenges can be set with concrete goals and objectives, in which to collaborate with ideas, proposals or matched with already existing knowledge.*

*Induct will start the beta testing of this extended platform in December 2017, and a launch to the market is scheduled for Q1 2018. With this extended platform, we will expand our focus from providing and selling innovation management to organizations, which we will still deliver, to include a focus on user generation and usage of the platform. In today's model with innovation management, the goal of these organizations is to create as much value as possible with as little resources as possible. This is contradictory to generate as much usage as possible by the users. Therefore, the extended platform will include offerings to both individuals and organizations which will be helpful to people in a much broader way for knowledge generation, collaboration and sharing. Such offerings will include, but not be limited to, workgroups, libraries, discussions and market places.*

*This extended Induct platform and new offerings will enable new business models similar to other social media and social network offerings. The number of active users and ARPU (average revenue per user) will become key performance indicators in the future.*

*Alf Martin Johansen, CEO of Induct*

## **About Induct**

Induct AS was established in 2007 and offers a web-based platform for individuals and organizations to increase the efficiency of utilization of knowledge and experience. The use of Induct's technology is to increase the innovation capacity and capabilities in organizations. This applies both within the private and public sector, as well as nationally and internationally.

The company's software was commercially launched in June 2009 and has been positively received by the market. Since launch Induct has focused on building innovation communities for organizations and connecting them in network for sharing content. Our long-term goal has been to build an infrastructure, where we can help organizations to facilitate innovation eco-systems, whether they are large enterprises connecting to their collaboration partners, or node organizations in networks. This infrastructure is now being materialized, and we are currently working with a few existing node networks to deliver this infrastructure. This is an exciting development, and opens for a whole range of future networked business models.

Induct's software is unique in enabling organizations and individuals to connect via networks to collaborate and to share high impact innovations. In healthcare for example, this enables reduced spending and improved social impact through better patient experience and reduced waiting time. Due to recent market breakthroughs, Induct's platform is now positioned to become the de facto industry standard for connecting healthcare providers in ecosystems to improve efficiency in global healthcare. Other sectors include municipalities and government, education, private enterprises and humanitarian sector.

# Income Statement

	Unaudited Q3 2017	Unaudited Q3 2016	Unaudited YTD Q3 2017	Unaudited YTD Q3 2016	Audited FY 2016
<b>Revenues</b>					
Sales revenue	2 598	1 865	8 479	4 983	6 809
Research Grants	675	-	2 025	-	-
<b>Total Revenues</b>	<b>3 273</b>	<b>1 865</b>	<b>10 504</b>	<b>4 983</b>	<b>6 809</b>
<b>Operating Costs</b>					
Cost of sales	1 181	728	3 340	1 788	2 124
Personnel costs	3 479	751	9 447	3 208	3 796
Depreciation & Amortization	669	503	1 850	1 512	2 115
Other operating costs	1 470	514	4 662	4 342	8 767
<b>Total Operating Costs</b>	<b>6 800</b>	<b>2 496</b>	<b>19 299</b>	<b>10 850</b>	<b>16 802</b>
<b>Operating result</b>	<b>-3 527</b>	<b>- 631</b>	<b>-8 795</b>	<b>-5 867</b>	<b>-9 993</b>
<b>Financial items</b>					
Financial income	-	69	10	69	41
Financial costs	25	261	244	1 155	1 266
<b>Total Financial items</b>	<b>-25</b>	<b>-192</b>	<b>-234</b>	<b>-1 086</b>	<b>- 1 225</b>
<b>Net Profit before Taxation</b>	<b>-3 552</b>	<b>-823</b>	<b>-9 029</b>	<b>-6 953</b>	<b>-11 218</b>
Corporate Tax	55	-	55	-	99
<b>Net Profit after Taxation</b>	<b>-3 607</b>	<b>-823</b>	<b>-9 084</b>	<b>-6 953</b>	<b>-11 317</b>
<b>EBITDA</b>	<b>-2 858</b>	<b>-128</b>	<b>-6 945</b>	<b>-4 355</b>	<b>-7 878</b>

Income Statement per Q3 2017 includes Induct AS and its subsidiaries in the US, UK and Spain. Income Statement for 2016 includes Induct AS and its subsidiaries in the US and UK from 01.01.2016. The subsidiary in Spain is included from 01.07.2016 when Induct got control over the Spanish subsidiary. Induct R&D in Spain is included since the formation of the company in Q3 2016.

The subsidiary in Brazil has been excluded from consolidation due to uncertainty regarding the future structure of Induct's operations in Brazil.

Research grant of NOK 0.75 million in 2016 has been removed for comparable reasons since Induct did not get Skattefunn for 2016.

# Balance sheet

	Unaudited 30.09.2017	Unaudited 30.09.2016	Audited 31.12.2016
<b>Non-current assets</b>			
Intangible assets	13 431	11 525	12 159
Fixed assets	264	30	216
Financial non-current assets	-	637	484
<b>Total non-current assets</b>	<b>13 695</b>	<b>12 191</b>	<b>12 859</b>
<b>Current assets</b>			
Receivables	5 323	4 368	2 906
Bank accounts	2 639	4 303	2 394
<b>Total Current assets</b>	<b>7 962</b>	<b>8 671</b>	<b>5 300</b>
<b>Total assets</b>	<b>21 657</b>	<b>20 862</b>	<b>18 159</b>
<b>Shareholders Equity and Debt</b>			
<b>Paid-in capital</b>			
Share capital	819	749	749
Own shares	-	-	-18
Share premium reserve	80 653	66 775	66 775
<b>Total paid-in capital</b>	<b>81 472</b>	<b>67 524</b>	<b>67 506</b>
<b>Retained earnings</b>			
Uncovered loss	-69 487	-55 736	-60 428
<b>Total retained earnings</b>	<b>-69 487</b>	<b>-55 736</b>	<b>-60 428</b>
<b>Total shareholder's equity</b>	<b>11 985</b>	<b>11 788</b>	<b>7 078</b>
<b>Debt</b>			
Long-term debt	3 001	3 717	3 851
Short-term debt	6 671	5 357	7 230
<b>Total debt</b>	<b>9 672</b>	<b>9 074</b>	<b>11 081</b>
<b>Total shareholder's equity and debt</b>	<b>21 657</b>	<b>20 862</b>	<b>18 159</b>

The Balance Sheet is consolidated and includes Induct AS and its subsidiaries in the US, UK and Spain.

The subsidiary in Brazil has been excluded due to uncertainty regarding the company.

### **Number of shares**

Number of issued shares per 31.12.2016	7 493 321
Private Placement February 2017	698 142
Number of issued shares per 30.06.2017	8 191 463
Number of issued share options 1)	280 000
Pending share issue – acquisitions 2)	331 000
Number of shares – fully diluted	8 802 463

1) The strike price for the issued share options is NOK 20 per share option.

2) Pending share issue relates to the acquisition of subsidiaries in Brazil, Spain and India and is expected to take place in Q4 2017.

In addition to the 331,000 shares mentioned above, the purchase agreements include a performance based earn-out element, with a total cap of an additional 1.1 million shares based on aggressive growth performance over a 3-year period from the acquisition date. No shares are earned as of 30.09.2017.

## **Operational review**

Induct has further strengthened its position in the Healthcare sector with one new contract during Q3 2017. Hospitals use Induct software to support their innovation and improvements initiatives and to connect in the digital Induct network to share high impact innovations. This unique network now includes over half of Norwegian health institutions (Helseforetak).

The Municipality sector in Norway has confirmed a large need for Induct's software. We strongly believe that our experience in building healthcare networks can be leveraged to achieve this. Our efforts to enter this sector was launched in Q1 and have focused on creating a common portal for municipalities to register and search for implemented innovation and improvements initiatives across Norway. The Association for Norwegian Municipalities (KS) has signed an agreement with Induct to ensure adoption and use of the platform. The contract was signed a few months later than anticipated and has delayed our market entry accordingly. However, the platform was launched at a national innovation event for municipalities in June ([www.kominn.no](http://www.kominn.no)). During Q3 Induct signed agreements with the first customers within the Municipalities sector, including Lillehammer Kommune and Ullstein Kommune. We are currently in dialogue with several municipalities to upgrade to a paid Induct solution to support project implementation, collaboration and citizen dialogue.

In parallel Induct has increased our sales efforts in the Enterprise sector. We have continued to sign important contracts in this sector, including Norsk Tipping in Norway.

## **Future development**

Gartner Group has updated their market overview and guide for the Innovation Management space, and Induct is mentioned amongst the vendors in the market. However, Gartner has also written about digital business ecosystem and platform economy. They state that organizations are increasingly focusing outward on their business ecosystems to fuel innovation. To capitalize on these opportunities, CIOs must develop a proactive strategy for engaging in their business ecosystems, and select the right mix of business and technology to support this strategy.

Digital innovation is driving the move to business ecosystems by driving increasing interconnection, making it easy and quick to connect everything. Business ecosystems offer unprecedented access to the capabilities, resources and talent on a global scale that sets the stage for innovation.

To leverage business ecosystems organizations will need a paradigm shift in perspective, away from the traditional supply – demand economic perspective. The shift to business ecosystems requires a change in the people, processes and technologies that underpin the organization.

Induct is on track to extend the platform by end of this year, with a market launch during Q1 2018, where our network customers and partners (KS, health care regions and governments and other existing clusters) is a key component.

Therefore, we expect to see additional revenue sources from this extended platform (in addition to subscriptions) during 2018.

## **Financial results**

Induct Group includes Induct AS and its 100% owned subsidiaries in Induct Solutions UK Ltd. (UK) and Induct Software Inc. (US), 100% of Induct SEA S.L (Spain) and 100% of Induct R&D S.L (Spain). The Spanish subsidiary is included with effect from 01.07.2016 when Induct formally took over the shares in the company and thereby gained control. Induct R&D is included since the formation of the company. The shares for the acquisitions of the subsidiaries in Brazil, Spain and India have not yet been issued, which will increase the number of shares by 331,000.

The group's revenue in Q3 2017 amounts to NOK 2.6 million excluding expected government grant (Skattefunn), which is an increase of 39% compared to Q3 2016. The main reasons for the increase is revenue from the health care sector in Norway continuing to pick up as various hospitals are implementing Induct's platform and consolidating the Spanish sales subsidiary. In

addition, we are also beginning to see results of the increased focus on the corporate sector in Norway due to the delayed sales results regarding the municipalities segment. Subscription revenue in Q3 2017 amounted to NOK 1.4 million, which is up from NOK 1.3 million in Q2 2017. Revenue from professional services amounted to NOK 1.3 million in Q3 2017.

Operating costs in Q3 2017 show an increase of 33.5% compared to Q2 2017 due to gearing up of sales activities and implementation processes for customers.

Profit before tax in Q3 2017 is negative with NOK -3.6 million, compared to NOK -0.8 million in Q3 2016.

The booked equity amounts to NOK 12.0 million by the end of Q3 2017. The company's interest bearing debt by end of Q3 2017 amounts to NOK 3.0 million, whereof NOK 2.2 million is from Innovation Norway.

Included in short-term debt is NOK 1.8 million in deferred revenue relating to the subscription contracts, and which is therefore not payable for Induct.

## Cash situation and funding

In February Induct completed a private placement of NOK 15 million in cash.

Due to gearing up the sales organization during 1H 2017 and the sales processes taking longer than expected, in particular towards municipalities in Norway, the cash balance is down to NOK 2.6 million by end of Q3 2017. The Board is currently investigating several options for further funding, and will inform the market when a decision is reached. In Q4 the Board has secured a financing facility with NPP Capital AS, which owns 11.5% of the shares in Induct and is owned by the CEO of Induct that will cover funding needs until the end of 2017.

Oslo, 14 November 2017

Bjørn Gabrielsen  
(sign.)  
Chairman

J. Robin Waaler  
(sign.)  
Board Member

Ingvild Myhre  
(sign.)  
Board Member

Øivind Magnussen  
(sign.)  
Board Member

Alf Martin Johansen  
(sign.)  
CEO / Board Member