INDUCT
INTERIM REPORT – Q1 2018

induct
Connecting Innovation Communities

Highlights

- Annualized Recurring Revenue (ARR) on a consolidated basis of NOK 9.9 million – up 28 % from Q1 2017.
- Q1 2018 revenue excluding government grants of NOK 3.7 million compared to NOK 3.0 million in Q1 2017 – up 23 % from Q1 2017.
- Q1 2018 negative EBITDA of NOK -2.4 million compared a negative EBITDA for Q1 2017 of NOK -3.4 million.
- Zero churn in Q1 2018.

CEO comment

Our traditional sales continue to grow steady. While we will continue to deliver growth within our traditional subscription business, we have experimented with the new business models our extended platform enables.

We are getting closer to releasing the extended version of our platform into the market. As mentioned in the Q4 2017 report, we are positive about getting external users start using it in Q2 2018. During Q4 2018, we expect to start generating alternative revenues on an ongoing basis. These revenue streams will be based on usage of our platform.

I mentioned 5 main projects to recruit users and activity in our Q4 2017 report. 4 of these 5 projects have had significant progress during the last quarter, and we are just waiting for our extended platform to be officially launched towards these projects. The 5 projects can be supported by the extended platform and are:

1. *Norwegian eco-system; a digital platform for collaboration between healthcare providers, municipalities, entrepreneurs and private companies.*
2. *NHS; a digital platform for managing chronical patients with collaboration between patients, doctors and specialists in England. This would also include managing patient data and records.*
3. *Education; a digital platform for collaboration between students and companies, including use of the platform for the students in their day to day studies.*
4. *Global consulting company; enable this company to deliver their Innovation as a Service to their current customers. Today, they have 900 of the Fortune 1000 companies on their customer list.*
5. *Medical tourism; a digital platform where healthcare providers can offer their services to those who need these services.*

Our target ARPU (average revenue per active users) is to generate USD 2 per active user per month. These five main activity generating projects alone are expected to generate a significant number of users.

We are looking forward to announcing events and achievements within these projects.

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 Q1 2018	Unaudited Q1 2017	Unaudited FY 2017	Audited FY 2016
Revenues				
Sales revenue	3 708	3 013	13 306	6 809
Research Grants	285	370	1 278	-
Total Revenues	**3 993**	**3 383**	**14 584**	**6 809**
Operating Costs				
Cost of sales	1 235	1 278	4 785	2 124
Personnel costs	2 604	4 504	12 948	3 796
Depreciation & Amortization	709	698	2 884	2 115
Other operating costs	2 588	1 044	6 349	8 767
Total Operating Costs	**7 136**	**7 524**	**26 966**	**16 802**
Operating result	**-3 143**	**-4 141**	**-12 382**	**-9 993**
Financial items				
Financial income	2	10	44	41
Financial costs	133	310	353	1 266
Total Financial items	**-131**	**-300**	**-309**	**- 1 225**
Net Profit before Taxation	**-3 274**	**-4 441**	**-12 691**	**-11 218**
Corporate Tax	-	2	140	99
Net Profit after Taxation	**-3 274**	**-4 443**	**-12 831**	**-11 317**
EBITDA	**-2 434**	**-3 443**	**-9 498**	**-7 878**

Income Statement in 2018 and 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.

Financial costs include interest on loan of NOK 1.6 million from NPP Capital AS, a company wholly owned by Alf Martin Johansen, CEO of Induct, and compensation of lending of shares in Induct AS, in addition to interest on loan from Innovation Norge.

Balance sheet

	Unaudited Q1 2018	Unaudited Q1 2017	Unaudited 31.12.2017	Audited 31.12.2016
Non-current assets				
Intangible assets	13 182	12 395	13 432	12 159
Fixed assets	231	273	276	216
Financial non-current assets	-	-	-	484
Total non-current assets	**13 413**	**12 668**	**13 707**	**12 859**
Current assets				
Receivables	6 396	6 317	5 333	2 906
Bank accounts	1 110	11 632	1 634	2 394
Total Current assets	**7 506**	**17 949**	**6 967**	**5 300**
Total assets	**20 919**	**30 617**	**20 675**	**18 159**
Shareholders Equity and Debt				
Paid-in capital				
Share capital	819	819	819	749
Own shares	-	-	-	-18
Share premium reserve	80 849	80 248	80 720	66 775
Total paid-in capital	**81 668**	**81 067**	**81 539**	**67 506**
Retained earnings				
Uncovered loss	-76 665	-61 939	-73 435	-60 428
Total retained earnings	**-76 665**	**-61 939**	**-73 435**	**-60 428**
Total shareholder's equity	**5 003**	**19 128**	**8 103**	**7 078**
Debt				
Long-term debt	2 470	3 261	2 830	3 851
Short-term debt	13 446	8 228	9 741	7 230
Total debt	**15 916**	**11 489**	**12 571**	**11 081**
Total shareholder’s equity and debt	**20 919**	**30 617**	**20 675**	**18 159**

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

Commitment fee of NOK 1 million relating to financing facility of NOK 50 million with European High Growth Opportunities Securitization Fund has been treated as emission costs since the notes have to be converted to shares within one year after their issuance. The commitment fee is booked against equity proportionally over the four mandatory tranches with NOK 250 000 which is debited equity at the drawdown of each tranche. One tranche was drawn down during Q1 2018.

Number of shares	
Number of issued shares per 31.03.2018	8 191 463
Number of issued share options 1)	280 000
Pending share issue – acquisitions 2)	331 000
Conversion of convertible notes 3)	694 444
Warrants attached to convertible notes 4)	196 153
Number of shares – fully diluted	9 693 060

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 2018.

   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 31.03.2018.

3) European High Growth Opportunities Securitization Fund has convertible notes amounting to NOK 5 million, which has to be converted to shares within twelve months after their issuance. The conversion price will be 90% of the lowest share price the 20 last trading days prior requesting conversion.

   Number of shares is calculated based on the last closing share price before 31 March 2018. The actual conversion price is not possible to calculate before conversion.

4) European High Growth Opportunities Securitization Fund has warrants attached to the convertible notes. The exercise price for the warrants is 120% of the weighted average trading price the last 5 trading days prior to Induct requesting a tranche.

So far the following warrants have been issued:

Tranche 1
100 000 warrants each giving the right to subscribe to one share each at a subscription price of NOK 12.50 per share.

Tranche 2
96 153 warrants each giving the right to subscribe to one share each at a subscription price of NOK 13.00 per share.

The warrants expire five years from their issuance.

Operational review

Induct has further strengthened its position in the Healthcare sector with the delivery of the second phase innovation indicator project to the Norwegian Health Department, as this work is incorporated as a requirement for Norwegian hospitals to report on innovation activities and outcomes. The framework agreement with the Norwegian hospitals have been extended into its fourth year, and we expect most of the remaining hospitals to sign up in 2018.

The operational focus this quarter has been on improving internal procedures and preparing for the next growth phase. Also, the technology team has worked on the extended platform with great focus and determination.

The Municipality sector in Norway is still confirming a large need for Induct's platform, and we expect the next generation platform will speed up the adoption rate.

The convertible bond agreement with European High Growth Opportunities Securitization Fund was a main a focus for our administration during the first half of Q1 2018.

Future development

Many companies now use social networks like LinkedIn, Xing or Twitter as standard communication channels. Many users adopted them as integral parts of everyday routines some time ago. Systems that work externally can be just as useful in an internal setting. Increasing numbers of companies are addressing the issues of Social Intranet and the Digital Workplace.

The authors of the current centrestage.de study "*World of Work and the Transformation of Organization*" have made an initial attempt to document the organizational change processes from a holistic perspective. They managed to identify ten key driving forces:

1. Increasing significance of knowledge work
2. Availability of Enterprise 2.0 technologies
3. Structures in an attractive, sustainable world of work
4. Increase in global collaboration
5. Implications of demographic transformation
6. Rise in the volume of relevant information
7. Increasingly fierce competition
8. Growth in the significance of social media within customer management
9. Greater importance of external collaboration
10. Rise in innovation capability

Induct's platform supports these ten driving forces.

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.

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 group's revenue in Q1 2018 amounts to NOK 3.7 million excluding expected government grant (Skattefunn), which is an increase of 23 % compared to Q1 2017. 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. Subscription revenue in Q1 2018 amounted to NOK 2.1 million, which is up from NOK 1.4 million in Q4 2017. Revenue from professional services amounted to NOK 1.6 million in Q1 2018.

Induct expects to receive around NOK 2 million in Skattefunn relating to planned work in 2018, which is in line with what will be received regarding 2017.

Operating costs in Q1 2018 is down by 5% compared to Q1 2017.

Profit before tax in Q1 2018 is negative with NOK -3.3 million, compared to NOK -4.4 million in Q1 2017.

The booked equity amounts to NOK 5.0 million by the end of Q1 2018. The company's interest- bearing debt by end of Q1 2018 amounts to NOK 4.1 million, whereof NOK 2 million is from Innovation Norway.

Included in short-term debt is NOK 1.4 million in deferred revenue relating to the subscription contracts, which therefore is not payable for Induct, as well as a short-term loan of NOK 1.6 million to NPP Capital AS, a company owned by Induct's CEO and Board Member, Alf Martin Johansen. The convertible notes amounting to NOK 2.5 million and commitment fee of NOK 1 million due to European High Growth Opportunities Securitization Fund are also booked as short-term debt since they have to be converted into shares within one year from their issuance.

Cash situation and funding

By the end of Q1 2018 NPP Capital AS, which owns 11.5% of the shares in Induct AS, has supported the company with a short-term loan of NOK 1.6 million, including a new short-term loan of NOK 100,000 in Q1 2018.

On 10 January 2018 Induct announced a convertible note facility up to NOK 50 million which is drawable during a 3-year period in tranches of NOK 2.5 million upon request by Induct. The convertible note facility was approved in an Extraordinary Shareholder Meeting on 15 February 2018. The convertible note facility secures Induct's long-term cash needs, given the current cost level. During Q1 2018 Induct has drawn down the first tranche of NOK 2.5 million.

The convertible note facility does not limit Induct to seek other ordinary equity financing from new or existing shareholders at any time during this period. The Board is satisfied having secured Induct's long-term cash needs while still maintaining the flexibility as to whether to use the convertible note facility or ordinary share placements according to what seems most beneficial to Induct's shareholders at any given time.

Oslo, 30 April 2018

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	