

ZUTEC



Quarterly Report, January – March 2019



Significant Events in the Period

- Revenue for the quarter to 31 March 2019 has decreased by 46% to SEK 5.6m compared with the same quarter in 2018 with the conclusion of the project in Qatar in 2018 still having an effect. There is an increase in revenues in the quarter to 31 March 2019 of 32% to SEK 5.6m compared to the prior quarter (SEK4.3m).
- Expenditure on marketing, sales and product development continue to have had a significant effect on our results with operating costs for the 9 months to 31 March 2019 at SEK 31.7m compared to SEK 21.7m for 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.
- Continued growth of our sales pipeline in all regions.
- New website recently launched targeting search engine optimisation and driving traffic to increase inbound sales.
- New CFO appointed with significant experience in the London property market.
- Experience Digital Market Manager hired in March and has driven the launch of our new website.

3rd Quarter, Jan – Mar 2019

- Revenue decreased by 46% to SEK 5.6m (Q3 2017/18, SEK 10.4m).
- EBIDTA decreased by SEK 7m to SEK -7.1m (Q3 2017/18, SEK -0.1m).
- Operating loss decreased to SEK 8.3m (Q3 2017/18, loss of SEK 0.7m).
- Loss per share for the period of SEK -1.17 (Q3 2017/18, SEK -0.14).

Year to date, Jul – Mar 2019

- Revenue decreased by 40% to SEK 15.8m (Jul-Mar 2018, 26.3m).
- EBIDTA decreased by SEK 20.5m to SEK -15.9m (Jul-Mar 2018, profit of SEK 4.6m).
- Operating income decreased by SEK 21.6m to a loss of SEK 19.4M (Jul-Mar 2018, operating income SEK 2.2m).
- Loss per share for three quarters to March 2019 of SEK -2.69 (Jul-Mar 2018, EPS SEK 0.23).

Key Figures, SEK

000 SEK	Q3 18/19 Jan-Mar '19	Q2 18/19 Oct-Dec '18	Q1 18/19 Jul- Sept '18	YTD Jul-Mar '19	Q3 17/18 Jan-Mar '18	YTD Jul-Mar '18	FY 17/18 Jul-Jun '18
Revenue	5,602	4,258	5,931	15,791	10,373	26,249	35,321
Gross Profit	4,289	3,436	5,072	12,797	8,070	22,040	30,908
Gross Profit Margin	77%	81%	86%	81%	78%	84%	88%
EBIDTA	(7,118)	(7,060)	(1,718)	(15,896)	(137)	4,579	6,289
EBIDTA Margin	(127%)	(166%)	(29%)	(101%)	(1%)	17%	18%
Net Income	(8,284)	(8,400)	(2,682)	(19,366)	(654)	2,242	2,155
Net Income Margin	(148%)	(197%)	(45%)	(123%)	(6%)	9%	6%
Cash	24,168	28,897	38,936	24,168	51,568	51,568	47,320



**Brendan O’Riordan – CEO**

Although the third quarter of the year has seen revenue growth of 32% to SEK 5.6m in Q3 compared with SEK 4.3m in Q2, our revenue has not grown as per our own expectations. We have managed some growth but we are fully aware that it is not enough. Our pipeline is healthy as direct result of the investment in sales and marketing, however, we are not closing at the rate we need to. Internally we are refocusing our sales and sales support teams to rectify this. I am confident of further delivery of revenue over the coming quarters. In the past few weeks we launched a new website which is optimised to create inbound leads and we have seen an increased growth in traffic to the website which will in time begin to have a further positive effect on the pipeline.

In the quarter we signed a contract with Lodha Group, India’s No.1 Real Estate Developer on a large prestigious development in London. Lodha have a number of developments in the UK commencing in the near future which we are confident of being involved with.

We had an internal 3 day strategy session in April in which we aligned everyone to a common goal and path to revenue generation. The outputs from this have been excellent and the commitment shown by all individuals to achieve goals set shows that we have the team, the product and the strategy to take Zutec to the next level.

Included in current assets is an outstanding balance of SEK 11.5m (QAR 4,510,828.36) which relates to unpaid invoices from Salam Technology, a subsidiary of Salam International Investment Limited. These invoices are for software and services provided on the Hamad Port Project in Qatar on which Salam Technology are the port-wide systems integrator. All work by Zutec related to these invoices has, in our opinion, been completed satisfactorily. I met with the Executive management of Salam Technology in April, it was agreed that our contract and deliverables would be reviewed by an internal team and a report would be issued on or before May 14th with a subsequent letter of undertaking to pay. At the time of writing this report has not been issued. We have, in the past, received 100% of our contract amount on all previous projects in the region.



Revenue by Region

000 SEK	Q3 18/19 Jan-Mar '19	Q2 18/19 Oct-Dec '18	Q1 18/19 Jul- Sept '18	YTD Jul-Mar '19	Q3 17/18 Jan-Mar '18	YTD 17/18 Jul-Mar '18	FY 17/18 Jul-Jun '18
UK	3,225	2,035	3,247	8,507	2,702	7,004	9,645
Ireland	452	358	540	1,350	-155	1,135	2,839
Middle East	399	394	1,211	2,004	6,081	13,257	15,191
Australia	1,215	1,112	649	2,977	1,555	3,594	5,171
ROW	29	-	40	68	-	-	-
	5,320	3,899	5,687	14,906	10,183	24,990	32,846
Other Income	282	359	244	885	190	1,259	2,475
Total Revenue	5,602	4,258	5,931	15,791	10,373	26,249	35,321

Turnover for the 9 months to 31 March 2019 compared to the same period in 2018 has decreased by SEK 10.5M largely due to a decrease in our sales in the Middle East, in particular the project in Qatar. Revenue for the 3 months to 31 March 2019 (Q3 2019) has increased by 32% to SEK 5.6m compared to SEK 4.3m for Q2 2019. Sales in the UK and Ireland have increased by 21% for the three quarters to March 2019 compared with the prior year. Revenue for Australia for the three quarters to March 2019 have decreased by 17%, however we are seeing a steady quarterly increase in the region in the period to 31 March 2019.

Costs

Expenditure for the nine months to 31 March 2019 increased by SEK 10m to 31.7m (July – March 2018, SEK 21.6m). Personnel costs in this period increased from SEK 10.1m for Jul – Mar 2018 to SEK 16m for July – March 2019. Personnel costs have decreased from SEK 6.5m for quarter December 2018 to SEK 5.1m SEK for the for the quarter to 31 March 2019. Other external costs have increased by 35% in the nine months to 31 March 2019 to SEK 15.7m (July – March 2018, SEK 11.6m).

These increases are in line with expectation. 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.



Group Income Statement

	Q3 18/19 Jan-Mar '19	Q2 18/19 Oct-Dec '18	Q1 18/19 Jul- Sept '18	YTD 18/19 Jul-Mar '19	YTD 17/18 Jul-Mar '18	*FY 17/18 Jul-Jun '18
Operating Income						
Net Sales	5,320	3,899	5,687	14,906	24,990	32,846
Other Income	282	359	244	885	1,259	2,475
Gross Income	5,602	4,258	5,931	15,791	26,249	35,321
Operating Expenses						
Other external costs	7,586	4,779	3,347	15,712	11,620	14,877
Personnel costs	5,134	6,539	4,302	15,975	10,050	14,155
EBIDTA	(7,118)	(7,060)	(1,718)	(15,896)	4,579	6,289
Depreciation & Amortisation of intangible & tangible assets	(1,166)	(1,342)	(965)	(3,473)	(3,030)	(3,950)
Operating (Loss)/Income	(8,284)	(8,402)	(2,683)	(19,369)	1,549	2,339
Interest & other income	-	2	1	3	693	3
(Loss)/ Income after financial items	(8,284)	(8,400)	(2,682)	(19,366)	2,242	2,342
Income Taxes	-	-	-	-	-	(187)
(Loss)/ Income for the period	(8,284)	(8,400)	(2,682)	(19,366)	2,242	2,155
Attributable to:						
Equity holders of the parent company	(8,313)	(8,264)	(2,486)	(19,063)	1,635	1,970
Non-controlling interests	29	(136)	(196)	(303)	607	185
Total	(8,284)	(8,400)	(2,682)	(19,366)	2,242	2,155
Loss/ Earnings per share, SEK	(1.17)	(1.17)	(0.35)	(2.69)	0.23	0.28
Number of Shares	7,083,334					

* Audited



Group Cash Flow

	Q3 18/19 Jan-Mar '19	Q2 18/19 Oct-Dec '18	YTD Q3 18/19 Jul-Mar '18	*FY 17/18 Jul-Jun '18
Operating Activities				
Operating Loss for period	(8,284)	(8,402)	(19,369)	2,339
Adjustment for items not included in net cash	1,166	1,350	2,886	3,924
Interest income	-	2	3	-
Movement in working capital	4,312	(938)	(5,163)	(8,130)
Cash flow from operating activities	(2,806)	(7,988)	(21,643)	(1,867)
Cash flow from investing activities	(1,923)	(2,051)	(1,509)	5,060
Cash flow from financing activities	-	-	-	43,703
Cashflow for the quarter	(4,729)	(10,039)	(23,152)	46,896
Change in cash and cash equivalents				
Cash and cash equivalents, at the beginning of the year	28,897	38,936	47,320	46,896
Translation differences on cash and cash equivalents				424
Movement in the quarter	(4,729)	(10,039)	(23,152)	47,320
Cash and cash equivalents, at the end of the period	24,168	28,897	24,168	47,320



Group Balance Sheet

	31/03/2019 SEK 000	31/12/2018 SEK 000	30/09/2018 SEK 000	30/06/2018 SEK 000
ASSETS				
Non-Current Assets				
Intangible Assets	10,316	9,480	8,905	8,859
Tangible Assets	1,096	1,176	1,108	799
Other Long Term Receivables	-	-	-	106
Total Non-Current Assets	11,412	10,656	10,013	9,764
Current Assets				
Trade Receivables	18,010	18,101	17,419	14,502
Other Receivables	4,296	4,576	4,095	4,401
Prepaid costs & other income	1,568	1,384	731	2,139
Cash & cash equivalents	24,168	28,897	38,936	47,320
Total Current Asset	48,042	52,958	61,181	68,362
TOTAL ASSETS	59,454	63,614	71,194	78,126
EQUITY AND LIABILITIES				
Liabilities				
Trade payables	2,833	2,009	1,595	2,832
Other liabilities	12,243	9,353	8,888	11,137
Total current liabilities	15,076	11,362	10,483	13,969
Equity				
Equity	44,725	52,565	61,163	64,809
Non- Controlling Interest	(347)	(313)	(452)	(652)
Total Equity	44,378	52,252	60,711	64,157
TOTAL EQUITY & LIABILITIES	59,454	63,614	71,194	78,126



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 quarterly statement 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.

This quarterly statement to 31 March 2019 has not been reviewed by an external auditor.

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