CXENSE
Deliver what people want

THIRD QUARTER REPORT 2018

Highlights

- **Growth for core DMP and Personalization segment**
    - 19% YoY and 3% sequentially
    - 15 new recurring revenue contracts including leading Asian media companies Singapore Press Holdings, Mainichi and Star Media Group
    - High churn driven by loss of one large customer
- **New leadership team in place, including CTO, CPO and CCO, successfully onboarded**
    - New CFO hired (starting in December 2018)
- **80% reported gross margin, up 1 pp from Q2 2018**
- **Adjusted EBITDA of USD -0.47 million compared to USD -2.1 million in Q3 2017**
    - Reported EBITDA impacted by Enreach integration costs
- **Positive cash flow in the quarter**
    - Cash position of USD 4.4 million, up 8% from end of Q2 2018, driven by working capital movements
    - Funded through break-even with ongoing churn improvement program and cost reductions
- **The new Conversion Engine and DMP features strengthens pipeline**
- **Positive outlook for new sales in Q4**

CEO Comment

"The launch of Cxense Conversion Engine and new DMP features strengthens our market position as we address strategic challenges for publishers by helping them grow their subscriber base and transform to data driven advertising. We signed some of Asia's leading media brands in the third quarter and added exciting new opportunities to our pipeline in line with our strategy of targeting larger and more advanced customers. Data alliances, with publishers or brands joining forces, are gaining traction and open opportunities beyond publishing. Finally, further steps were also taken to optimize the organization, reduce costs and improve working capital which led to positive cash flow in the quarter" Christian Printzell Halvorsen, CEO of Cxense.

Key figures

USD 1,000	**Q3 2017**	**Q4 2017**	**Q1 2018**	**Q2 2018**	**Q3 2018**
DMP & Intelligent personalization	3,357	3,617	3,816	3,875	3,993
SaaS Non-Core	1,699	1,530	1,423	1,243	1,077
Revenues	**5,055**	**5,148**	**5,239**	**5,118**	**5,070**
Gross margin	*77%*	*80%*	*81%*	*79%*	*80%*
OPEX	7,476	5,074	4,661	4,544	5,230
Non-IFRS OPEX adjustments	(1,464)	(253)	(215)	259	(723)
OPEX adjusted	**6,012**	**4,821**	**4,446**	**4,803**	**4,507**
EBITDA	(3,567)	(931)	(420)	(518)	(1,191)
EBITDA adjusted	**(2,103)**	**(678)**	**(204)**	**(777)**	**(468)**

OPERATIONAL REVIEW

Cxense delivers data management and personalization software to approximately 190 publishers and digital marketers around the globe. The Cxense software enables customers to understand their web and mobile app users and to create better and more relevant user experiences. The result is increasing user engagement, loyalty and digital revenue for Cxense's customers.

The Cxense Data Management Platform (DMP) and Personalization software is powered by the real time data engine which assigns a profile to each individual user. As users interact with content, their interest profiles are updated by algorithms that take into account all information about the consumed content and how deeply it was consumed. Finally, user profiles are enriched by machine learning to include attributes such as sociodemographic data. The profiles are actionable in real time to deliver relevant and engaging content to the individual user.

The Cxense software powers customer use cases like article and product recommendations, subscription optimization, data alliances, targeted advertising and many more in compliance with GDPR.

Cxense customers pay a monthly subscription license fee. Contracts are typically for twelve months, with automatic renewal.

Continued growth for the DMP with Intelligent Personalization

Q3 2018 revenue for the core operations was USD 3.99 million, up 19% from the same period in 2017 and a sequential increase of 3% from Q2 2018. The annualized revenue run-rate in the core customer portfolio as of Q3 2018 was USD 16 million. Cxense has experienced increased interest for its software solutions during the quarter, especially related to the new Conversion Engine and DMP features. This has had a positive impact on the sales pipeline adding several significant opportunities.

The company signed 15 new recurring revenue contracts in Q3 2018 for the core offering with Quarterly Recurring Revenue (QRR) effect of USD 229 thousand. Of the new QRR, USD 155 thousand came from new customers and USD 74 thousand from upsells to existing customers. Cxense had on average 9 effective sales quotas in the quarter, down from 11.5 in Q2 2018. Sales efficiency was down 7% compared to the previous quarter, mainly driven by reduced sales activity during the summer holiday. At the end of October 2018 Cxense had 10 effective sales quotas plus one who is on leave until Q1 2019.

New contracts signed in Q3 included the sale of Conversion Engine to Singapore Press Holdings and Mainichi, leading media organizations in Asia and Japan. Another significant contract closed in the quarter was with Star Media Group, one of the largest media companies in Malaysia, who is implementing the Cxense DMP with Intelligent Personalization.

Full QRR effect from contracts notified to be terminated in Q3 2018 was USD 253 thousand for the core business, of which USD 39 thousand was reductions on existing customers and USD 214 thousand was from customers lost. One third of the total lost QRR was related to one customer, a subsidiary which had to implement a group-wide solution.

Cxense is focused on reducing churn and continues to target larger contracts with solid implementations and strengthening account management. The arrival of Cxense's new leadership team in Q3 has further increased activities targeting customer retention.

Customer size continued to increase in Q3 2018 with average QRR from new customers amounting to USD 25.8 thousand, compared to USD 23.8 thousand for customers lost. Net increase in QRR from up and down selling on existing customers amounted to USD 3 thousand on average.

Gross margin was 80% in Q3 2018, up from 77% in Q3 2017 and 79% in the previous quarter. Cxense added a fourth data center in Q2 2018 to increase the core hosting capacity by approximately 33%. The additional hosting capacity enables Cxense to grow revenues without adding additional cost of sales and supports an estimated gross margin of 83% over time. The fourth data center also paves the way for a more efficient redundancy set-up. Cxense expects to realize the scale benefits through higher gross margin as the core business grows.

Q3 2018 OPEX was USD 5.23 million, compared to USD 4.54 million in Q2 2018 and 7.48 million in Q3 2017. The OPEX increase in Q3 2018 included share-based payments of USD 0.12 million, cost accruals of USD 0.47 million related to the Enreach integration project and sublease of the NYC office, and one-off receivable write-downs of USD 0.14 million. The company had on average 128 full-time employees (FTEs) through Q3 2018, up from 126 FTEs in Q2 2018.

The Q3 2018 group EBITDA was USD -1.19 million and -0.47 million when adjusting for share-based payments, integration cost accruals and one-off receivable write-downs. This was an improvement of USD 0.31 million compared to adjusted EBITDA last quarter. Cxense has in Q3 2018 made further adjustments to optimize operations and cost base. These measures will strengthen the focused organization that was established over the past year and has delivered core revenue growth, high sales efficiency and increased gross margin.

The cash position at end of September 2018 was USD 4.4 million, an increase of USD 0.31 million since the end of June. The positive cash flow in the quarter was primarily a result of reversal of the working capital fluctuations that impacted negatively in in the previous quarter.

New leadership team in place

Chief Commercial Officer David Gosen, Chief Technology Officer Pankaj Saharan and Chief Product Officer Ben Graham all started in the quarter, significantly strengthening Cxense’s execution ability. Key focus areas have been customer retention, new sales and operational improvements.

In October, Jørgen Evjen was appointed Chief Financial Officer at Cxense. He will join the company in February 2019, replacing Jørgen Loeng who steps down at the end of November following his resignation earlier this year. Evjen is an experienced finance manager and leader, having held senior positions at circular economy company Norsk Gjenvinning, smart grid technology provider Enfo Energy and mobile applications company Numo Solutions. He also has a background from Nordic investment bank Carnegie AB. He has worked extensively with business strategy, governance and external relations, in addition to financial performance management and controlling, and will play an important role in driving performance and scaling Cxense together with the rest the management team.

Acquisitions and divestitures

On 30 April 2018, Cxense completed the acquisition of the Finnish DMP company Enreach Solutions OY which has strong complementary data science and DMP competencies. The transaction consideration was made up of Cxense shares and a share-based earn out structure. Work is underway to integrate the Enreach organization and capture operational synergies, and to strengthen the DMP offering to drive growth.

In Q4 2017, Cxense divested the non-core business mporium and Emediate. The divestments of the advertising business Maxifier, and the divestment of Cxense’s majority shareholding in the digital advertising company L’Agora, are ongoing. The divestment process for RAMP (Cxense Video) has been terminated as several indicative bids came in lower than the expected future cash flow from the non-core assets. Consequently, the classification of RAMP as an asset held for sale on the balance sheet has been reversed. Both Maxifier and RAMP are reported as Non-Core SaaS revenue, while L’Agora is reported as discontinued operations.

FINANCIAL DEVELOPMENT SUMMARY

USD 1,000	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
	IFRS	*IFRS*	*IFRS*	*IFRS*	*IFRS*	*IFRS*	*IFRS*	*IFRS*	*IFRS*
SaaS segment									
DMP with Intelligent Personalization (CORE)	2,930	3,066	3,130	3,188	3,357	3,617	3,816	3,875	3,993
Advertising (Non-core)	1,216	1,159	911	861	678	525	436	364	355
mporium (Non-core)	141	132	136	131	146	141	147	77	-
Video (Non-core)	1,224	1,297	1,033	896	875	864	840	801	722
Revenues total	**5,511**	**5,654**	**5,209**	**5,077**	**5,055**	**5,147**	**5,239**	**5,118**	**5,070**
Cost of sales	1,252	1,195	1,361	1,321	1,146	1,005	997	1,091	1,031
Gross profit	**4,259**	**4,460**	**3,848**	**3,756**	**3,909**	**4,143**	**4,242**	**4,027**	**4,039**
Gross margin %	*77%*	*79%*	*74%*	*74%*	*77%*	*80%*	*81%*	*79%*	*80%*
Personnel	4,141	4,574	4,402	5,826	5,305	3,018	2,505	2,474	2,931
Other OPEX	1,772	2,258	2,088	2,284	2,170	2,056	2,156	2,070	2,299
OPEX	**5,913**	**6,832**	**6,490**	**8,110**	**7,476**	**5,074**	**4,661**	**4,544**	**5,230**
EBITDA	**(1,654)**	**(2,374)**	**(2,642)**	**(4,354)**	**(3,567)**	**(931)**	**(420)**	**(518)**	**(1,191)**
Non-IFRS adjustment of OPEX level									
Share-based payment costs	149	191	244	239	(32)	(18)	(4)	39	115
Share-based social costs provision									
Commission accrual reversals								(343)	
Restructuring costs and provisions					1,280	164			411
Office moving costs		210	(21)	0	140	103			60
Extraordinary/special			32	585	24	3			
One-off provision for doubtful debt		84					142	(2)	137
Transaction costs	78	79	103	58	52	1	77	47	
R&D refund		(167)							
Total reported OPEX adjustment items	**226**	**397**	**358**	**882**	**1,464**	**253**	**215**	**(259)**	**723**
OPEX adjusted	**5,686**	**6,435**	**6,132**	**7,228**	**6,012**	**4,821**	**4,446**	**4,803**	**4,507**
EBITDA adjusted	**(1,428)**	**(1,977)**	**(2,284)**	**(3,472)**	**(2,103)**	**(678)**	**(204)**	**(777)**	**(468)**
Capitalized operating expense	(496)	(891)	(507)	(507)	(557)	(268)	(226)	(365)	(421)
EBITDA adjusted with capitalization add back	(1,924)	(2,868)	(2,791)	(3,980)	(2,660)	(946)	(431)	(1,142)	(889)

DMP and Personalization revenue development breakdown

Quarterly figures (unaudited)	**Total revenue**					**DMP and personalization revenue**				
USD 1,000	**Q3 2017**	**Q4 2017**	**Q1 2018**	**Q2 2018**	**Q3 2018**	**Q3 2017**	**Q4 2017**	**Q1 2018**	**Q2 2018**	**Q3 2018**
Revenue in previous quarter	5,077	5,055	5,147	5,239	5,118	3,188	3,357	3,617	3,816	3,875
New recurring license revenue effect	243	468	491	357	333	235	408	437	337	333
Acquired recurring license revenue	-	-	-	97	48	-	-	-	97	48
Divested recurring license revenue	-	(93)	(183)	-	-	-	-	-	-	-
Churn effect	(333)	(240)	(292)	(429)	(315)	(206)	(182)	(274)	(262)	(138)
Change in service revenue	97	(102)	(21)	(33)	(27)	111	(89)	(33)	(50)	(10)
Change in other variables	(121)	69	33	(49)	(30)	(56)	106	35	(20)	(48)
Currency effect	92	(10)	64	(63)	(57)	85	17	34	(44)	(66)
Revenue this quarter	5,055	5,147	5,239	5,118	5,070	3,357	3,617	3,816	3,875	3,993
Accumulated currency effect, reversed	(95)	(85)	(149)	(86)	(29)	(60)	(77)	(111)	(67)	(1)
Outbound revenue currency adjusted	4,960	5,062	5,090	5,033	5,041	3,297	3,540	3,705	3,807	3,992
Q3 run-rate adjustments										
Full effect of contracts closed until 02 November 2018 (Core)										226
Full effect of known churn until 02 November (Core)										(326)
DMP & Personalization run-rate revenue after adjustments										**3,893**
Number of closed contracts in the quarter*	**29**	**30**	**18**	**22**	**15**	**26**	**26**	**18**	**22**	**15**
Whereof new customers*	19	12	11	12	6	18	12	11	12	6
Whereof upsell*	10	18	7	10	9	8	14	7	10	9
Full QRR effect of contracts notified closed in the period	306	429	335	316	229	282	366	335	316	229
Full QRR effect of contracts notified lost in the period	(215)	(221)	(335)	(221)	(442)	(92)	(187)	(219)	(199)	(253)
Net	**91**	**208**	**(0)**	**95**	**(213)**	**191**	**179**	**115**	**117**	**(25)**

*Restated to include only license revenue contracts. Previously also included service and consulting contracts. In Q3 2018, number of new contracts were 15 license contracts and 2 service and consulting contracts.

FINANCIAL REVIEW

Q3 2018 group revenue was USD 5.07 million, compared to Q3 2017 revenue of USD 5.06 million and USD 5.12 million last quarter. Revenue for the core SaaS business was USD 3.99 million in Q3 2018, while the non-core business had revenue of 1.08 million. The core business grew 3% sequentially from Q2 2018, and 19% compared to Q3 2017. Parts of the non-core business is in the process of being divested.

The total revenue development in the quarter was a function of new software license revenues of USD 333 thousand, acquired software license revenues of USD 48 thousand, and changes in service revenues and other variable revenues of USD -57 thousand. Currency effects amounted USD -57 thousand while the churn impact was USD -315 thousand for the period.

The Q3 2018 consolidated cost of sales was USD 1.03 million, compared to USD 1.15 million in Q3 2017. Cost of sales within the SaaS segment predominantly relates to hosting of the software applications used by the company’s customers. The Q3 2018 gross margin was 80%, compared to 77% in Q3 2017 and 79% in Q2 2018. The gross margin increase compared to same quarter last year relates to various hosting cost improvement initiatives.

The Q3 2018 employee benefit expenses were USD 2.93 million, compared to USD 5.31 million in Q3 2017 and USD 2.47 million in Q2 2018. The decline in employee benefit costs since Q3 2017 was mainly a result of headcount reductions made during the Q3 2017 refocusing of the company around the core business. The increase in employee benefit costs compared to Q2 2018 was mainly driven by USD 234 thousand in personnel costs related to the Enreach integration, whereof USD 56 thousand was cash cost in the quarter and USD 178 thousand came from cost provisions. Capitalization of employee benefit expenses related to software development activities amounted to USD 302 thousand in Q3 2018.

Other operating expenses amounted to USD 2.3 million in Q3 2018, compared to USD 2.17 million in Q3 2017. Most of the expenses relate to premises, travel, marketing, consulting services and contractors, as well as one-off receivables write-down. Other operating expenses related to software development activities of USD 119 thousand were capitalized in the quarter.

Q3 2018 EBITDA amounted to USD -1.19 million, compared to USD -3.57 million in Q2 2017 and USD -0.52 million in Q2 2018.

Depreciation and amortization in Q2 2018 were USD 0.6 million, compared to USD 1.14 million in Q3 2017. Depreciation and amortization predominantly relates to intangible assets from acquired companies and capitalized R&D expenses. Impairment of assets were USD 12 thousand in Q3 2018, compared to impairments of USD 5.62 million in Q3 2017 as part of the corporate restructuring.

Finance income amounted to USD 125 thousand in Q3 2018 compared to USD 98 thousand in Q3 2017. Financial expenses amounted to USD 151 thousand in Q3 2018, compared to USD 52 thousand in Q3 2017. Finance income and expenses mainly relate to currency gains and losses.

The Q3 2018 share of profit from investments in associated companies was USD 6 thousand, compared to USD -647 thousand in Q3 2018, and relates to the investment in RepKnight where Cxense holds a 15% stake. The RepKnight share of profit is included in the accounts in accordance with IFRS and the equity method for associated companies. The profit/loss included is booked against the book value of the investments, increasing/reducing the book value accordingly.

The Q3 2018 net loss from discontinued operations was USD 68 thousand, compared to a loss of USD 92 thousand in Q3 2017. Loss from discontinued operations relates to Cxense’s 53% ownership in L’Agora, which is in the process of being divested.

The group net loss from total operations amounted to USD 2.44 million in Q3 2018, compared to a net loss of USD 11.7 million in Q3 2017. This represents a Q3 2018 loss of USD 0.0003 per share, compared to loss of USD 0.0014 per share in Q3 2017.

Total assets at the end of Q3 2018 amounted to USD 23 million, compared to USD 41.4 million as at the end of Q3 2017. The decrease in total assets in the period was mainly related to goodwill impairments in relation to the Q3 2017 restructuring and write down of investments in associated companies. Total equity at the end of Q3 2018 was USD 13.9 million, compared to USD 32.4 million at the end of Q3 2017.

Goodwill of USD 5.95 million at 30 September 2018 relates to goodwill from the acquisition of Maxifier (USD 4.81 million) that will remain after divesture and goodwill from the Enreach acquisition (USD 1.14 million).

The Q3 2018 intangible assets of USD 5.66 million was mainly related to capitalized R&D and intangible assets in RAMP which were reclassified from assets held for sale.

Trade receivables were USD 2.83 million (equal to 50 days sales outstanding[1]) at the end of Q3 2018, compared with USD 3.25 million (58 days) at the end of Q3 2017.

The Q3 2018 cash position was USD 4.4 million, compared to USD 8.49 million at the end of Q3 2017. The year-over-year change was mainly a function of cash used to finance operations and investments over the period. The positive cash flow from Q2 2018 to Q3 2018 was driven by positive working capital effects which in turn was mainly a catch-up effect of negative working capital movements in Q2.

Non-current liabilities at the end of Q3 2018 were USD 1.88 million, compared to USD 0.38 million for Q3 2017. The increase in non-current liabilities is mainly due to the addition of interest-bearing debt acquired in the Enreach transaction. Total current liabilities at the end of Q3 2018 were USD 6.04 million, compared to USD 7.67 million at the end of Q2 2017.

Net cash flow from operating activities was positive USD 1.08 million in Q3 2018, compared to negative USD 3.32 million in Q3 2017. The Q3 2018 cash flow from operating activities was USD 2.27 million higher than the Q3 2018 EBITDA, mainly explained by favorable working capital fluctuations from reduced trade receivables (USD 0.7 million) increased trade payables (0.8 million) and changes in other accruals and non-current items (USD 1.2 million).

Q3 2018 net cash flow used in investing activities was USD 639 thousand, of which USD 421 thousand related to capitalized R&D, USD 134 thousand related to the finalization of the data center investments made in Q2 2018 and the remaining USD 84 thousand was investments in other fixed assets. Net cash flow used in investment activities in Q3 2017 amounted to USD 652 thousand. Net cash flow from financing activities was nil in Q3 2018, compared to USD 4.78 million in Q2 2017 when the company raised cash in a share issue.

Cxense used to have two business segments. In Q4 2017, the Cxense group classified the activities contained in the Publisher-Controlled Advertising Networks (PCAN) segment as "held for sale" and "discontinued operations". Net contribution from PCAN is reported on a separate line and not included in revenue or EBITDA. Full-year and comparable quarterly figures have been restated accordingly.

Cxense has adopted the new revenue recognition standard IFRS 15, effective from 1 January 2018. The group applied the modified retrospective adoption method. The overall impact of IFRS 15 on Cxense financials is limited. The net effect on Q3 2018 revenues was a USD 56 thousand increase compared to under previous recognition principles (IAS 18). The cumulative historical effect, which was booked against equity at the beginning of the year, was a USD 38 thousand reduction.

[1] 1 day = receivables / quarterly revenues * 90 days

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statement – unaudited

USD 1,000	**Note**	**Q3 ended 30 Sep 2018**	**Q3 ended 30 Sep 2017 (restated)**	**Year ended 31 Dec 2017**
Revenue		**5,070**	**5,056**	**20,488**
Operating expense				
Cost of sale		1,031	1,146	4,833
Employee benefit expense		2,931	5,305	18,551
Other operating expenses		2,299	2,171	8,600
EBITDA		**(1,191)**	**(3,566)**	**(11,494)**
Depreciation and amortization expense		603	1,135	3,712
Impairment of assets		(12)	5,621	11,105
Other losses (gains)		202	0	345
Net operating income/(loss)		**(1,984)**	**(10,322)**	**(26,657)**
Financial income and expense				
Finance income		125	98	418
Finance expense		(151)	(52)	(653)
Net financial income/(expense)		**(26)**	**46**	**(235)**
Share of profit from associated companies		6	(647)	(1,392)
Impairment of associated company		0	(687)	(3,152)
Net loss before taxes		**(2,005)**	**(11,610)**	**(31,436)**
Income tax expense		368	(18)	298
operations		**(2,373)**	**(11,592)**	**(31,734)**
Net income/(loss) for the period from discontinuing operations		(68)	(92)	(750)
Total net loss for the period from total operations		**(2,440)**	**(11,684)**	**(32,484)**
Net loss attributable to:				
Owners of the Company		(2,406)	(11,640)	(32,128)
Non-controlling interests		(35)	(45)	(356)
Earnings per share:				
From continuing operations				
Basic		(0.0003)	(0.0014)	(0.0039)
Diluted		(0.0003)	(0.0014)	(0.0038)
From total operations				
Basic		(0.0003)	(0.0014)	(0.0039)
Diluted		(0.0003)	(0.0014)	(0.0039)
Statement of comprehensive income				
Net loss for the period		(2,440)	(11,684)	(32,484)
Other comprehensive income:				
Items that might be subsequent reclassified to net income (loss):				
- Currency translation differences		(173)	138	885
- Amount reclassified from Other comprehensive income to Income Statement at disposal				(129)
Total comprehensive loss		**(2,613)**	**(11,546)**	**(31,728)**
Total comprehensive income/(loss) attributable to:				
Owners of the Company		(2,579)	(11,501)	(31,372)
Non-controlling interests		(35)	(45)	(356)

Consolidated statement of financial position – unaudited

USD 1,000	**Note**	**As at 30 Sep 2018**	**As at 30 Sep 2017**	**As at 31 Dec 2017**
Assets				
Non-current assets				
Goodwill		5,947	9,358	4,809
Deferred tax asset		1	16	16
Intangible assets		5,663	6,965	2,324
Office machinery, equipment, etc.		1,122	776	1,058
Investments in associated companies		(0)	3,192	476
Other financial assets		605	701	854
Total non-current assets		**13,338**	**21,008**	**9,536**
Current assets				
Trade receivables		2,834	3,245	2,438
Other short-term assets		1,413	1,319	1,672
Cash and cash equivalents		4,398	8,491	10,247
Total current assets		**8,645**	**13,054**	**14,357**
Assets classified as "held for sale"		1,025	7,297	6,484
Total assets		**23,007**	**41,359**	**30,378**
Equity and liabilities				
Equity				
Share capital		5,553	5,618	5,459
Other paid-in capital		20,189	50,600	49,012
Currency translation differences		7,493	7,427	7,539
Currency translation on assets held for sale		95	337	35
Retained earnings		(18,629)	(30,926)	(39,523)
Equity attributable to the holders of the Company		**14,702**	**33,056**	**22,521**
Non-controlling interest		(843)	(661)	(735)
Total equity		**13,859**	**32,395**	**21,787**
Liabilities				
Non-current liabilities				
Long-term interest bearing debt		1,018	256	-
Deferred tax liabilities		386	0	0
Other provisions		226	91	127
Other long-term liabilities		245	34	27
Total non-current liabilities		**1,875**	**381**	**154**
Current liabilities				
Trade payables		1,772	1,517	1,112
Current taxes		250	268	192
Other short-term liabilities		4,018	5,888	5,347
Total current liabilities		**6,040**	**7,672**	**6,652**
Liabilities related to assets "held for sale"		1,233	910	1,785
Total liabilities		**9,148**	**8,964**	**8,591**
Total equity and liabilities		**23,007**	**41,359**	**30,378**

Consolidated statement of changes in equity – unaudited

USD 1,000	**Nominal share capital**	**Own shares**	**Other paid-in capital**	**Currency translation differences**	**Currency translation on assets held for sale**	**Retained earnings**	**Attributable to owners of parent company**	**Non-controlling interest**	**Total equity**
Total equity as at 1 January 2017	**4,617**	**0**	**49,666**	**6,818**	**0**	**(12,472)**	**48,627**	**(379)**	**48,248**
Profit for the period					0	(32,128)	(32,128)	(356)	(32,484)
Other comprehensive income	0	0	0	3,379	0	(2,495)	884	0	884
Amount reclassified from Other comprehensive income to Income Statement at disposal				(129)			(129)		(129)
Total comprehensive income/(loss) 2017	0	0	0	3,250	0	(34,623)	(31,373)	(356)	(31,729)
Transaction costs related to capital increases	0	0	(320)	0	0	0	(320)	0	(320)
Share-based payments	0	0	436	0	0	0	436	0	435
Increase in share capital	642	0	4,492	0	0	0	5,134	0	5,134
Reclassification of equity	0	0	(7,572)	0	0	7,572	0	0	0
Purchase of own shares	0	(16)	(269)	0	0	0	(285)	0	(285)
Distribution of own shares.	0	15	280	0	0	0	296	0	296
Sale of own shares	0	0	6	0	0	0	6	0	6
Currency effects from translation of equity	201	(0)	2,294	(2,495)	0	0	0		0
Recycling of OCI on sale and held for sale OCI	0	0	0	(35)	35	0	0	0	0
Total equity as at 31 December 2017	**5,459**	**(0)**	**49,012**	**7,539**	**35**	**(39,523)**	**22,521**	**(735)**	**21,787**
Change in accounting principles						(31)	(31)		(31)
Total equity as at 1 January 2018	**5,459**	**(0)**	**49,012**	**7,539**	**35**	**(39,554)**	**22,490**	**(735)**	**21,755**
Profit for the period						(8,796)	(8,796)	(108)	(8,904)
Other comprehensive income	0	0	0	124	61	(169)	15	0	15
Total comprehensive income/(loss) YTD 18	*0*	*0*	*0*	*124*	*61*	*(8,965)*	*(8,781)*	*(108)*	*(8,889)*
Share-based payments	0	0	148	0	0	0	148	0	148
Increase in share capital	77	0	768	0	0	0	845	0	845
Reclassification of equity	0	0	(29,890)	0	0	29,890	0	0	0
Currency effects from translation of equity	17	0	152	(169)	0	0	0		0
Total equity as at 30 Sep 2018	**5,553**	**(0)**	**20,190**	**7,493**	**95**	**(18,629)**	**14,702**	**(843)**	**13,859**

USD 1,000	**Nominal share capital**	**Own shares**	**Other paid-in capital**	**Currency translation differences**	**Currency translation on assets held for sale**	**Retained earnings**	**Attributable to owners of parent company**	**Non-controlling interest**	**Total equity**
Total equity as at 1 January 2017	**4,617**	**0**	**49,666**	**6,818**	**0**	**(12,472)**	**48,627**	**(379)**	**48,248**
Profit for the period						(21,954)	(21,954)	(282)	(22,236)
Other comprehensive income	0	0	0	5,240	0	(4,294)	946	0	946
Total comprehensive income/(loss) 30 Sep 2017	*0*	*0*	*0*	*5,240*	*0*	*(26,248)*	*(21,008)*	*(282)*	*(21,290)*
Transaction costs related to capital increases	0	0	(185)	0	0	*0*	(185)	0	(185)
Share-based payments	0	0	470	0	0	0	470	0	469
Increase in share capital	642	0	4,492	0	0	0	5,134	0	5,134
Reclassification of equity	0	0	(7,793)	0	0	7,793	0	0	0
Purchase of own shares	0	(16)	(269)	0	0	0	(285)	0	(285)
Distribution of own shares.	0	15	280	0	0	0	296	0	296
Sale of own shares	0	0	6	0	0	0	6	0	6
Currency effects from translation of equity	360	(0)	3,934	(4,294)	0	0	0	0	0
Amounts recognised in OCI and accumulated in equity related to non-current assets held for sale	0	0	0	(337)	337	0	0	0	0
Total equity as at 30 Sep 2017	**5,618**	**(0)**	**50,601**	**7,427**	**337**	**(30,928)**	**33,056**	**(661)**	**32,393**

Consolidated statement of cash flow – unaudited*

USD 1,000	Note	Q3 ended 30 Sep 2018	Q3 ended 30 Sep 2017	Year ended 31 Dec 2017
Cash flow from operating activities				
Profit/(loss) after income tax (including disposal group)		(2,440)	(11,685)	(32,484)
Adjustments:				
Income tax payable		73	(238)	(569)
Share-based payments		115	(32)	432
Share of profit from associated companies, incl impairments		(6)	1,334	4,543
Depreciation. Amortization and impairments		591	6,724	14,855
Impairment				
Net interest expense				
Other losses (gains)		202		345
Currency translation effects		(153)	175	1,153
Change in trade receivables		696	(215)	(111)
Change in trade payables		803	(413)	81
Change in other accrual and non-current items		1,200	1,027	(962)
Net cash flow from/(used in) operating activities		**1,081**	**(3,323)**	**(12,717)**
Cash flow from investing activities				
Investment in furniture, fixtures and office machines		(217)	(95)	(1,187)
Investment in intangible assets		(421)	(557)	(1,839)
Investment in associated companies				(4,577)
Sale of associated company				3,712
Sale of subsidiary				159
Net cash flow from/(used in) investing activities		**(639)**	**(652)**	**(3,733)**
Cash flow from financing activities				
Net proceeds from share issues			4,783	4,598
Proceeds from borrowings				248
Proceeds from minority interest				
Net cash flow from/(used in) financing activities			**4,783**	**4,846**
Net increase/(decrease) in cash and cash equivalents		**442**	**808**	**(11,604)**
Cash and cash equivalents at the beginning of the period		4,091	7,937	21,960
Changes in cash classified as asset held for sale		(135)	(253)	(110)
Cash and cash equivalents at the end of the period		**4,398**	**8,491**	**10,246**

*) The cash flow statement is presented including the discontinued operation PCAN.

NOTES

Note 1: General information

Cxense ASA, which is the parent company of the Cxense group (the group), is a public limited liability company incorporated and domiciled in Norway, with its corporate headquarters in Oslo. Cxense ASA is listed on the Oslo Stock Exchange with ticker symbol CXENSE.

The company's board of directors approved the condensed financial statements on 08 November 2018, after close of business on the Oslo Stock Exchange. The figures in the statements have not been audited.

The interim condensed consolidated financial statements for the first three quarters of 2018, ending 30 September 2018, were prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the group's 2017 annual report.

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the group's annual financial statements for the year ended 31 December 2017, except for the standards (IFRS 9 and IFRS 15) implemented as of 1 January 2018 as described below.

Note 2: Transition to IFRS 15 Revenue from customers

<u>Introduction</u>

As indicated in the Annual Report 2017, the group has adopted IFRS 15 as approved by EU, from 1 January 2018. The group applied the new rules using the modified approach from 1 January 2018. Comparatives for 2017 are not restated.

New accounting policies upon adoption of IFRS 15

<u>Revenue</u>

The group provides its customers with a right to access Cxense software, which is hosted on Cxense servers and represent intellectual property of Cxense. This right, or license, is regarded as a performance obligation. Some license contracts include onboarding services which is an integral part of the license and not a separate performance obligation. As such, any onboarding services is included in the transaction price of the license. The transaction price is recognized over time as the service is delivered.

The group also provides consulting services on special request, which is a separate performance obligation and recognized a delivery.

<u>Contract costs</u>

Incremental costs of obtaining a contract are recognized as an asset if the costs are expected to be recovered. The costs are recognized as an asset and amortized on a systematic basis consistent with the pattern of the transfer of the services to which the asset relates. Cxense applies the practical expedient for costs where expected amortization period is one year or less.

The main change upon implementation of IFRS 15

As a consequence of the implementation of IFRS 15, the following two changes have been done:

- Free license periods are amortized over the contract period and not recognized according to potential free periods
- Onboarding fee is not a separate performance obligation and recognized over the contract period

In summary, the following adjustments were made to the amounts recognized in the balance sheet at the date of initial application, 1 January 2018.

USD 1,000	**IAS 18 carrying amount 31 December 2017**	**Remeasurement**	**IFRS 15 carrying amount 1 January 2018**
Other short-term assets - contract assets 1)	1,672	56	1,728
Deferred tax assets	16	7	23
Retained earnings	(39,523)	(31)	(39,554)
Other short-term liabilities - contract liabilities 2)	5347	94	5,441

1) Other short-term assets include line-accrued income of USD 261 thousand, which will be presented as contract asset under IFRS 15. No reclassification in the balance sheet.

2) Other short-term liabilities include line prepayments from customers of USD 641 thousand, which will be presented as contract liabilities under IFRS 15. No reclassification in the balance sheet.

The income statement as reported YTD have the following effects:

USD 1,000	**As reported YTD Q3**	**Adjustments**	**Without adoption of IFRS 15**
Revenue	15,427	114	15,540
EBITDA	(2,129)	114	(2,015)
Net operating income/(loss)	(7,511)	114	(7,398)
Net loss before taxes	(8,218)	114	(8,105)
Taxes	473	(9)	464
Total net loss for the period for total operations	**(8,904)**	**105**	**(8,800)**

USD 1,000	**As reported Q3 isolated**	**Adjustments**	**Without adoption of IFRS 15**
Revenue	5,070	56	5,126
EBITDA	(1,191)	56	(1,135)
Net operating income/(loss)	(1,984)	56	(1,928)
Net loss before taxes	(2,005)	56	(1,948)
Taxes	368	(4)	364
Total net loss for the period for total operations	**(2,440)**	**52**	**(2,388)**

Note 3: Transition to IFRS 9 Financial Instruments

IFRS 9 Financial Instruments (effective from 1 January 2018) replaces the old incurred loss model with an expected loss model. The new model implies a minor increase in provision for bad debt, as a provision will be recognized before any event has happened as required under an incurred loss model. The group has elected to use the simplified approach as described in IFRS 9.

Note 4: Segment information and disaggregation of revenue

The group has been organized into business units based on its products and services, and has one reportable segment: Cxense SaaS, which sells Software-as-a-Service applications based on a real-time data engine for analysis of content, user context, and behavior. The data engine is fully integrated with a range of software applications that can be used by companies to personalize their sites and apps. The result is increasing engagement, conversions and revenue.

In 2017, the former segment, PCAN, was classified as discontinued operations. As a consequence, PCAN is reported at one line only in net income. Comparable figures are restated.

Based on the above, Cxense has decided not to include segment information as this would only state the same financials already presented in the income statement and balance sheet.

The Group’s revenue is in total related to the Cxense SaaS segment and are disaggregated as follow:

USD 1,000	EMEA	Japan	LatAm	NorthAm	APAC	Total
	Q3 ended 30 September 2018					
DMP & Personalization (core)	1,328	1,149	382	562	443	3,863
Other (non-core)	250	(1)	24	748	-	1,021
Revenue from license	1,578	1,148	406	1,310	443	4,884
DMP & Personalization (core)	12	19	2	6	-	39
Other (non-core)	0	-	-	-	-	0
Revenue from onboarding	13	19	2	6	-	40
DMP & Personalization (core)	4	22	-	62	2	90
Other (non-core)	-	-	-	55	-	55
Revenue from consulting services	4	22	-	118	2	146
Revenue from contracts with customers	**1,594**	**1,189**	**407**	**1,434**	**446**	**5,070**
Of which DMP & Personalization (Core)	*1,344*	*1,190*	*383*	*630*	*446*	*3,993*
Of which other (non-core)	*250*	*(1)*	*24*	*804*	*-*	*1,077*

USD 1,000	EMEA	Japan	LatAm	NorthAm	APAC	Total
	YTD ended 30 September 2018					
DMP & Personalization (core)	3,674	3,503	1,130	1,676	1,243	11,225
Other (non-core)	1,005	(1)	72	2,481	-	3,558
Revenue from license	4,679	3,502	1,202	4,157	1,243	14,783
DMP & Personalization (core)	37	11	2	19	-	70
Other (non-core)	2	-	-	3	-	5
Revenue from onboarding	39	11	2	22	-	75
DMP & Personalization (core)	74	94	5	213	4	389
Other (non-core)	-	-	-	180	-	180
Revenue from consulting services	74	94	5	393	4	569
Other revenue (non-core)						-
Revenue from contracts with customers	**4,793**	**3,607**	**1,209**	**4,571**	**1,246**	**15,427**
Of which DMP & Personalization (Core)	*3,786*	*3,608*	*1,137*	*1,908*	*1,246*	*11,684*
Of which other (non-core)	*1,007*	*(1)*	*72*	*2,664*	*-*	*3,742*

Note 5: Asset held for sale

The Cxense Video business ("RAMP") has the last 3 quarters been recognised as held for sale assets and remeasured to the lowest of fair value less cost of sale and it's carrying amount. As several indicative bids came in lower than the expected future cash flow from the non-core assets, a sale of RAMP is no longer considered a likely outcome. Consequently, at 30 September 2018 the carrying amount of Ramp was reclassified from held for sale assets to intangible assets. The reclassified carrying amount represents the fair value less cost of sale that equals the "value-in-use" value. There was no value adjustment at the time of reclassification. Going forward the carrying amount will be depreciated.

Note 6: Share capital

At 15 September 2018 the Board of Directors resolved to issue 344,000 share options to employees in the Company. The grant was made under the Company's 2018 share option incentive program as adopted by the Company's annual general meeting on 9 May 2018. The exercise price of the share options issued is NOK 33.67 per new share. The issued share options will vest over 4 years by 25% on each anniversary from the date of the grant. The share options expire on 15 September 2023, after which they will lapse and be of no value.

The Company's share capital as of 30 September 2018 is NOK 45,409,005 divided into 9,081,801 shares, each with a nominal value of NOK 5. As of publication of this report, there were 857,850 share options and SRs outstanding.

Note 7: Events after the reporting period

At 18 October 2018 7,576 new shares were issued to Enreach Solutions AB, the seller of Enreach Solutions Oy, in addition to the 123,789 shares issued on 30 April 2018. The new shares were issued at a subscription price of NOK 55. The share issue represents the final closing adjustment amount in the Enreach transaction. The share issue is regarded as an adjusting event and the preliminary purchase price allocation is adjusted accordingly in the statement of financial position as of 30 September 2018. The effect is not material. The Company's new share capital after registration is NOK 45,446,885 divided into 9,089,377 shares, each with a nominal value of NOK 5.

DEFINITIONS

Alternative Performance Measures

Cxense's financial information is prepared in accordance with International Financial Reporting Standards (IFRS). In addition, the company presents alternative performance measures (APM). The APMs are regularly reviewed by management, and their aim is to enhance stakeholders' understanding of the company's performance. APMs are calculated consistently over time and are based on financial data presented in accordance with IFRS and other operational data, as described in the table below. The alternative performance measures presented may be determined or calculated differently by other companies.

QRR	Quarterly Recurring Revenue (QRR) is the quarterly value of a recurring revenue contract. As an example, a recurring revenue contract with a revenue of USD 10 thousand per month has QRR of USD 30 thousand (10 thousand *3)
Closed New ARR	The sum of all ARR for all contracts closed in a certain financial period
Lost ARR (churn)	The sum of all ARR for all contracts lost in a certain financial period
Net New ARR	New ARR – Lost ARR (Churn)
EBITDA	Earnings before interest, taxes, depreciation and amortization. EBITDA corresponds to the "operating income before depreciation, amortization and impairment" in the consolidated income statement
OPEX	Operational Expenditure as presented according to IFRS
Non-IFRS OPEX adjustments	OPEX elements shown separately for the purpose of excluding them from OPEX
OPEX adjusted	OPEX + non-IFRS OPEX adjustments
EBITDA Adjusted	EBITDA calculated using OPEX adjusted instead of OPEX
Capitalized R&D	Capitalized software development cost as per IFRS
EBITDA adjusted with capitalization add back	EBITDA adjusted before capitalized R&D
Gross margin	Gross profit in percent of revenue
EBITDA margin	EBITDA in percent of revenue
Annualized underlying organic growth	Net new ARR from the quarter / quarterly SaaS segment revenue
Sales quota equivalent	A sales quota equivalent is 100% of a one sales quota. A sales rep has 100% of a sales quota. Sales Managers, Customer Success Managers and other individuals within the sales organization may have 75% or less sales quotas.
Days sales outstanding	Trade receivables divided by daily sales revenue (annual revenue / 365)