

SOLTEQ



# Interim Report

JANUARY 1–SEPTEMBER 30, 2020

# Solteq Plc Interim Report January 1–September 30, 2020

## July–September

- Revenue totaled EUR 13,289 thousand (12,993).
- EBITDA was EUR 2,715 thousand (1,300).
- Operating profit was EUR 1,365 thousand (282) and comparable operating profit EUR 1,365 thousand (-15).
- Earnings per share was EUR 0.03 (-0.01).
- The revenue was 2.3 percent higher than in the comparison period, while the comparable revenue grew by 8.5 percent.

## January–September

- Revenue totaled EUR 44,044 thousand (42,583).
- EBITDA was EUR 7,300 thousand (5,327).
- Operating profit was EUR 3,563 thousand (2,383) and comparable operating profit EUR 3,753 thousand (1,711).
- Earnings per share was EUR 0.07 (0.04).
- Solteq Group's equity ratio was 35.0 percent (31.5).
- Net cash flow from operating activities was EUR 4,231 thousand (831).
- The revenue was 3.4 percent higher than in the comparison period, while the comparable revenue grew by 9.3 percent.
- The company invested strongly in future growth by focusing on the development of our own cloud-based software products and services. During the review period the product development investments amounted to EUR 2.3 million (3.0). Product development during the entire financial year is expected to be less than EUR 3.0 million.
- Profit guidance for 2020: Solteq Group's comparable operating profit is expected to grow significantly.

## Key figures

	7-9/2020	7-9/2019	Change %	1-9/2020	1-9/2019	Change %	1-12/2019	Rolling 12mos
Revenue, TEUR	13,289	12,993	2.3	44,044	42,583	3.4	58,291	59,751
Comparable revenue, TEUR	13,289	12,243	8.5	44,044	40,284	9.3	55,293	59,053
EBITDA, TEUR	2,715	1,300	108.9	7,300	5,327	37.0	9,714	11,687
Comparable EBITDA, TEUR	2,715	1,003	170.8	7,490	4,655	60.9	6,582	9,416
Operating profit, TEUR	1,365	282	383.7	3,563	2,383	49.5	5,711	6,891
Comparable operating profit, TEUR	1,365	-15	9,288.0	3,753	1,711	119.3	2,579	4,620
Profit for the financial period, TEUR	539	-187	389.0	1,358	755	79.9	2,803	3,406
Earnings per share, EUR	0.03	-0.01	387.4	0.07	0.04	78.9	0.15	0.18
Operating profit, %	10.3	2.2		8.1	5.6		9.8	11.5
Comparable operating profit, %	10.3	-0.1		8.5	4.2		4.7	7.8
Equity ratio, %				35.0	31.5		32.0	35.2

## Profit guidance 2020

Solteq Group's comparable operating profit is expected to grow significantly.

## CEO Olli Väättäinen:

### The company performed well in a changing market situation

Solteq Group's third-quarter revenue was EUR 13.3 million, up by 2.3 percent. The increase in the comparable revenue – when the absence of the SAP ERP business is taken into account – was 8.5 percent. About a fifth of this revenue was derived from outside Finland. The company's own software products and related services contributed around a third and digital services around two thirds of revenue.

The company's profitability was very good in the third quarter: operating profit improved, year-on-year, by 383.7 percent, standing at EUR 1.4 million. The operating profit margin was 10.3 percent. The company's EBITDA was EUR 2.7 million – up by 108.9 percent year on year. The EBITDA margin was 20.4 percent.

The company has been closely following and assessing the impact of the COVID-19 pandemic on its business. Although the pandemic slowed down sales to some extent in several business areas and in the Nordic subsidiaries, there was overall growth driven by the customer orders secured the year before, the capability to deliver, and success in obtaining new customers in the utilities sector. So far, the pandemic has had no negative impact on the company's performance as a whole. The excellent performance in the third quarter was also supported by the streamlining measures taken earlier this year and the resulting cost savings.

To ensure a going concern and sufficient funding, the company announced on September 24, 2020 the issuance of a new unsecured senior bond with fixed interest rate and a nominal value of EUR 23.0 million and the voluntary redemption of a bond that will mature on July 1, 2021. The new bond was issued after the review period, and the proceeds obtained from it were used to redeem the old bond.

The new bond will mature on October 1, 2024. Annual interest of 6.0 will be paid on it, and it can be redeemed before the final maturity date.

The company has performed well in a challenging and unpredictable market situation. The organization's operational capacity and the safety of its stakeholders were ensured by measures adopted in the early stages of the pandemic. The business outlook is expected to remain unchanged for the rest of the year.

## **Operating environment**

Solteq primarily operates with selected solutions in chosen sectors of the Nordic IT services and software market. The market offers an opportunity for positive business development although it is overshadowed by uncertainty caused by the COVID-19 pandemic and a prediction by IDC, a market intelligence company, of a 5.1 percent drop in international IT markets. The pandemic is expected to have an impact on the market throughout the year. Negative effects will be felt particularly owing to delayed projects and decreasing contract volumes within the travel, restaurant, and leisure industries. At the same time, the pandemic is accelerating the digital transition and the change in companies' operating environments. This will speed up demand for, among other things, digital expert services and solutions, such as eCommerce solutions and software products. Customers' investments are focused on new digital services, securing business continuity, and optimizing costs.

Solteq offers industry-specific solutions for trade, manufacturing industry, car retail, utilities sector, hotel and restaurant business and the public sector. Demand continues to grow in these sectors for solutions that digitalize core operations and make use of artificial intelligence, data, automation and seamless omnichannel systems. The company has a significant competitive advantage based on long-term experience of industry-specific needs. Demand is being further increased by statutory obligations to renew data systems, for example in the energy and water resources management sector.

The company continues to invest in its own product development, in which the main investments have been made into autonomous robotics such as Solteq Retail Robot. Research and advisory company Gartner forecasts that autonomous robotics will become more common in the retail sector within the coming years. Gartner's 2020 report, titled Autonomous Things Ecosystems Open Opportunities for IT Services Providers in Retail, estimates that autonomous robotics is currently utilized by only one percent of retailers in the USA, but the figure will jump to 60 percent by 2025. Demand for autonomous robotics solutions will be accelerated by clear and verifiable benefits, such as more efficient shop operations and a better cost structure.

The digitalizing energy sector is creating growth opportunities in the Finnish market, as electricity businesses prepare to join the national Datahub. Solteq specializes in software and IT services in the industry, which has quickly raised the company into a strong market position as a provider of customer information system and online services in the utilities sector. This supports the company's strategy and long-term goals. The company has also expanded the operation of its Utilities business area into Sweden, where the utilities sector is awaiting the development and confirmation of a more detailed timetable for a centralized information-exchange system project, similar to Datahub in Finland.

Solteq has been building its market position consistently in selected industries as a provider of comprehensive solutions and services. Continuous evolution of customer needs requires investments in Solteq's own product development and new technologies, especially within cloud services and

analytics. In addition, IT sector players are expected to provide more agile and scalable delivery models. Solteq meets the expectations with an organization that makes use of agile methods, and by focusing on the as-a-Service (aaS) model and its own software products.

The digital expert services and software products provided by the company comprehensively cover trends that are expected to strengthen in the future. These include intelligent use of data in business processes, the mainstreaming of cloud technologies, and digital services based on user and customer experiences. The digital reality is affecting everyone. Keeping up with the latest developments is therefore on the current and future agenda of companies of different sizes and in various sectors.

## **Revenue and profit**

### **July–September**

Solteq’s revenue for the third quarter increased by 2.3 percent compared to the previous year and totaled EUR 13,289 thousand (12,993). The increase in comparable revenue – factoring in the absence of the SAP ERP business – was 8.5 percent.

Operating profit totaled EUR 1,365 thousand (282). Comparable operating profit was EUR 1,365 thousand (-15).

Profit before taxes was EUR 804 thousand (-223) and the profit for the financial period was EUR 539 thousand (-187).

### **January–September**

Revenue in January–September increased by 3.4 percent compared to the previous year and totaled EUR 44,044 thousand (42,583). The increase in comparable revenue – factoring in the absence of the SAP ERP business – is 9.3 percent.

Operating profit for the review period was EUR 3,563 thousand (2,383). Comparable operating profit was EUR 3,753 thousand (1,711).

Profit before taxes was EUR 1,908 thousand (903) and the profit for the financial period was EUR 1,358 thousand (755).

## **Solteq Digital**

### **July–September**

Solteq Digital segment’s third-quarter revenue was EUR 9,158 thousand (9,255), down by 1.1 percent. The increase in comparable revenue – when the absence of the SAP ERP business is taken into account – was 7.7 percent. The comparable EBITDA was EUR 1,554 thousand (506) and comparable operating profit EUR 820 thousand (-145).

The segment’s business consists of three solution areas: commercial solutions; data-driven solutions; and business solutions. During the third quarter, the commercial and business solutions performed as

expected, accounting for some 78.0 percent of the segment's revenue. Data-driven solutions continued to grow considerably during the third quarter.

Sales in the Solteq Digital segment performed reasonably, considering expectations, during the third quarter. The COVID-19 pandemic has hit the travel, restaurant, and leisure sector projects the hardest as project volumes shrink or they are postponed. Demand remained healthy in the segment's key business areas, such as eCommerce solutions and the retail business. In addition, the company gained a bigger foothold in the Nordic pharmacy sector, through an extensive service and delivery agreement with the Swedish pharmacy chain, Apoteksgruppen. The comprehensive solution delivered to Apoteksgruppen consists of new ERP and POS systems for more efficient operations and better customer experience.

### January-September

The goals for Solteq Digital segment's comparable growth and profitability were realized well in the review period. Solteq Digital's revenue was EUR 31,004 thousand (30,307), up by 2.3 percent. The increase in comparable revenue – when the absence of the SAP ERP business is taken into account – was 10.7 percent. The segment's comparable EBITDA was EUR 4,640 thousand (2,905) and comparable EBITDA margin 15.0 percent. The comparable operating profit was EUR 2,579 thousand (912) and comparable operating profit margin 8.3 percent. The business outlook for the rest of the year is expected to remain at the current level.

	7-9/2020	7-9/2019	Change %	1-9/2020	1-9/2019	Change %	1-12/2019
<b>Solteq Digital</b>							
Revenue, TEUR	9,158	9,255	-1.1	31,004	30,307	2.3	41,195
Comparable revenue, TEUR	9,158	8,505	7.7	31,004	28,008	10.7	38,197
Comparable EBITDA, TEUR	1,554	506	207.1	4,640	2,905	59.7	3,871
Comparable EBITDA, %	17.0	5.9		15.0	10.4		10.1
EBITDA, TEUR	1,554	803	93.5	4,500	3,577	25.8	7,072
EBITDA, %	17.0	8.7		14.5	11.8		17.2
Comparable operating profit, TEUR	820	-145	666.9	2,579	912	182.7	1,199
Comparable operating profit, %	9.0	-1.7		8.3	3.3		3.1
Operating profit, TEUR	820	152	437.6	2,439	1,584	54.0	4,401
Operating profit, %	9.0	1.6		7.9	5.2		10.7

### Solteq Software

#### July-September

Solteq Software segment's third-quarter revenue was EUR 4,131 thousand (3,738), up by 10.5 percent. The comparable EBITDA was EUR 1,161 thousand (497) and comparable operating profit EUR 545 thousand (130). Comparable EBITDA and operating profit were eroded by the revenue recognition of long-term projects in the Utilities business area and product development depreciations that were higher than previously. Depreciations were EUR 138 thousand higher year-on-year. Profitability is expected to improve gradually as product development reaches the commercial phase and revenue increases.

The segment's business operations consist of the Utilities business and the Point-of-Sale-Platforms business, focusing on omnichannel commerce in the service industry. Both increased considerably and performed as expected, forming 63.0 percent of the segment's revenue. The company has begun to investigate the possibility of incorporating the Solteq Robotics business area.

In the autonomous robotics business area, the company formed Intelligent Sustainable Urban Flows consortium together with KONE Corporation and Lassila & Tikanoja Plc. The project started in August 2020. The purpose of the consortium is to develop increasingly intelligent and automated solutions for the internal logistics of large real estate. Business Finland granted Solteq EUR 800 thousand to carry out the two-year project.

The company was successful in obtaining new customers, especially in the Utilities business area. On September 30, the company announced that it had made a EUR 5.5 million agreement with a Finnish customer for the delivery of a customer information system and the related license service fees for 4–5 years. Thanks to new customer delivery contracts, Solteq obtained a significant position as a provider of customer information system and online services in the utilities sector.

A total of EUR 562 thousand was invested in product development in the third quarter. Product development during the entire financial year is expected to be less than EUR 3,000 thousand. Going forward, product development is expected to be between 10–15 percent of the segment's revenue.

#### **January–September**

The Solteq Software segment performed as expected in the review period. The segment's revenue in January–September was EUR 13,039 thousand (12,276), up by 6.2 percent. The review period's comparable EBITDA was EUR 2,850 thousand (1,750) and comparable EBITDA margin 21.9 percent. The comparable operating profit was EUR 1,174 thousand (799) and operating profit margin 9.0 percent.

The share of recurring revenue during the review period accounted for around 30 percent of the segment's revenue. Recurring revenue consists of software licensing, maintenance, and support fees. The company's target is to increase recurring revenue to account for more than 50 percent of the revenue in three years.

During the review period – particularly in the Utilities business area – Solteq was successful in gaining new customers, and the value of new customer delivery contracts in the utilities sector exceeded EUR 22 million. The new delivery and service agreements consist of delivery projects for the customer information system the company has developed, and related options and license service fees for 4–5 years. Overall, Solteq Software segment's business operations are expected to develop positively for the rest of the year.



<b>Solteq Software</b>	<b>7-9/2020</b>	<b>7-9/2019</b>	<b>Change %</b>	<b>1-9/2020</b>	<b>1-9/2019</b>	<b>Change %</b>	<b>1-12/2019</b>
Revenue, TEUR	4,131	3,738	10.5	13,039	12,276	6.2	17,095
Comparable EBITDA, TEUR	1,161	497	133.8	2,850	1,750	62.8	2,711
Comparable EBITDA, %	28.1	13.3		21.9	14.3		15.9
EBITDA, TEUR	1,161	497	133.8	2,800	1,750	59.9	2,642
EBITDA, %	28.1	13.3		21.5	14.3		15.5
Comparable operating profit, TEUR	545	130	320.3	1,174	799	46.9	1,379
Comparable operating profit, %	13.2	3.5		9.0	6.5		8.1
Operating profit, TEUR	545	130	320.3	1,124	799	40.6	1,311
Operating profit, %	13.2	3.5		8.6	6.5		7.7

## Balance sheet and financing

Total assets amounted to EUR 74,256 thousand (71,719). Liquid assets totaled EUR 5,448 thousand (2,081). The company has a standby credit limit of EUR 4,000 thousand, which at the end of the review period was unused. At the end of the comparison period, EUR 2,000 thousand of the standby credit limit was in use. The company also has a bank account credit limit of EUR 2,000 thousand which was unused at the end of both the review and the comparison periods. At the end of the review period, the company had a EUR 1,207 thousand Business Finland loan for product development (857).

The Group's interest-bearing liabilities were EUR 33,238 thousand (34,951).

Solteq Group's equity ratio was 35.0 percent (31.5).

On July 1, 2015 Solteq issued an unsecured bond with a nominal value of EUR 27.0 million. The bond carries a fixed annual interest of 6.0 percent and its maturity is five years. To reduce the company's interest costs, Solteq repurchased and cancelled the share of the above-mentioned bond with a nominal value of EUR 2.5 million during the financial year 2016. The company's bond liability is EUR 24.5 million.

The company began a written procedure on April 21, 2020 to change the terms of the above-mentioned bond with a nominal value of EUR 27.0 million, so that the bond's original maturity date of July 1, 2020 would be extended by 12 months owing to the COVID-19 pandemic and the financial market situation. Changing the terms of the bond in the written procedure was accepted on May 18, 2020. The new maturity date is July 1, 2021.

Solteq announced on September 24, 2020 that it was issuing a new unsecured senior fixed interest rate bond with a nominal value of EUR 23.0 million and voluntarily redeeming a bond that will mature on July 1, 2021. After the review period, the new bond was issued on October 1, 2020, and the proceeds obtained from it were used to redeem the old bond on October 13, 2020. The new bond will mature on October 1, 2024. Annual interest of 6.0 percent will be paid on it, and it can be redeemed before the final maturity date.

The maturity distribution of financial liabilities is presented in the tables section of this Interim Report.



The terms of the bond issued in 2015 include financial covenants concerning the distribution of funds and incurring financial indebtedness other than permitted under the terms of the Bond (Incurrence Covenant). The covenants require that at any agreed review date, the equity ratio exceeds 27.5 percent, the interest coverage ratio (EBITDA/net interest cost) exceeds 3.00:1, and that the Group's net interest bearing debt to EBITDA ratio does not exceed 3.50:1.

As to the new bond, issued on October 1, 2020, the financial covenants concerning the distribution of funds and incurring financial indebtedness other than permitted under the terms of the bond are the same as previously, but the Group's net interest bearing debt to EBITDA ratio does not exceed 4:1.

### **Investment, research and development**

The net investments during the review period were EUR 4,737 thousand (4,286). During the review period, EUR 2,330 thousand (3,018) of the net investments were capitalized development costs relating to continued further development of the existing software products and the development of new software products. Other investments were EUR 2,407 thousand (1,268). Other investments include the net change in rented premises and equipment, totaling EUR 2,083 thousand.

Capitalized development costs include EUR 1,541 thousand (2,185) of staff costs.

### **Personnel**

The number of permanent employees at the end of the review period was 593 (602).

### **Key figures for group's personnel**

	<b>7-9/2020</b>	<b>7-9/2019</b>	<b>1-9/2020</b>	<b>1-9/2019</b>	<b>1-12/2019</b>
Average number of personnel during period			592	596	597
Employee benefit expenses, TEUR	6,851	6,830	23,102	22,653	30,951

### **Related party transactions**

Solteq's related parties include the Board of Directors, CEO and Executive team.

The related party actions and euro amounts are presented in the tables at the end of this Interim Report.

### **Shares, shareholders and treasury shares**

Solteq Plc's equity on September 30, 2020 was EUR 1,009,154.17 which was represented by 19,306,527 shares. The shares have no nominal value. All shares have an equal entitlement to dividends and company assets. Shares are governed by a redemption clause.

Solteq Plc did not hold any treasury shares at the end of the review period.

## **Stock option scheme and share-based incentive scheme of the management**

During the financial year 2016 Solteq's Board of Directors decided to adopt a new stock option scheme and share-based incentive scheme for the key employees of the company. The purpose of both schemes is to encourage the key employees to work for the growth of the shareholder value and to commit the key employees to the employer. Terms and conditions of the stock option scheme and share-based incentive scheme are presented in more detail in the Stock Exchange Bulletin published on July 15, 2016.

The theoretical market value of the incentive scheme was at the time of the implementation about EUR 0.6 million which was recognized as an expense in accordance with IFRS 2 in the years 2016–2018. The expense is not recognized on a cash flow basis except for the share of the share based. The company's current and former management owned one million shares under the option scheme. The subscription period ended on December 31, 2019. No shares were subscribed during the subscription period, and the options expired.

## **Exchange and rate**

During the review period, the exchange of Solteq's shares in the Nasdaq Helsinki Ltd was 2.2 million shares (0.6) and EUR 2.8 million (0.8). The highest rate during the review period was EUR 1.70 and lowest rate EUR 0.96. The weighted average rate of the share was EUR 1.26 and end rate EUR 1.64. The market value of the company's shares at the end of the review period totaled EUR 31.7 million (29.3).

## **Ownership**

At the end of the review period, Solteq had a total of 2,404 shareholders (2,233). Solteq's 10 largest shareholders owned 13,316 thousand shares i.e. they owned 69.0 percent of the company's shares and votes. Solteq Plc's members of the Board of Directors and CEO owned 592 thousand shares on September 30, 2020 (592).

## **Annual General meeting**

Solteq's Annual General Meeting on June 10, 2020 approved the financial statement for period January 1–December 31, 2019 and discharged the CEO and the Board of Directors from liability.

The Board of Directors' proposal of to the General Meeting that no dividend will be paid from the financial year ended on December 31, 2019 was accepted.

The Annual General Meeting authorized the Board of Directors to decide on share issue, carried out with or without payment and on issuing share options, and other special rights referred to in Chapter 10, Section 1 of the Finnish Companies Act as follows:

The maximum total amount of shares or other rights is 3,000,000. The authorization includes the right to give new shares or convey company's own shares. The authorization includes a right to deviate from the shareholders' pre-emptive right of subscription if there is a significant financial reason in company's opinion, e.g. to improve the capital structure, to finance and execute business acquisitions and other business improvement arrangements or to implement the company's incentive schemes. The authorization is proposed to include that the Board of Directors may decide the terms and other matters

concerning the share issue and the granting of special rights, including the subscription price and the payment of the subscription price in cash or in whole or in part by other means (subscription in kind) or by using a claim on the subscriber to offset the subscription price and to record it in the company's balance sheet.

The authorization is effective until the next Annual General Meeting, however, no longer than until April 30, 2021 (April 30, 2021 included).

In addition, the Annual General Meeting authorized the Board of Directors to decide on accepting the company's own shares as pledge as follows:

The Board of Directors is authorized to decide on accepting the company's own shares as pledge (directed) regarding business acquisitions or when executing other business arrangements. Accepting pledge may occur at once or in multiple transactions. The number of own shares to be accepted as pledge shall not exceed 2,000,000 shares. The authorization includes that the Board of Directors may decide on other terms concerning the pledge. The authorization is effective until the next Annual General Meeting, however, no longer than until April 30, 2021 (April 30, 2021 included).

#### **Board of directors and auditors**

The Annual General Meeting on June 10, 2020 decided that The Board of Directors includes six members. Aarne Aktan, Lotta Kopra, Markku Pietilä, Panu Porkka, Katarina Segerståhl and Mika Uotila will continue on the Board.

In the Board meeting, held after the Annual General Meeting, Markku Pietilä was elected as the Chairman of the Board.

In addition, Aarne Aktan, Lotta Kopra and Markku Pietilä were appointed to the members of the Audit Committee. Aarne Aktan acts as the Chairman of the Audit Committee.

KPMG Oy Ab, Authorized Public Accountants, was re-elected as auditors, with Petri Sammalisto, APA, acting as the chief auditor.

#### **Other events during the review period**

On March 23, Solteq Plc announced that the Annual General Meeting scheduled for April 1, 2020 will be cancelled and moved to another date to be announced later.

On April 3, Solteq Plc announced that, for the time being, the company cancels its guidance for the 2020 financial year due to the uncertainty on the markets caused by the COVID-19 pandemic.

On April 6, Solteq Plc announced that it considers requesting an amendment to the terms and conditions of its EUR 27.0 million bond in a written procedure.

On April 20, Solteq Plc released comparable data for the financial year 2019 based on its new reporting structure.

On April 21, Solteq Plc announced a written procedure to amend the terms and conditions of its EUR 27.0 million senior unsecured fixed rate bond due 2020.

On April 28, Solteq Plc announced that it has signed delivery and service agreements worth around EUR 8.0 million (including options) with the energy industry.

On April 29, Solteq Plc announced that the Board of Directors has decided to change the proposal for the distribution of dividend.

On May 18, Solteq Plc announced that it has successfully completed a written procedure in order to amend the terms and conditions of its bond.

On August 20, Solteq Plc announced that Ilkka Brander, member of Executive Team of Solteq Plc and EVP of Solteq Software segment, has announced his resignation in order to assume a new position outside of Solteq.

On September 15, Solteq Plc announced that it considers the issuance of new euro-denominated senior unsecured fixed rate bond with a nominal value of approximately EUR 25.0 million.

On September 24, Solteq Plc announced that it issues a new euro-denominated senior unsecured fixed rate bond with a nominal value of EUR 23.0 million and redeems its unsecured fixed rate bond with maturity in 2021 on October 13, 2020.

On September 30, Solteq Plc announced that it has signed an agreement to provide a Finnish customer with a comprehensive customer service system. The value of the agreement is over EUR 5.5 million.

### **Events after the review period**

On October 1, 2020, Solteq announced that the Finnish Financial Supervisory Authority has accepted Solteq Plc's listing prospectus for a EUR 23.0 million bond. Nasdaq Helsinki Ltd accepted the new bond for public trading on October 5, 2020 with trading code STQJ600024.

The company's management is not aware of any other events of material importance after the review period that might have affected the preparation of the Interim Report.

### **Risks and uncertainties**

Material uncertainties and near-term risks consist of the direct and indirect impacts of the COVID-19 pandemic on the company's business and financial position.

On April 21, 2020, the company initiated a written procedure concerning a change in the terms of a bond worth EUR 27.0 million (with maturity date July 1, 2020), requesting that the loan period be extended by 12 months. The company's bond liability is EUR 24.5 million. Amendment of the terms was accepted by means of a written procedure on May 18, 2020. The bond will mature on July 1, 2021.

On September 24, 2020, the company announced its decision to issue a new bond and to voluntarily redeem the bond that will mature in 2021. After the review period, the new bond was issued, and the

proceeds obtained from it were used to redeem the old bond. The new, unsecured senior bond with fixed interest rate and a nominal value of EUR 23.0 million will mature on October 1, 2024.

Other key uncertainties and risks are related to the management of changes in financing and balance sheet structures, the timing and pricing of business deals that are the basis for revenue, changes in the level of costs, developing company's own products and their commercialization, and the company's capability to manage extensive customer contracts and deliveries.

The key business risks and uncertainties of the company are monitored constantly as a part of the Board of Directors' and Executive team's duties. In addition, the company has the Audit Committee appointed by the Board of Directors.

### **Impact of the COVID-19 pandemic on financial reporting**

The company is continuously monitoring the COVID-19 pandemic situation, assessing its impact on the company's operations, strategy and realization of targets, performance, financial position, and cash flows.

Based on information currently available, the COVID-19 pandemic is not expected to have any long-term impact on the company's financial performance. The company's management has assessed the goodwill impairment test included in the 2019 financial statements in relation to the current financial period's performance and long-term expectations. The management has not identified any need to further test its goodwill during the reporting period, and the pandemic has not had an effect on asset item valuations.

The company has not historically incurred material credit losses, so the probability of such losses is low, and provisions for them have been small. Considering the situation, the company prepared for any increased credit losses due to the COVID-19 pandemic in the first quarter by increasing the credit loss provisions in the balance sheet. No significant changes have yet been observed in customers' payment behavior. The company is following the situation closely.

The company has also assessed the valuation of its other asset items and discovered that the pandemic has had no effect on their valuation so far.

The company's EUR 24.5 million bond will mature on July 1, 2021. On September 24, 2020, the company announced its decision to issue a new bond with a nominal value of EUR 23.0 million that will mature on October 1, 2024. The proceeds from the issue will be used for the refinancing of the company's existing bond and for general corporate purposes.

### **Going concern principle**

On April 21, 2020, the company initiated a written procedure concerning a change in the terms of an unsecured, senior bond with fixed interest and a nominal value of EUR 27.0 million (with maturity date July 1, 2020), requesting that the loan period be extended by 12 months. Amendment of the terms was accepted by means of a written procedure on May 18, 2020. The company's bond liability is EUR 24.5 million.

The prerequisite of a going concern is to rearrange financing before the original maturity date of the current bond. The procedure ended in a favorable outcome. Due to prevailing conditions on the financial markets, the company considers it appropriate to request a 12-month extension to the term of the bond. The EUR 24.5 million bond at the end of the review period will mature on July 1, 2021.

On September 24, 2020, the company announced its decision to issue a new bond with a nominal value of EUR 23.0 million that will mature on October 1, 2024. The proceeds from the issue will be used for the refinancing of the company's existing bond and for general corporate purposes.

Following the completion of the above financial arrangements, the company will have a EUR 23.0 bond that matures on October 1, 2024. The company also has a EUR 4,000 thousand standby credit limit and a EUR 2,000 thousand credit limit, both unused at the end of the review period on September 30, 2020.

The company's operations are on a solid foundation and it is the management's view that the company has the capacity to overcome the COVID-19 pandemic's negative impacts on its business operations. On this basis, the management expects operations to continue, with only a low risk of inadequate funding.

This Interim Report was drawn up under the going concern principle, taking into account the financial restructuring carried out.

## **Financial reporting**

This Interim Report has been prepared in accordance with the recognition and valuation principles of IFRS standards and using IAS 34 and the same accounting policies as the Financial Statements 2019. The new IFRS standards, taken into use on January 1, 2020, do not have a significant impact in the Group's Interim Report. The information presented in the Interim Report has not been audited.

## **Changes in segment reporting**

On October 29, 2019, Solteq Plc announced that the company is changing its segment structure to create a better match with the Group's business structure and revenue sources and to promote business growth, particularly in international markets. Going forward, in 2020 Solteq Group will have two business segments: Solteq Software (software business) and Solteq Digital (consulting).

In the previous reporting structure, the Group's business was presented as a single segment. The new structure divides Solteq's business areas into distinct reportable segments, in accordance with their revenue models.

Solteq Software includes businesses based on the company's own products. The segment's revenue is mainly derived from license and maintenance fees for Solteq's own products, and the related services such as integrations and implementation projects.

The revenue of the Solteq Digital segment mainly comprises IT expert services. These services include consulting, the implementation of customer systems as projects, continuous development services and maintenance.

The comparable data for the financial year 2019 was released on April 20, 2020 in a separate Stock Exchange Bulletin.



## Financial information

### Consolidated statement of comprehensive income

TEUR	7-9/2020	7-9/2019	1-9/2020	1-9/2019	1-12/2019
<b>Revenue</b>	<b>13,289</b>	<b>12,993</b>	<b>44,044</b>	<b>42,583</b>	<b>58,291</b>
Other income	100	11	234	24	2,594
Materials and services	-1,258	-1,430	-4,333	-3,734	-5,440
Employee benefit expenses	-7,945	-8,105	-26,986	-26,849	-36,757
Depreciations and impairments	-1,350	-1,018	-3,737	-2,944	-4,003
Other expenses	-1,472	-2,169	-5,659	-6,697	-8,974
<b>Operating profit</b>	<b>1,365</b>	<b>282</b>	<b>3,563</b>	<b>2,383</b>	<b>5,711</b>
Financial income and expenses	-561	-505	-1,655	-1,480	-2,032
<b>Profit before taxes</b>	<b>804</b>	<b>-223</b>	<b>1,908</b>	<b>903</b>	<b>3,679</b>
Income taxes	-265	37	-550	-149	-876
<b>Profit for the financial period</b>	<b>539</b>	<b>-187</b>	<b>1,358</b>	<b>755</b>	<b>2,803</b>
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Currency translation differences	-22	-21	-47	-66	-44
Other comprehensive income		-29		-29	-29
Other comprehensive income, net of tax	-22	-50	-47	-95	-73
<b>Total comprehensive income</b>	<b>517</b>	<b>-237</b>	<b>1,311</b>	<b>660</b>	<b>2,731</b>
Total profit for the period attributable to owners of the parent	539	-187	1,358	755	2,803
Total comprehensive income attributable to owners of the parent	517	-237	1,311	660	2,731
Earnings per share, EUR (undiluted)	0.03	-0.01	0.07	0.04	0.15
Earnings per share, EUR (diluted)	0.03	-0.01	0.07	0.04	0.15

Taxes corresponding to the profit have been presented as taxes for the period.

## Consolidated statement of financial position

TEUR	30 Sep 2020	30 Sep 2019	31 Dec 2019
<b>Assets</b>			
<b>Non-current assets</b>			
Tangible assets	496	548	654
Right-of-use assets	7,426	7,528	7,298
Intangible assets			
Goodwill	38,840	40,305	38,840
Other intangible assets	11,190	9,239	10,151
Other investments	481	481	481
Other long-term receivables	160	221	108
<b>Non-current assets total</b>	<b>58,592</b>	<b>58,323</b>	<b>57,531</b>
<b>Current assets</b>			
Inventories	74	424	164
Trade and other receivables	10,141	10,891	15,638
Cash and cash equivalents	5,448	2,081	3,648
<b>Current assets total</b>	<b>15,663</b>	<b>13,396</b>	<b>19,449</b>
<b>Total assets</b>	<b>74,256</b>	<b>71,719</b>	<b>76,980</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to equity holders of the parent company</b>			
Share capital	1,009	1,009	1,009
Share premium reserve	75	75	75
Distributable equity reserve	12,910	12,910	12,910
Retained earnings	11,845	8,462	10,533
<b>Total equity</b>	<b>25,839</b>	<b>22,456</b>	<b>24,528</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	488	802	588
Financial liabilities	1,207	857	1,201
Lease liabilities	5,255	4,955	5,156
<b>Non-current liabilities total</b>	<b>6,950</b>	<b>6,614</b>	<b>6,945</b>
<b>Current liabilities</b>			
Financial liabilities	24,309	26,442	26,461
Trade and other payables	14,638	13,406	16,657
Provisions	53	105	41
Lease liabilities	2,467	2,696	2,349
<b>Current liabilities total</b>	<b>41,467</b>	<b>42,649</b>	<b>45,508</b>
<b>Total equity and liabilities</b>	<b>74,256</b>	<b>71,719</b>	<b>76,980</b>

## Consolidated cash flow statement

TEUR	1-9/2020	1-9/2019	1-12/2019
<b>Cash flow from operating activities</b>			
Profit for the financial period	1,358	755	2,803
Adjustments for operating profit	5,834	4,252	3,732
Changes in working capital	-1,224	-2,711	-595
Interests paid	-1,764	-1,477	-1,829
Interests received	28	12	16
<b>Net cash from operating activities</b>	<b>4,231</b>	<b>831</b>	<b>4,128</b>
<b>Cash flow from investing activities</b>			
Divested businesses	4,071		
Investments in tangible and intangible assets	-2,663	-3,195	-4,668
<b>Net cash used in investing activities</b>	<b>1,408</b>	<b>-3,195</b>	<b>-4,668</b>
<b>Cash flow from financing activities</b>			
Long-term loans, increase	7	857	1,201
Short-term loans, increase		3,595	3,595
Short-term loans, decrease	-2,000	-3,595	-3,595
Payment of finance lease liabilities	-1,845	-1,759	-2,361
<b>Net cash used in financing activities</b>	<b>-3,838</b>	<b>-902</b>	<b>-1,160</b>
<b>Changes in cash and cash equivalents</b>	<b>1,801</b>	<b>-3,266</b>	<b>-1,700</b>
Cash and cash equivalents at the beginning of period	3,648	5,347	5,347
<b>Cash and cash equivalents at the end of period</b>	<b>5,448</b>	<b>2,081</b>	<b>3,648</b>

## Consolidated statement of changes in equity

TEUR	Share capital	Share premium account	Invested unrestricted equity reserve	Currency translation difference	Retained earnings	Total
<b>Equity 1 Jan 2019</b>	1,009	75	12,910	-56	7,859	21,797
Profit for the financial period					755	755
Other items on comprehensive income				-66	-29	-95
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-66</b>	<b>726</b>	<b>660</b>
<b>Equity 30 Sep 2019</b>	<b>1,009</b>	<b>75</b>	<b>12,910</b>	<b>-122</b>	<b>8,585</b>	<b>22,457</b>
<b>Equity 1 Jan 2020</b>	<b>1,009</b>	<b>75</b>	<b>12,910</b>	<b>-100</b>	<b>10,633</b>	<b>24,528</b>
Profit for the financial period					1,358	1,358
Other items on comprehensive income				-47		-47
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-47</b>	<b>1,358</b>	<b>1,311</b>
<b>Transactions with owners</b>						
Returned dividends					0	0
<b>Transactions with owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Equity 30 Sep 2020</b>	<b>1,009</b>	<b>75</b>	<b>12,910</b>	<b>-146</b>	<b>11,991</b>	<b>25,839</b>

## Revenue from contracts with customers

Group

TEUR	7-9/2020	7-9/2019	1-9/2020	1-9/2019	1-12/2019
Services	10,901	10,195	35,956	32,836	45,415
Revenue from long-term projects	672	1,523	3,271	4,515	5,922
Revenue from software licenses	1,662	1,126	4,605	4,850	6,386
Hardware sales	54	148	212	382	568
<b>Total</b>	<b>13,289</b>	<b>12,993</b>	<b>44,044</b>	<b>42,583</b>	<b>58,291</b>

## Solteq Digital

TEUR	7-9/2020	7-9/2019	1-9/2020	1-9/2019	1-12/2019
Services	7,834	7,683	26,689	24,521	33,508
Revenue from long-term projects	502	862	2,062	3,142	4,188
Revenue from software licenses	788	628	2,122	2,382	3,176
Hardware sales	34	82	131	261	323
<b>Total</b>	<b>9,158</b>	<b>9,255</b>	<b>31,004</b>	<b>30,307</b>	<b>41,195</b>

## Solteq Software

TEUR	7-9/2020	7-9/2019	1-9/2020	1-9/2019	1-12/2019
Services	3,067	2,512	9,267	8,315	11,907
Revenue from long-term projects	170	662	1,210	1,373	1,734
Revenue from software licenses	874	498	2,482	2,468	3,210
Hardware sales	20	66	81	121	244
<b>Total</b>	<b>4,131</b>	<b>3,738</b>	<b>13,039</b>	<b>12,276</b>	<b>17,095</b>

## Total investments

TEUR	7-9/2020	7-9/2019	1-9/2020	1-9/2019	1-12/2019
Group total	982	1,599	4,737	4,286	4,632

## Maturity of financial liabilities

TEUR	Book value	Contractual cash flows	1-12 months	13-24 months	25-36 months	Later
<b>Financial liabilities, Sep 30 2020</b>						
Bond	24,309	25,224	25,224			
Loans from financial institutions	1,207	1,255	12	92	410	740
Lease liabilities	7,722	7,960	2,734	2,004	1,571	1,650
Trade payables	2,829	2,829	2,829			
<b>Financial liabilities total</b>	<b>36,068</b>	<b>37,267</b>	<b>30,800</b>	<b>2,096</b>	<b>1,982</b>	<b>2,390</b>
<b>Financial assets, Sep 30 2020</b>						
Trade receivables	8,733					
Cash and cash equivalents	5,448					
<b>Financial assets total</b>	<b>14,181</b>					

The company has a standby credit limit of EUR 4,000 thousand and a bank account credit limit of EUR 2,000 thousand. At the end of the review period, September 30, 2020 both were unused.

The company's business fundamentals are strong, and the operating profit and cash flow from operating activities are positive, which provides funding for the working capital requirements of the business. In addition, in order to pay back the bond maturing on July 1, 2021 (totaling EUR 24.5 million) and to secure the company's financial position and growth strategy, the company decided to issue a new bond, worth EUR 23.0 million, which will mature on October 1, 2024. The proceeds from the issue will be used for the refinancing of the company's existing bond and for general corporate purposes.

## Liabilities

TEUR	30 Sep 2020	30 Sep 2019	31 Dec 2019
Business mortgages	10,000	10,000	10,000
Off-balance sheet lease liabilities	1,388	670	1,027

## Related party transactions

TEUR	7-9/2020	7-9/2019	1-9/2020	1-9/2019	1-12/2019
Service sales					6
Purchases		2	3	6	8
<b>Total</b>	<b>0</b>	<b>2</b>	<b>3</b>	<b>6</b>	<b>14</b>

Transactions with the related parties have been done at the market price and are part of the company's normal business.

## Fair value of financial assets and liabilities

The fair values of the financial assets and liabilities are mainly the same as the book values. Hence, they are not presented in table form in the Interim Report.

## Major shareholders September 30, 2020

		Shares and votes	
		number	%
1.	Sentica Buyout III Ky	4,621,244	23.94
2.	Profiz Business Solution Oy	2,060,769	10.67
3.	Keskinäinen Työeläkevakuutusyhtiö Elo	2,000,000	10.36
4.	Saadetdin Ali	1,403,165	7.27
5.	Keskinäinen Työeläkevakuutusyhtiö Varma	1,245,597	6.45
6.	Aalto Seppo Tapio	730,000	3.78
7.	Roininen Matti Juhani	450,000	2.33
8.	Väätäinen Olli Pekka	400,000	2.07
9.	Lamy Oy	225,000	1.17
10.	Sentica Buyout III Co-Investment Ky	180,049	0.93
10 largest shareholders total		13,315,824	68.97
Total of nominee-registered		974,557	5.05
Others		5,016,146	25.98
<b>Total</b>		<b>19,306,527</b>	<b>100.00</b>

## Financial performance indicators

	7-9/2020	7-9/2019	1-9/2020	1-9/2019	1-12/2019
Revenue, MEUR	13.3	13.0	44.0	42.6	58.3
Change in revenue, %	2.3	1.2	3.4	1.5	2.5
Operating profit, MEUR	1.4	0.3	3.6	2.4	5.7
% of revenue	10.3	2.2	8.1	5.6	9.8
Profit before taxes, MEUR	0.8	-0.2	1.9	0.9	3.7
% of revenue	6.1	-1.7	4.3	2.1	6.3
Net investments in non-current assets, MEUR	1.0	1.6	4.7	4.3	4.6
Equity ratio, %			35.0	31.5	32.0
Net debt, MEUR			27.8	32.9	31.5
Gearing, %			107.6	146.4	128.5
Return on equity, rolling 12 months, %			14.1	3.9	12.1
Return on investment, rolling 12 months, %			11.8	5.5	10.4
Personnel at end of period			593	602	598
Personnel average for period			592	596	597

## Key indicators per share

	7-9/2020	7-9/2019	1-9/2020	1-9/2019	1-12/2019
Earnings per share, EUR (undiluted)	0.03	-0.01	0.07	0.04	0.15
Earnings per share, EUR (diluted)	0.03	-0.01	0.07	0.04	0.15
Equity per share, EUR			1.34	1.16	1.27

## Alternative performance measures to be used by Solteq Group in financial reporting

Solteq uses alternative performance measures to describe the company's underlying financial performance and to improve the comparability between review periods. The alternative performance measures should not be regarded as indicators that replace the financial key figures as defined in IFRS standards.

Performance measures used by Solteq Group are EBITDA, equity ratio, gearing, return on equity, return on investment and net debt. The calculation principles of these financial key figures are presented as part of this Interim Report. The performance measures presented as rolling 12 months include the total figures of the past four quarters.



## Items affecting comparability and alternative performance measures

### Items affecting comparability:

Transactions that are unrelated to the regular business operations, or valuation items that do not affect the cash flow, but have an important impact on the income statement, are adjusted as items affecting comparability. These non-recurring items may include the following:

- Significant restructuring arrangements and related financial items
- Impairments
- Items related to the sale or discontinuation of significant business operations
- Costs incurred by the re-organization of operations
- Costs incurred by the integration of acquired business operations
- Non-recurring severance packages
- Fee items that are not based on cash flow
- Costs incurred by changes in legislation
- Fines and similar indemnities, damages and legal costs

### Comparable revenue

The reconciliation of the comparable revenue to revenue is presented in the table below.

TEUR	7-9/2020	7-9/2019	1-9/2020	1-9/2019	1-12/2019
Revenue	13,289	12,993	44,044	42,583	58,291
<b>Items affecting comparability</b>					
SAP ERP business transfer agreement		-750		-2,299	-2,998
<b>Total items affecting comparability</b>	<b>0</b>	<b>-750</b>	<b>0</b>	<b>-2,299</b>	<b>-2,998</b>
<b>Comparable revenue</b>	<b>13,289</b>	<b>12,243</b>	<b>44,044</b>	<b>40,284</b>	<b>55,293</b>

### Comparable operating profit (EBIT)

The reconciliation of the comparable operating profit to operating profit is presented in the table below. The same adjusting items apply when reconciling the comparable EBITDA to EBITDA.

TEUR	7-9/2020	7-9/2019	1-9/2020	1-9/2019	1-12/2019
<b>Operating profit (EBIT)</b>	<b>1,365</b>	<b>282</b>	<b>3,563</b>	<b>2,383</b>	<b>5,711</b>
<b>Items affecting comparability</b>					
SAP ERP business transfer agreement		-297		-743	-3,479
Cost of integrating the acquired business				72	72
Non-recurring severance packages			190		39
Damages from completed customer projects					98
Costs incurred by the re-organization of operations					138
<b>Total items affecting comparability</b>	<b>0</b>	<b>-297</b>	<b>190</b>	<b>-672</b>	<b>-3,132</b>
<b>Comparable operating profit (EBIT)</b>	<b>1,365</b>	<b>-15</b>	<b>3,753</b>	<b>1,711</b>	<b>2,579</b>

### Calculation of financial ratios

Solvency ratio, %:  $\text{equity} / (\text{balance sheet total} - \text{advances received}) \times 100$

Gearing, %:  $(\text{interest bearing liabilities} - \text{cash, bank balances and securities}) / \text{equity} \times 100$

Return on Equity (ROE), %:  $\text{profit for the financial period (rolling 12 months)} / \text{equity (average for the period)} \times 100$

Return on investment (ROI), %:  $(\text{profit before taxes} + \text{finance expenses (rolling 12 months)}) / (\text{balance sheet total} - \text{interest free debt (average for the period)}) \times 100$

Earnings per share:  $(\text{profit before taxes} -/+ \text{minority interest}) / \text{adjusted average basic number of shares}$

Diluted earnings per share:  $(\text{profit before taxes} -/+ \text{minority interest}) / \text{adjusted average diluted number of shares}$

EBITDA:  $\text{operating profit} + \text{depreciation and impairments}$

Net debt:  $\text{interest bearing liabilities} - \text{cash and cash equivalents}$

### Business combinations

There were no acquisitions during the review or comparison period.

**Financial reporting**

More investor information is available on Solteq's website at [www.solteq.com](http://www.solteq.com).

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