Interim report Q3 2020

+8.8%

Net revenue increase vs Q3 2019

13.8%

Adjusted EBITDA margin

Highlights of Q3 2020

- Net revenue amounted to EUR 41.9m, an increase of 8.8% compared to Q3 2019 (EUR 38.5m)
- Adjusted EBITDA amounted to EUR 5.8m, a substantial increase of EUR 4.8m compared to Q3 2019 (EUR 1.0m), corresponding to an adjusted EBITDA margin of 13.8% (2.5% in Q3 2019)
- EBIT amounted to EUR 1.7m, corresponding to an EBIT margin of 4.0%
- Net profit (excl. minority share) amounted to EUR 0.8m
- Net operating cash flow amounted to EUR (4.3m).
- Monthly gameplays of Governor of Poker 3 increased by 25% compared to Q3 2019 and ARPU D30 increased by 38% from EUR 0.69 as at Q3 2019 to EUR 0.95
- We continue our initiatives for developing new gaming platforms and product launches, with the August Monopoly Poker launch in the United States, Habbo 2020 sequel in September, a new Troll Face Quest game by the name of Loot Rescue and the launch of Sara's Diner.

Financial highlights

Income statement (EURm)	Q3 2020	Q3 2019
Net revenue	**41.9**	**38.5**
yoy net revenue growth	*8.8%*	-
Adjusted EBITDA	**5.8**	**1.0**
Adjusted EBITDA margin	*13.8%*	*2.5%*
EBIT	**1.7**	-
EBIT margin	*4.0%*	-
Net profit	**0.8**	-
Net cash flow from operations	**(4.3)**	-

Message from our CEO's

We continue to see the impact of the global pandemic on the world around us and, by extension, on our employees, business partners, users and our business. Against this backdrop, we are happy to report another set of strong financials for the third quarter of the year, with robust performance across our business and positive key financial and operating metrics. Disciplined execution of our growth strategy, organisational focus and flexibility have driven positive momentum across our operating activities.

This has resulted in our net revenue in Q3 increasing by 8.8% compared to Q3 2019, from EUR 38.5m to EUR 41.9m, whereas our adjusted EBITDA increased from EUR 1.0m (2.5% margin) to EUR 5.8m (13.8% margin) during the same period.

In our Gaming segment, two themes stand out. First, the third quarter is usually impacted by the seasonality effect of people spending less time indoors and behind their screens. This was also the case this year, however user engagement started to pick up strongly again in September. Secondly, user engagement levels started to normalise following the general lifting of Covid-19-induced lockdowns across our geographic markets. Notwithstanding, our focus on in-app purchasing has yielded solid results in terms of monetisation across our portfolio. In addition, we launched our Monopoly Poker game in the US, we launched new games in our successful Troll Face Quest and Sara's franchises, and we continued to add product features and events in our existing games. Consequently, our Gaming segment revenues grew by 60% to EUR 22.9m, compared to the same quarter last year. We are happy to point out this is all organic growth, indicating the robustness of our platform to drive growth.

Our Monetization Tech segment was impacted by the same broader market patterns as our Gaming segment. We have witnessed somewhat slower advertising activity during the summer months compared to the rest of the year, which is in line with previous years. In September we started securing substantial new advertising budgets again. In addition, we continued to reap the benefits of our implemented reorganisation and sharpened product focus, which we discussed in our previous messages. On the product side, we continued to add new features and functionalities to our Improve Digital and Headerlift product suites to better serve our clients and partners and we added new partnerships with e.g. MediaMath, Amazon and a number of SSP's. With the general economic adversity, we succeeded to improve our profitability in Monetization Tech with adjusted EBITDA increasing significantly to EUR 1.4m from EUR (2.6m) in Q3 2019.

We remain very excited about the growth prospects and technological developments of the gaming and monetization market ahead of us. More and more people seek meaningful and fulfilling interaction through connecting with each other online, which will continue to provide headwinds to our sector and our business. We invest in content, technological innovation, new markets and platforms to provide a safe, reliable and social environment for consumers around the globe.

We would like to thank all our employees and business partners for their continued support during the third quarter of 2020.

Atilla Aytekin and Umut Akpinar

CEO's and Founders of Azerion

Financial overview Q3 2020

Net revenue

EUR 41.9m

Net revenue Q3 2020

Azerion's net revenue for the quarter amounted to EUR 41.9m, an increase of 8.8% (equivalent to EUR 3.4m) compared to Q3 2019. This increase is entirely attributable to our Gaming segment, which succeeded in perpetuating the user volume momentum, increasing EUR 8.6m in net revenues as compared to Q3 2019. Monetization Tech concluded the quarter with net revenues of EUR 19.0m.

In addition to several product enhancements finalized within our current portfolio, Azerion finalized a privileged integration with MediaMath, a technology partnership aimed at maximizing the value extracted from the digital media supply chain. Our expectation is that these efforts will monetize in the coming quarters and support a further uplift in our core revenue streams.

Earnings

EUR 5.8m

Adjusted EBITDA Q3 2020

Adjusted EBITDA margin amounted to 13.8% (EUR 5.8m) from 2.5% (EUR 1.0m) in the third quarter of 2019. This margin expansion is primarily supported by a higher user volume and stronger monetization within Gaming, supplemented by organizational restructuring efforts and enhancements to core products within Monetization Tech.

Non-recurring items affecting comparability amounted to EUR 1.3m and mainly include acquisition expenses, capital market expenses and transition costs. These items are excluded from Adjusted EBITDA.

The results of our organizational restructuring efforts in H1 of this year have become evident in our reported Q3 cost base. Both COGS and OPEX for the quarter decreased in relation to net revenue, from 67% and 30% in Q3 2019, to 62% and 27% in Q3 2020. As such, the gross margin improved by 500 bps, from 33% to 38%.

EBIT amounted to EUR 1.7m and included depreciation and amortization totaling EUR 2.8m, of which 1.9m applies to the amortization of gaming assets and platform assets, and 0.8m primarily applies to the depreciation of capitalized lease assets.

Net profit for the quarter amounted a positive EUR 0.8m.

Cash flow

The Group's cash flow from operating activities totalled EUR (4.3m), within this cash flow movement in net working capital excluding 2019 PPA adjustments was EUR (2.3m). Cash flow from investing activities amounted to EUR 0.4m. Cash flow from financing activities totalled EUR (1.3m).

Capex

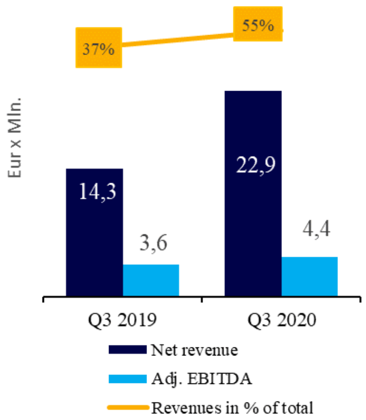
Azerion capitalizes some of its development costs, which are generated by the continuous investments in asset development, a core activity to support innovation in our content and technology platforms. These costs primarily relate to developers' time devoted to the development of games, platforms, and other new features. EUR 1.9m was capitalized in Q3 2020, equivalent to 4.4% of revenue.

Net interest-bearing debt

Azerion’s net interest-bearing debt amounted to EUR 67.1m, as per September 30, 2020. Interest-bearing debt mainly comprises the Company's outstanding bond loan with a nominal value of EUR 60m and invoice factoring agreements, less the cash and cash equivalents position of EUR 7.4m.

Segment information

Gaming



Last quarter we witnessed unprecedented Gaming volumes driven primarily by the confinement effects of Covid-19. As global lockdowns have somewhat released, we experienced some flattening of volume, but overall a continuation of this momentum. With overall advertising spend still not recovering to pre-Covid levels, our focus stayed dedicated towards the expansion of in-app monetisation opportunities. This resulted in a continued increase in players making higher in-game purchases.

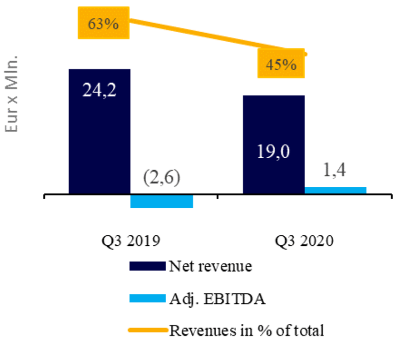
Although new user volume within Gaming declined compared to last quarter, on average our user base is solid and outperforms pre-Covid levels. Moreover, we experienced further improvements in the overall quality of users, with higher overall user engagement levels across our portfolio.

Within Q3, we made important efforts to increase the potential of our gaming E-commerce platform Voidu. With a geographic expansion we expect to reach new markets and dedicated gamers, supported by an expansion of our product offering accompanied by unique and exclusive offers. The application of new technology will allow for speed and scalability to achieve the desired benefits from these efforts.

These developments overall contributed to Gaming net revenue increasing with 60% to EUR 22.9m in Q3 2020, compared to EUR 14.3m in Q3 2019. Additionally, we officially launched Monopoly Poker in the United States, soft-launched a promising sequel of Habbo 2020, and the games Troll Face Quest and Sara's Diner.

This quarter Adjusted EBITDA increased 23% from EUR 3.6m to EUR 4.4m, when compared to Q3 2019, corresponding to a 19% EBITDA to net revenue margin.

Monetization Tech



The global trend of advertising spend reduction due to the effects of Covid-19 has shown some recovery by advertisers in the third quarter of 2020, and our Monetization Tech division has capitalized on this opportunity by securing new budgets.

Monetization Tech delivered net revenues for the quarter of EUR 19.0m. Although sales volumes have remained stable, our committed efforts to organizational restructuring and enhancements to our core product offerings have resulted in an improvement of segment profitability, delivering adjusted EBITDA of EUR 1.4m in Q3 2020, compared to EUR (2.6m) in Q3 of 2019.

Within the quarter, Azerion succeeded in completing an invoicing optimization project, which will further enhance efficiency and compliance of financial processes. To further optimize the potential of our ecosystem, we have implemented a Polaris deal prioritization mechanism within Headerlift, prioritizing deals from the Improve Digital platform over other demand sources. Also, the launch of a new video player in our subsidiary ZoomIn will be supported through direct monetization feeds by Headerlift. Starting Q3, Amazon has become our new mediation partner and we have introduced SSP engines Triplelift, E-Planning, Yieldlab and JustPremium to the Azerion ecosystem, expanding current volumes within the existing digital media supply chain.

Outlook Q4 and the remainder of the year

From a seasonality perspective, Q3 is a low business quarter. Both Gaming and Monetization Tech are impacted by the summer period and lower screen time in general, which translates to lower sales volumes in July and August, typically with a subsequent uplift in September. This quarter we have seen a similar pattern.

Q4 is historically our strongest quarter in terms of volume, particularly for advertising sales, and we expect this trend to continue through Q4 of 2020, even though the continuing effects of the ongoing pandemic remain unpredictable. We believe our robust business is equipped to keep delivering on our promise, as such our previously communicated guidance of EUR 25.5m adjusted EBITDA for the full year 2020 remains.

Significant events after the reporting period

The ongoing effects of the Covid-19 pandemics continue to disrupt economic activity, market dynamics and business conduct, which constitute the primary source of general economic uncertainty.

Consolidated financial statements

The consolidated quarterly financial statements have been prepared and are stated in accordance with the International Financial Reporting Standards (IFRS).

The financials are presented in millions of Euros and rounded, unless otherwise stated.

Consolidated balance sheet (unaudited)

Balance sheet (EURm)	Q3 20	Q2 20
ASSETS		
Fixed assets		
Development costs	3.5	4.2
Concessions permits & IPR	7.4	0.4
Goodwill	44.2	42.2
Games	13.6	18.0
Website	13.1	13.3
Intangible fixed assets	**81.7**	**78.1**
Equipment	0.6	0.6
Furniture	5.2	3.9
Tangible fixed assets	**5.7**	**4.5**
Other participating interests	1.2	1.4
Other receivables	20.4	19.7
Financial fixed assets	**21.6**	**21.1**
Current assets		
Trade receivables	44.0	42.8
Taxes and social securities	11.4	10.1
Other receivables	13.9	16.0
Receivables, prepayments and accrued income	**69.3**	**68.9**
Cash and cash equivalents	**7.4**	**12.6**
TOTAL	**185.7**	**185.3**

Balance sheet (EURm)	Q3 20	Q2 20
LIABILITIES		
Equity		
Group equity	(8.6)	(8.7)
Subordinated loans	15.1	11.8
Total Protective Capital Resources	**6.5**	**3.1**
Provisions		
Provisions	3.0	3.1
Deferred tax liability	3.0	1.3
Total provisions	**6.0**	**4.4**
Non-current liabilities		
Bond	60.2	60.2
Finance company debt	5.9	4.6
Debt to participating interests and companies	-	3.3
Total non-current liabilities	**66.0**	**68.0**
Current liabilities		
Finance company debt	11.5	12.7
Trade creditors	64.7	65.7
Taxes and social securities	20.2	18.3
Other liabilities	10.7	13.1
Total current liabilities	**107.2**	**109.7**
TOTAL	**185.7**	**185.3**
Interest Bearing Debt	74.4	72.4
Less: Cash & Cash Equivalents	(7.4)	(12.6)
Net Interest Bearing Debt*	**67.1**	**59.8**

* As defined per section 1.1 in the Terms & Conditions of the Senior Secured Callable Floating Rate Bonds ISIN: SE0013774957.

Consolidated income statement (unaudited)

Income statement (EURm)	**Q3 20**	**Q3 19**
Net Revenue	41.9	38.5
COGS	(26.1)	(25.8)
Gross margin	**15.8**	**12.6**
Operating Expenses	(11.3)	(11.7)
EBITDA	**4.5**	**1.0**
D&A	(2.8)	-
EBIT	**1.7**	**-**
Financial results	(1.2)	-
EBT	**0.5**	**-**
Income taxes	(0.4)	-
Result from operations after tax	**0.1**	**-**
Third party share	0.6	-
Result after tax (excl. minority share)	**0.8**	**-**

EBITDA	**4.5**	**1.0**
Transition expenses - Capital Markets	0.0	-
Transition expenses - Acquisitions/Disposals	0.9	-
Other non-recurring income or expenses	0.4	-
Adjusted EBITDA	**5.8**	**1.0**

Consolidated cash flow statement (unaudited)

Cash flow statement (EURm)	Q3 20	Q2 20
Cash flow from operating activities		
Operating result	1.7	2.9
Adjustments for:		
Amortization and depreciation	2.8	3.4
Movement of provisions	(0.3)	0.0
Movement of working capital:	*(7.5)*	*(4.4)*
Audit 2019 PPA adjustments	(5.2)	
Movement of accounts receivable	(0.4)	3.2
Movement of short-term liabilities	(1.9)	(7.6)
Cash flow from operating activities	**(3.3)**	**1.9**
Other operating cash flows		
Income taxes	(0.4)	(0.0)
Third party share	(0.6)	(0.5)
Net cash flow from operating activities	**(4.3)**	**1.4**
Cash flow from investing activities		
Movements in intangible fixed assets	0.2	(0.2)
Movements in tangible fixed assets	0.1	(0.1)
Movements in other related parties	-	(0.1)
Cash flow from investing activities	**0.3**	**(0.4)**
Cash flow from financing activities		
Movement in group equity (excl. period result)	(0.1)	(0.0)
Debt repayments	-	(2.0)
Borrowing	(0.2)	-
Movement of other receivables	0.2	5.1
Payment of finance company debt	(1.2)	(1.0)
Cash flow from financing activities	**(1.2)**	**2.0**
Total cash flow	**(5.2)**	**3.0**
Compilation cash		
Opening cash	12.6	9.6
Movement of cash and equivalents	(5.2)	3.0
Closing cash	**7.4**	**12.6**

Other information

About Azerion

Azerion is a leading pan-European technology, entertainment and media company engaged in numerous interrelated operating activities. We develop, publish and operate online social games and digital entertainment. In addition, we provide technology solutions to automate the purchase and sale of digital advertising inventory for media buyers and sellers.

Founded in 2014, the company has experienced rapid growth since its inception owing to organic initiatives as well as a successful M&A track record, including 37 acquisitions completed since 2014, of which 2 in 2020. Azerion currently employs ~850 employees across 15 European offices.

By strategically combining and integrating its various product segments, Azerion efficiently monetizes its users whilst offering a compelling solution to content creators, publishers, advertisers and other third parties; supported by carefully selected strategic partnerships.

Risk and uncertainty factors

Commentary on the risks and uncertainties relating to our business can be found in the consolidated annual report FY19 of Azerion Holding B.V., which is held and can be viewed upon request at the offices of Azerion Holding B.V., Beechavenue 182, 1119 PX Schiphol-Rijk, Netherlands.

Declaration/ Management statement

To the best of our knowledge, the interim consolidated financial statements present a true and fair view of the operations, the consolidated assets, liabilities, the financial position and the profit or loss of Azerion Holding B.V.

Legal

This report has been prepared solely for informing the bond holders as per the bond terms and conditions dated 9 March 2020.This report has not been reviewed nor audited by the company’s auditor.

Financial calendar

Quarterly report, Q4 2020	28 February 2021
Audited Annual Report FY20	30 April 2021

Contact

For further information please contact:

Atilla Aytekin, CEO	Umut Akpinar, CEO	Dado Alonso, CFO
a.aytekin@azerion.com	u.akpinar@azerion.com	d.alonso@azerion.com