



Interim report Q2 2020

Highlights of Q2 2020

+12.3%

Net revenue increase vs
Q1 2019

15.1%

Adjusted EBITDA margin

- Net revenue amounted to EUR 49.2m, an increase of 12.3% compared to Q2 2019 (EUR 43.9m)
- Adjusted EBITDA amounted to EUR 7.5m, an increase of 70.5% compared to Q2 2019 (EUR 4.4m), corresponding to an adjusted EBITDA margin of 15.1% (10.0% in Q2 2019)
- EBIT amounted to EUR 2.9m, corresponding to an EBIT margin of 5.8%
- Net profit (excl. minority share) amounted to EUR 1.6m
- Net operating cash flow amounted to EUR 1.4m.
- Driven by the social effects of Covid-19, more people than ever have turned to games for entertainment, evidenced by a solid increase in activity on our online gaming platforms in Q2.
- Monthly gameplays of Governor of Poker increased by 33% compared to Q2 2019, with ARPU D30 increasing by 46% from EUR 0.59 as at Q2 2019 to EUR 1.10.
- We continue our initiatives for developing new gaming platforms and product launches, with the May launch of Monopoly Poker in the United Kingdom and further releases of our IP games, such as Troll Face Quest.

Financial highlights

Income statement (EURm)	Q2 2020	Q2 2019
Net revenue	49.2	43.9
<i>yoy net revenue growth</i>	<i>12.3%</i>	<i>-</i>
Adjusted EBITDA	7.5	4.4
<i>Adjusted EBITDA margin</i>	<i>15.1%</i>	<i>10.0%</i>
EBIT	2.9	-
<i>EBIT margin</i>	<i>5.8%</i>	<i>-</i>
Net profit	1.6	-
Net cash flow from operations	1.4	-

Message from our CEO's



“We live in unprecedented times, where the Covid-19 pandemic has continued to permeate societies, disrupting everyday lives and challenge global economic activity throughout the second quarter of 2020. We have gradually started to repatriate our employees back to the offices, ensuring adequate rules are implemented and reaffirming that the safety and wellbeing of our employees remain a key priority. Being a truly digital company, we have succeeded in ensuring smooth business continuity and have managed to minimize disruption on our business activities.

In Q2, we delivered exceptional results and compared to Q2 2019, our net revenue has increased by 12.3% from EUR 43.9m to EUR 49.2m and our adjusted EBITDA by a whopping 70% from EUR 4.4 to EUR 7.5m.

This growth is driven primarily by the contribution of Gaming. In these dire circumstances, we witnessed that people have more than ever turned toward gaming for entertainment and a sense of community. In Q2, monthly gameplays for some of our popular titles increased by no less than 33% compared to Q2 2019. This increase in gaming activity has continued to support our solid and steady growth in spite of lower than usual M&A activity. Consequently, our Gaming segment grew revenues by 89% to EUR 27.7m, compared to the same quarter last year. Further, we continued our initiatives of on-going game development, adding new features to existing titles and successfully launching Monopoly Poker in the UK.

In Q2, advertisers continued a global trend of pausing their advertising and significantly lowering advertising spend, therewith attempting to minimize association with the Covid-19 pandemic. Advertising spend decreased on average by 30% in Q2 compared to the same period last year. As a result, our Monetization Tech segment experienced a rough quarter with revenues and adjusted EBITDA declining by respectively EUR (7.7m) and EUR (1.4m) compared to Q2 2019. Driven by effective measures taken to control cost, we succeeded in preventing this effect fully pervading our EBITDA. Moreover, we experienced the first signs of market recovery in June, with a clear upward volume trend and remain confident we will continue to structurally monetize such effects as we move into H2 of 2020.

Our focus in this quarter has been on the seamless integration of prior quarter acquisitions, Spil Games and Collective Media, which continue to perform ahead of our expectations. Forward looking, we remain confident in the execution of our multi-year growth strategy and our potential to drive topline growth and margin expansion over the coming years.

It is our view that a sensibly leveraged capital structure supports our business operations and our strategic objectives, supporting healthy cash-flow generation. Our financial leverage has remained stable throughout Q2, and together with our demonstrated increase in volume and profitability, should pave the way for further financing opportunities, supporting balance sheet strengthening and future acquisitions.

Despite enduring complicated circumstances, our organisation continues to demonstrate it has the ability to adapt smoothly to challenging conditions and we would like to thank all our employees and stakeholders for their contributions during the second quarter of 2020.”

Atila Aytekin and Umut Akpinar

CEO's and Founders of Azerion

Financial overview Q2 2020

Net revenue

EUR 49.2m

Net revenue Q2 2020

Azerion's net revenue for the quarter amounted to EUR 49.2m, an increase of 12.3% (equivalent to EUR 5.4m) compared to Q2 2019. Within this increase, Gaming realized net revenues of EUR 13.1m, driven by the unprecedented surge in gaming activities as a result of the Covid-19 confinement effects. This is offset by a EUR 7.7m net revenue decline in Monetization Tech, again mainly driven by the impact of Covid-19, in which advertisers on a global scale have significantly lowered their advertising spend.

Within the quarter, Azerion has established new key partnership initiatives with Mars Media, ItaliaOnline (IOL) and Adform. Furthermore, we have focused on the integration of our recent acquisitions, including the prior quarter acquisitions Spil Games and Collective Media, which continue to perform ahead of expectations.

Earnings

EUR 7.5m

Adjusted EBITDA Q2 2020

Adjusted EBITDA margin amounted to 15.1% (EUR 7.5m) from 10.0% (EUR 4.4m) in the second quarter of 2019. The aforementioned growth in Gaming drives this expansion in adjusted EBITDA. Non-recurring items amounted to EUR 1.7m and mainly include acquisition expenses, capital market expenses and transition costs.

Azerion's cost base is dominated by COGS and personnel expenses, resulting in a highly variable cost structure with good flexibility to reduce costs and preserve EBITDA should net revenue decline. At 61% of net revenues, COGS remained stable compared to Q2 2019 (62%). As a direct result, the gross margin of 39% is in line with Q2 2019 (38%). This cost stability is further evidenced by operating expenses amounting to 27% of net revenues, compared to 28% in Q2 2019.

Azerion capitalizes some of its development costs, primarily relating to developers' time devoted to the development of games, platforms and other new features. EUR 1.8m was capitalized in Q2 2020, equivalent to 3.6% of revenue.

EBIT amounted to EUR 2.9m and included depreciation and amortization totaling EUR 2.9m, of which 2.8m applies to the amortization of gaming assets and platform assets in Monetization Tech.

Net profit for the quarter amounted to EUR 1.6m.

Cash flow

The Group's cash flow from operating activities totalled EUR 1.4m. Movement in net working capital was EUR (4.4m) driven by a plan to employ cash resources to lower historical trade creditor positions within Monetization Tech.

Cash flow from investing activities totalled EUR (0.4m). Compared to prior quarter, where investing cash flows totalled EUR (14.4m), there were no acquisitions to drive up investing cash flows in the second quarter of 2020.

Cash flow from financing activities totalled EUR 2.0m, mainly driven by the receipt of a partial loan repayment instalment.

Capex

Capex R&D for Q2 2020 amounted to EUR 1.8m. R&D capitalisation is mainly driven by continuous investments in development, a core activity to support innovation in our content and technology platforms.

Net interest-bearing debt

Azerion's net interest-bearing debt amounted to EUR 59.8m, as per 30th of June 2020. Interest-bearing debt mainly comprises the Company's outstanding bond loan with a nominal value of EUR 60m and an invoice lending agreement, less the cash and cash equivalents position of EUR 12.6m.

Segment information

New segment reporting from Q2 2020 onwards

As part of our ongoing efforts to bring reporting segments in line with the operational activities within the company, from Q2 onwards Azerion reports two segments: i) Gaming and ii) Monetization Tech. The new segment Monetization Tech includes the previous segments AdTech and AdSales.

Gaming

In an unprecedented time, where people have endured lengthened periods of home confinement following the effects of Covid-19, we have evidenced a substantial increase in gaming user volume across all our gaming platforms. In some titles, MAU grew with 24% in comparison to the prior quarter.

Combined with the expansion of our new user base, we have witnessed record average times spent in games, which remained high throughout the quarter. In addition, more players were making higher in-app purchases, in-comparison to prior periods. As a result, we continued to observe an increase in in-app revenues, offset by falling advertising gaming revenues resulting from a global trend in which advertisers have lowered advertising spend amidst the Covid-19 crisis. Our focus continued towards in-app monetisation during the quarter, where we outperformed our financial targets set in Q1. As our cost base remained stable during the quarter, this topline growth contributed strongly to the further expansion of our adjusted EBITDA.

Gaming net revenue grew with 89% to EUR 27.7m in Q2 2020, compared to EUR 14.7m in Q2 2019. The revenue increase was driven by organic volume growth, heightened gaming traffic on the back of Covid-19 and the launch of new products and titles. Governor of Poker, Habbo, Hotel Hideaway and our e-commerce platform Voidu were the largest drivers of year-over-year topline growth.

Adjusted EBITDA increased to EUR 7.0m, corresponding to a 25% margin, compared to EUR 2.4m, or 17% for Q2 2019. The adjusted EBITDA increase is driven primarily by operational leverage of our business.

Monetization Tech

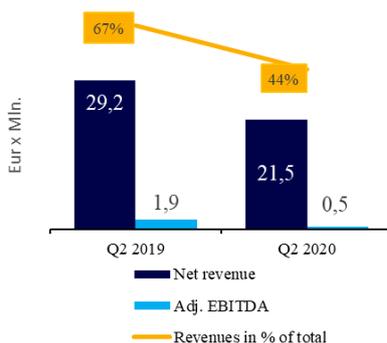
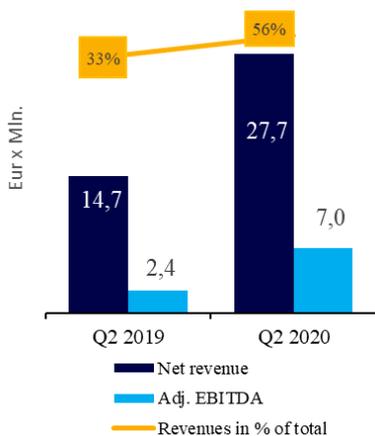
In general, Q2 2020 was a rough quarter for Monetization Tech as advertisers continued the global trend of pausing their advertising and significantly lowering advertising spend.

Net revenue amounted to EUR 21.5m in Q2 2020, a decrease of 26% compared to Q2 2019 (EUR 29.2m). The decrease is the result of adverse market conditions caused by Covid-19 as advertising budgets have been cut across the board.

Azerion has been relatively fortunate to have seen early warnings from China and Italy and therefore already started to refocus and reorganize our Monetization Tech organizations early in March. Timely measures addressing cost control and increasing focus on our own product portfolio enabled Azerion to significantly mitigate the impact of Covid-19 in our bottom-line.

Thus, the segment delivered adjusted EBITDA of EUR 0.5m in Q2 2020, compared to EUR 1.9m, in Q2 2019.

Azerion has continued investing in technology introducing automated billing and adjusting the user privacy requirements to changes in the industry. Moreover, the company has accelerated the shift towards proprietary products and has organized itself to sell two products for publishers (Improve Digital and Headerlift) and three products to



advertisers (gaming, video and agency marketplaces) for the remainder of the year. Organizing the teams, the marketing and the products has been prepared in the Q2 months and we expect to benefit from this investment in the second half of 2020.

Outlook Q3 and the remainder of the year

Q3 is a low business quarter from a seasonality point of view. Both, Gaming and Monetization Tech are impacted by the summer period and the lower screen time in general.

In line with financial analysts, we expect the Monetization Tech business to start recovering from the effects of Covid-19 as witnessed in Q2 2020. We also expect the extraordinary push in Gaming volumes to recede and come back to normal levels.

The accelerated efforts to centralise Gaming in the advertising businesses and solutions as well as effective execution of Monetization Tech reorganization and cost control measures, have enabled Azerion to build a robust business equipped to deliver on solid Q3 2020 results.

Given the current market developments, our operational performance and organisational response, we believe we are well-positioned to deliver our previously communicated guidance of EUR 25.5m adjusted EBITDA for the full year 2020.

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 significant events after the reporting period.

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)	Q2 20	Q1 20
ASSETS		
Fixed assets		
Development costs	4.2	4.0
Concessions permits & IPR	0.4	0.5
Goodwill	42.2	44.1
Games	18.0	18.4
Website	13.3	13.8
Intangible fixed assets	78.1	80.8
Equipment	0.6	0.6
Furniture	3.9	4.5
Tangible fixed assets	4.5	5.1
Other participating interests	1.4	0.1
Other receivables	19.7	25.6
Financial fixed assets	21.1	25.7
Current assets		
Trade receivables	42.8	42.7
Taxes and social securities	10.1	12.4
Other receivables	16.0	15.8
Receivables, prepayments and accrued income	68.9	70.9
Cash and cash equivalents	12.6	9.6
TOTAL	185.3	192.2

Balance sheet (EURm)	Q2 20	Q1 20
LIABILITIES		
Equity		
Group equity	(8.7)	(11.6)
Subordinated loans	11.8	11.8
Total Protective Capital Resources	3.1	0.2
Provisions		
Provisions	3.1	3.1
Deferred tax liability	1.3	1.3
Total provisions	4.4	4.4
Non-current liabilities		
Convertible loans	-	1.0
Bond	60.2	60.2
Finance company debt	4.6	5.5
Debt to participating interests and companies	3.3	3.3
Total non-current liabilities	68.0	69.9
Current liabilities*		
Finance company debt	12.7	11.4
Trade creditors	65.7	72.3
Taxes and social securities	18.3	18.4
Other liabilities	13.1	15.6
Total current liabilities	109.7	117.7
TOTAL	185.3	192.2
Interest Bearing Debt	72.4	72.5
Less: Cash & Cash Equivalents	(12.6)	(9.6)
Net Interest Bearing Debt**	59.8	62.9

* To improve comparability, in the Q1 20 column above, a total balance of EUR 7.1 mln. in regards to tax payables is reported under taxes and social securities, which previously in the Q1 20 interim reporting was reported as other liabilities.

** As defined per section 1.1 of the Terms & Conditions

Consolidated income statement (unaudited)

Income statement (EURm)	Q2 20	Q2 19
Net Revenue	49.2	43.9
COGS	(30.2)	(27.4)
Gross margin	19.1	16.5
Operating Expenses	(13.3)	(13.0)
EBITDA	5.8	3.5
D&A	(2.9)	-
EBIT	2.9	-
Financial results	(0.8)	-
EBT	2.1	-
Income taxes	(0.0)	-
Result from operations after tax	2.1	-
Third party share	(0.5)	-
Result after tax (excl. minority share)	1.6	-
EBITDA	5.8	3.5
Transition expenses - Capital Markets	0.2	0.2
Transition expenses - Acquisitions	0.6	0.4
Other non-recurring expenses	0.9	0.2
Adjusted EBITDA	7.5	4.4

Consolidated cash flow statement (unaudited)

Cash flow statement (EURm)	Q2 20	Q1 20
<u>Cash flow from operating activities</u>		
Operating result	2.9	(2.0)
<i>Adjustments for:</i>		
Amortization and depreciation	3.4	2.9
Movement of provisions	0.0	(0.6)
<i>Movement of working capital:</i>		
Movement of accounts receivable	3.2	2.4
Movement of short-term liabilities	(7.6)	1.7
Cash flow from operating activities	1.9	4.4
<i>Other operating cash flows</i>		
Income taxes	(0.0)	(0.4)
Third party share	(0.5)	0.0
Net cash flow from operating activities	1.4	4.0
<u>Cash flow from investing activities</u>		
Movements in intangible fixed assets	(0.2)	(14.4)
Movements in tangible fixed assets	(0.0)	(3.8)
Movements in financial assets	-	-
Movements in other related parties	(0.1)	0.5
Cash flow from investing activities	(0.4)	(17.7)
<u>Cash flow from financing activities</u>		
Movement in group equity	(0.0)	(4.9)
Debt repayments	(2.0)	(3.6)
Borrowing	-	40.7
Movement of other receivables	5.1	(16.0)
Payment of finance company debt	(1.0)	(2.7)
Cash flow from financing activities	2.0	13.5
Total cash flow	3.0	(0.3)
<u>Compilation cash</u>		
Opening cash	9.6	9.9
Movement of cash and equivalents	3.0	-0.3
Closing cash	12.6	9.6

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.; and that material risks impacting our business are noted.

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

Audited annual report FY19	30 September 2020
Quarterly report, Q3 2020	30 November 2020
Annual Report FY20 incl. Q4 2020	28 February 2020

Contact

For further information please contact:

Atilla Aytekin, CEO
a.aytekin@azerion.com

Umut Akpınar, CEO
u.akpinar@azerion.com

Dado Alonso, CFO
d.alonso@azerion.com

